

# Evolve Active Canadian Preferred Share Fund

DIVS seeks to provide holders of Units with stable income and long-term capital appreciation by investing primarily in a diversified mix of preferred shares of primarily Canadian issuers, in addition to U.S. and international issuers.

TSX

DIVS

ETF TICKER: DIVS (UNHEDGED)

MUTUAL FUND FUNDSERV CODE: EVF100 (CLASS F); EVF101 (CLASS A)

SUB-ADVISOR: ADDENDA CAPITAL



Active management in Canadian preferred shares continues to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with over \$33.4 billion in assets under management\*, including \$21.7 billion in fixed income and over \$829 million in preferred shares.

Source: Addenda Capital, as at June 30, 2023. \*Excludes \$1.8 billion in Advisory assets and \$309 million in Overlay assets.

## Market Review

The US 10-year Treasury yield broached the 5% threshold in October, while the yield on the 10-year Government of Canada bond spiked to 4.2% ahead of Jerome Powell's speech during the middle of the month. Yields later pulled back on the face of weaker jobs data in the U.S.

The Fed held its policy rate unchanged at a range of 5.25-5.5% for the second straight time at its November FOMC meeting, which was in line with market expectations. This meeting was not associated with updated economic projections.

The Fed acknowledged that recent strong economic growth has not added to inflationary pressure as it is supported by higher supply. Also, the rebalancing of the labour market has helped to moderate inflation. This is implicitly linked to the recent rebound in productivity as the inflation component of wages (nominal wage corrected by productivity) is now pacing slightly above 2%. This suggests that the labour market is not putting the inflation path at risk anymore.

The Bank of Canada (BoC) held the policy rate at 5% and maintained the normalization of its balance sheet at its current pace. It manifested concerns about the speed at which inflation is declining and towards increasing inflationary risks. BoC has reiterated that there are still factors weighing on inflation pressures such as strong wage growth coupled with weak productivity which has slowed down the speed for inflation coming back to target.

The FTSE Canada Universe Index gained 0.37% during the month of October, while the FTSE Corporate Bond Index advanced by 0.40%. The Preferred Shares market was down -2.80%.

Commissions, trailing commissions, management fees and expenses all may be associated with exchange traded mutual funds (ETFs) and mutual funds. Please read the prospectus before investing. ETFs and mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs and mutual funds. Please read the prospectus for a complete description of risks relevant to the ETF and mutual fund. Investors may incur customary brokerage commissions in buying or selling ETF and mutual fund units. This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual.

The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF or returns on investment in the ETF. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

Certain statements contained in this documentation constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to a future outlook and anticipated distributions, events or results and may include statements regarding future financial performance. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "anticipate", "believe", "intend" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Evolve undertakes no obligation to update publicly or otherwise revise any forward-looking statement whether as a result of new information, future events or other such factors which affect this information, except as required by law.

## Positioning

The preferred share asset class has lacked a catalyst for investors. All-in nominal yields look attractive, but less so when compared to similar risk asset classes. Despite the pref share market being soft as investors look to other asset classes for returns, the DIVS strategy generated negative absolute returns during the month of October but outperformed the benchmark. The strategy continues to meaningfully outperform the broader market over the 1-year period, as well as since Addenda's inception in April 2020.

## Perspectiv

The outlook for the preferred share market will be highly correlated to other risk assets and the movement of credit spreads. There will be an underlying headwind specifically for preferred shares as Institutional preferred shareholders evaluate the Canadian budgetary changes.

Going forward, we expect preferred shares prices to be highly correlated to similar higher risk fixed income assets like, high yield, LRCN's, NVCC and hybrids. The portfolio is positioned to be defensive by holding a large cash position (-4%), fixed income (-13%) and defensive preferred shares (high-rate resets).

As Central Bankers continue to reduce monetary policy and restrict financial conditions, we expect credit spreads will come under pressure affecting the preferred share market.