Evolve ETFs

Evolve Active Canadian Preferred Share ETF

December 31, 2018

Annual Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-844-370-4884, by writing to us at Evolve Funds, 161 Bay Street, Suite 2700, Toronto, ON, M5J 2S1 or by visiting our website at www.evolveetfs.com or SEDAR at www.sedar.com. You may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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Investment Objective and Strategies

The Evolve Active Canadian Preferred Share ETF (the “Fund”) 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.

Risk

There were no changes to the Fund over the period of this report that materially affected the level of risk associated with an investment in the Fund. Prospective investors should read the Fund’s most recent prospectus and consider the description of risks contained therein.

Results of Operations

For the year ended December 31, 2018, the Fund’s net asset value per unit returned -9.77%. The Fund's net assets were $226.117MM as at December 31, 2018.

Portfolio Manager Commentary

The Canadian economy hit a soft patch in the first quarter of this year with consumer spending and housing – sectors that have positively contributed to growth this cycle – accounting for much of the lost momentum. The slowdown in housing has proven to be more persistent than expected, suggesting that higher interest rates and tougher qualifying standards are still having a restraining effect. However, as the second quarter played out, consumer spending was stronger despite a moderation in consumer credit attributed to those higher interest rates – a decent jobs market combined with a sizable jump in hourly earnings has acted as an offset.

Interest rates rose modestly across the yield curve with short end yields rising at a slightly faster pace thus flattening the full yield curve to a level not seen since 2008. It remains positively sloped but only marginally so. Relative to the U.S. market, Canadian yields rose at a slower rate and the flattening trend progressed at a faster rate south of the border due to the accelerated pace of monetary policy tightening taking place there.

During the quarter, the five-year government bond yield (and most of the yield curve) experienced significant volatility. The 5-year Government of Canada ("GoC") yield rose by about 35 basis points during the first half of the quarter before experiencing a sharp reversal that persisted for all but the last week of the quarter. The 5-year GoC rate finished the quarter up 7 basis points. The movement in the 5-year GoC did lead to volatility in the preferred share market although to a lesser degree than what was seen in bonds. This highlighted the continued benefit of preferred shares as a complimentary asset class to bonds as they reduce a portfolio’s sensitivity to interest rates.

A notable event in the first half of the year was the proposal by Enbridge Inc to simplify its organizational structure including subsidiaries such as Enbridge Income Fund Holdings, Enbridge Energy Partners, and Spectra Energy Partners. The simplification would eliminate the public US MLP structure, reduce the amount of cash flow leakage through dividends to public shareholders of the subsidiaries, and provide Enbridge Inc with a much simpler financing strategy for its capital plans.

A notable event in the preferred share market during Q2 was the Government of Canada announcing the acquisition of the Trans Mountain Pipeline system from Kinder Morgan Canada Limited. This was a significant event as in the past, the Trans Mountain Pipeline system and the associated expansion project were topical news headlines that translated into negative sentiment towards the pipeline segment and impacted the prices of its securities. This positive announcement demonstrates the continued support by the Federal Government for essential energy-related infrastructure in Canada.

In April and May, we began increasing our exposure to the pipeline segment as it had lagged the broader preferred share market during the second half of Q1 and the beginning of Q2 which supported performance during the later half of the quarter.

As the third quarter concluded so did months of negotiations that lead to an agreement on a revamped trade deal with the United States and Mexico. In short, Canada did preserve tariff-free market access in the U.S. as well as the impartial arbitration panel for dispute resolution but had to give ground in terms of a cap on auto exports, allowing increased access for U.S. dairy farmers to Canadian consumers as well as agreeing on a ‘sunset’ clause that will allow the trade pact to be reopened for review every six years.

Following the direction of interest rates in the U.S., yields in the domestic bond market rose noticeably across the curve throughout Q3. Short-end yields rose at a slightly faster pace than long-end yields, thus flattening the full yield curve to a level not seen since 2007. The yield curve remains positively sloped, but only marginally so with just 20 basis points of yield separating two-year and thirty-year maturities. The flattening trend matched the pace south of the border with both the Federal Reserve Bank and the BoC continuing to tighten monetary policy.

During the quarter, the five-year government bond yield (and most of the yield curve) experienced significant volatility. The 5-year Government of Canada yield rose by about 25 basis points during the first month of the quarter before experiencing a reversal that persisted until the beginning of September. The 5-year GoC rate finished the quarter up about 30 basis points. The movement in the 5-year GoC did not lead to much volatility in the preferred share market although directionally was positive from a price return perspective. This highlights the continued benefit of preferred shares as a complimentary asset class to bonds as they reduce a portfolio's sensitivity to interest rates.

In Q3 the portfolio shifted its bank holdings modestly to preferreds that have solid market yield and yield-to-call characteristics. The fund is maintaining exposure to floating rate preferred shares as the pricing/yield characteristics are relatively attractive in the current environment.

The portfolio strategy remained mostly consistent with last quarter. The portfolio reduced its overweight to certain rate resets as the valuations appeared extended. This provided an opportunity to increase exposure to corporate rate-resets that carried a floor feature but were trading below par. These securities should reduce Fund's sensitivity to interest rate while providing above-market dividend yields.

The fourth quarter saw the return of volatility in financial markets around the world. The combined weight of central bank interest rate increases, quantitative tightening, global trade tensions, a wave of geopolitical concerns (Brexit, Italy currently) as well as a collapse in oil prices all worked to alter the perception of the global economy as we head into 2019. This despite the relative economic strength currently seen in the U.S and in Canada to a lesser extent. Both the U.S. Federal Reserve Bank as well as the Bank of Canada increased policy rates by 25 basis points in the final quarter of the year but, seemingly in reaction to the downturn in financial markets, have each downgraded their outlooks for the coming year as well as lowering expectations for the continuation of their respective tightening cycles.

In response to weakness in equity markets and the heightened uncertainty and volatility, yields across the curve fell in in both Canada and the US throughout the quarter. Short-end yields fell at roughly the same pace as long-end yields, thus there was little change in the shape of the full yield curve. The curve remains positively sloped, but only marginally so with about 25 basis points of yield separating two-year and thirty-year maturities.

Beginning at the end of October, preferred shares yielded to the widening risk-off sentiment in the Canadian and Global markets and saw persistent losses throughout the quarter. This weakness was significant and has been driven by contagion from equities with added impacts from increased selling activity by the retail segment of the pref market as well as an eventual decline in interest rates (and rate expectations) mentioned above. The activity from retail investors was skewed towards holdings that were materially down on the year implying much of it was related to tax-loss selling. A benefit of this is that it has translated into dramatically different performance from similar prefs which has set up opportunities that should add value in the future.

Over the short-term we expect that the preferred share market will continue to be influenced by the sentiment in the equity markets but that overall the preferred share market became exceptionally attractive by the end of December. Additionally, there has been an increasing dislocation between bonds and prefs which has been exacerbated over the last few weeks and preferred shares are now a great relative value trade. Going forward we are positive on the economic outlook for North America which, combined with the improving trade picture and strong North American employment data from December (and Q4), should move markets higher in the coming months. This should allow for rates to begin to move higher again and bolster the preferred share market in Canada. Eventually, the move to higher rates (current rates are much higher than recent years) will be reflected in higher preferred share dividends that should provide the opportunity for capital appreciation in addition to the currently outsized dividends being paid.

Recent Developments

There are no known changes at this time to the investment strategy of the Fund or the Manager.

Related Party Transactions

Manager complies with its current policy and procedures regarding investments in related issuers and reports periodically to the Investment Review Committee.

Management Fees

The management fees are calculated based on 0.65% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid monthly. For the year ended December 31, 2018, the Fund incurred $672,599 in management fees. These management fees were received by Evolve Funds Group Inc. for the day-to-day operations of the fund, including managing the portfolio, maintaining portfolio systems used to manage the Fund, maintaining the www.evolveetfs.com website, and providing all other services including marketing and promotion.

Administration Fees

The administration fees are calculated based on 0.15% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid monthly. For the period ended December 31, 2018, the Fund incurred $155,216 in administration fees. These administration fees were received by Evolve Funds Group Inc. for the following operating expenses of the Fund including but not limited to: mailing and printing expenses for periodic reports to unitholders; Registrar and Transfer Agent and Custodian; any reasonable out of pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Fund; IRC committee member fees and expenses in connection with the IRC; expenses related to compliance with NI 81-107; fees and expenses relating to voting of proxies by a third party; insurance coverage for the members of the IRC; fees payable to the auditors and legal advisors of the Fund; regulatory filing, stock exchange and licensing fees and CDS fees; costs and expenses of complying with all applicable laws, regulations and policies, including expenses and costs incurred in connection with the continuous public filing requirements such as permitted prospectus preparation and filing expenses; and legal, accounting and audit fees and fees and expenses of the Trustee, Custodian and Manager which are incurred in respect of matters not in the normal course of the Fund's activities. The administration fee paid to the Manager by the Fund, in any particular period, be less than or exceed the operating expenses that the Manager incurs for that class.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the period indicated.

The Fund's Net Assets Per Unit[1]

For the periods ended:	**December 31, 2018 ($)**	December 31, 2017 ($)
Unhedged Units - Net Assets per Unit		
Net Assets per Unit, beginning of period	**20.64**	20.10
Increase (decrease) from operations:		
Total revenue	**0.96**	0.26
Total expenses	**(0.22)**	(0.05)
Realized gains (losses)	**(0.30)**	0.01
Unrealized gains (losses)	**(5.78)**	0.39
Total increase (decrease) from operations[2]	**(5.34)**	**0.61**
Distributions:		
From dividends	**(0.44)**	(0.06)
From capital gains	**-**	(0.01)
Return of capital	**(0.40)**	(0.14)
Total annual distributions[3]	**(0.84)**	**(0.21)**
Net Assets per Unit, end of period	**17.87**	**20.64**

1 This information is derived from the Fund's audited annual financial statement as at December 31, 2018, and 2017. The Fund began operations on September 29, 2017.
2 Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the period.
3 Distributions were paid in cash or reinvested in additional units of the Fund, or both. Actual distributions may vary slightly owing to rounding.

The Fund's Ratios/Supplemental Data

For the periods ended:	**December 31, 2018**	December 31, 2017
Unhedged Units - Ratios/Supplemental Data		
Total Net Asset Value ($)[4]	**226,117,125**	6,708,228
Number of units outstanding[4]	**12,650,000**	325,000
Management expense ratio[5]	**0.90%**	0.89%
Trading expense ratio[6]	**0.21%**	0.13%
Portfolio turnover rate[7]	**37.33%**	12.01%
Net Asset Value per unit ($)	**17.87**	20.64
Closing market price ($)	**17.82**	20.68

4 This information is provided as at December 31, 2018 and December 31, 2017.
5 Management expense ratio ("MER") is based on total expenses plus harmonized sales tax (excluding distributions, commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
6 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average daily net assets during the period.
7 The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher the Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

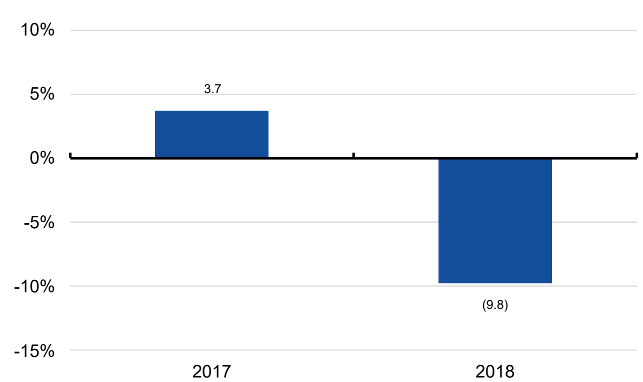
Past Performance

The performance information does not take into account sales, redemption, distribution, income taxes payable by any unitholder or other optional charges that, if applicable, would have reduced returns or performance. The performance information shown assumes that all distributions made by the investment Fund in the periods shown were reinvested in additional securities of the investment fund. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The bar chart below shows the Fund's annual performance for the periods shown. The chart shows, in percentage terms, how much an investment made in the Fund on the first day would have grown or decreased by the last day of the period.

DIVS[1]



1 The Fund effectively began operations on September 29, 2017.

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Summary of Investment Portfolio

Top 25 Positions

Security	Percentage of Net Asset Value (%)
Enbridge Inc., Preferred, Series 'D'	3.2
Canadian Imperial Bank of Commerce, Preferred, Series '47'	2.7
Brookfield Office Properties Inc., Preferred, 4.85% Series '11'	2.6
The Toronto-Dominion Bank, Preferred	2.5
The Toronto-Dominion Bank, Preferred, Series '18'	2.5
BCE Inc., Preferred, Series 'AI'	2.4
BCE Inc., Preferred, Series 'AG'	2.3
Sun Life Financial, Class 'C' Preferred, Series '3'	2.1
Pembina Pipeline Corporation, Preferred, 4.90% Series '21'	2.0
Pembina Pipelin Corporation Cummulative Redemption, Preferred	2.0
Intact Financial Corporation, Preferred, Series '1'	1.9
TransCanada Corporation, Preferred, Series '9'	1.9
Brookfield Renewable Partners Limited Partnership, Preferred Series '13'	1.9
The Toronto-Dominion Bank, Preferred, 3.75% Series 'C'	1.9
Enbridge Inc., Preferred, Series '17'	1.8
Brookfield Infrastructure Partners Limited Partnership, Preferred, Series '7'	1.8
Bank of Montreal, Preferred, Series '31'	1.8
Canadian Utilities Limited, Preferred, Series 'AA'	1.8
Fairfax Financial Holdings Limited, Preferred, Series 'G'	1.8
Canadian Western Bank, Preferred, Series '5'	1.8
Manulife Financial Corporation, Preferred, Series '9'	1.7
Kinder Morgan Canada Limited, Preferred, Series '1'	1.7
Brookfield Asset Management Inc., Preferred, Series '9'	1.6
Brookfield Renewable Partners Limited Partnership, Preferred	1.6
Canadian Imperial Bank of Commerce, Preferred, Series '45'	1.5
Total	**50.8**

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Comunication Services	7.3
Consumer Staples	1.0
Energy	23.6
ETF's Domestic Equity	0.2
Financials	47.7
Real Estate	0.8
Utilities	17.1
Cash and Cash Equivalents	2.5
Other Assets, less Liabilities	(0.2)
Total	**100.0**

The summary of Investment Portfolio may change due to the ongoing portfolio transactions of the Fund. Updates are available quarterly by visiting our website at www.evolveetfs.com.

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