

# 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 \$34.5 billion in assets under management\*, including \$23.2 billion in fixed income and over \$708 million in preferred shares.

Source: Addenda Capital, as at December 31, 2023. \*Excludes \$1.9 billion in Advisory assets and \$553 million in Overlay assets.

## Market Review

The bond market posted positive returns in June, with the FTSE Canada Universe Bond Index up 1.13% during the month. The FTSE Canada Universe Bond Index returned 0.86% during the quarter. Interest rate volatility persisted as the bond market adjusted expectations of policy rate cuts by the Bank of Canada.

During Q2, provincial and corporate spreads were slightly wider as a result of larger than expected supply, but continuing strong credit fundamentals, a supportive growth backdrop, and low equity volatility provided stability.

On the equity side, The S&P/TSX Composite Index returned -0.52% in Q2, bringing the year-to-date return to 5.92%. The S&P/TSX Preferred Share Index posted a return of -0.02% in June and 4.17% in Q2.

Preferred shares performed well in the second quarter of 2024, as the Bank of Canada delivered its first rate cut in the cycle which drove rates lower. Preferred shares as an asset class were also helped as there were several redemptions which drove price performance.

## Positioning

The portfolio strategy performed well during the month, benefitting from its fixed income exposure, relative to benchmark, as bond yields declined.

## Perspective

The outlook for the preferred share market will be highly correlated to other risk assets and the movement of credit spreads. The Government of Canada's decision to exclude preferred share from the proposed dividend tax has removed a significant headwind for the asset class.

We are cautiously optimistic on credit spreads as the Central Bankers have made significant progress on taming inflation while the economy remained resilient. We look to continue to deploy a defensive tilt amid an expected slower macro environment.

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 & cash equivalents position (approx. 6%), fixed income (approx. 13%) and longer duration preferred shares (perpetuals and long-dated fixed rate resets).

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Commissions, trailing commissions, management fees and expenses all may be associated with exchange traded 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.

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.