

Evolve Active Core Fixed Income Fund

FIXD invests primarily in domestic and international high quality fixed income securities, and to a lesser extent, adding yield or enhancing returns on the portfolio by opportunistically investing in international fixed income securities, emerging market debt, preferred shares, convertible bonds and non-investment grade bonds.

CBOE

FIXD

ETF TICKER: FIXD (UNHEDGED)

MUTUAL FUND FUNDSERV CODE: EVF110 (CLASS F); EVF111 (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 Federal Reserve lowered the target range of its policy rate by 50 basis points (bps) in September, matching the Bank of Canada's (BoC) two 25-point cuts during the quarter. Bond yields followed a downward trend at the beginning of the quarter, accelerating in early August before stabilizing in September. The sharper decline in shorter-term rates accentuates the steepness of the yield curve.

Yields declined in Q3 as markets returned to aggressively pricing in future Central Bank rate cuts. The yield curve steepened with the difference between the 2-year and 10-year yields ending at +5 basis points (bps) vs -50 bps at the start.

The BoC cut rates by 25 bps at both the July and September meetings, bringing the policy rate to 4.25%. The Federal Reserve initiated its highly anticipated first cut at its September meeting and started with a 50 bps reduction.

In early August markets raised concerns that the Federal Reserve was behind the curve in normalizing policy rates, thereby increasing the risks of recession. Combined with a widely observed measure of the change in the unemployment rate, yields accelerated their decline.

Market pricing reflected expectations that the Bank of Canada Overnight Rate would finish 2024 at 3.5% and the Federal Reserve's target rate would reach 4.0%.

The FTSE Canada Universe Bond Index returned 1.9% in September and 4.7% in Q3.

Positioning

The bond market returns were positive in Q3 due to the large decline in yields. Duration exposure was reduced through the quarter as yields declined.

Credit spreads, after widening slightly, finished mostly unchanged and the portfolio benefitted from its credit overweight due to the additional yield carry they provide.

Given the portfolio adjustments made, the core component of the portfolio performed fairly in-line with benchmark during the month of September, as well as Q3. However, the performance of the overall CorePlus strategy underperformed in Q3, due to the global component.

Perspective

Growth

Economic growth in the near term is stable even against the backdrop of current policy rates. Labour market exhibits weaker dynamics. Wage gains and high savings balances support consumer spending in both Canada and the United States.

Inflation

Inflation pressure declines in 2024 but achieving central bank targets may prove difficult with an uneven path in the deceleration. Wage inflation remains elevated in Canada and contributes to higher services inflation. Monetary policy in Canada and the United States is biased toward easing. Stable growth and inflation uncertainty reduce the urgency for material rate decreases. With inflation moderating from its highs, central bank policy will shift focus to economic growth.

Policy

Inflationary pressures persist (wages, energy prices, shelter) resulting in pauses to policy easing, a scenario not currently priced into markets. Delayed easing by the Fed maintains high real rates hurting economic growth and undershooting the inflation target. BoC eases too fast while still facing inflationary growth and wage pressure resulting in reflation risks.

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.