Evolve ETFs

Evolve Active Core Fixed Income 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 Core Fixed Income ETF (the "Fund") seeks to provide a stable rate of return, primarily through income, and to a lesser extent, capital appreciation. The Fund 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.

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

Since the Fund was launched on March 29, 2018, no performance data can be shown. The Fund's net assets were $24.693MM 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.

Credit markets, both corporate and provincial, were relatively stable in the second quarter although there was some modest pressure on corporate yield spreads. Somewhat surprisingly in the corporate market, high yield bonds outperformed investment grade bonds. By sector, and on a duration-adjusted basis, industrial and energy bonds performed best. Financial issues fared the worst, banks in particular, as lingering concerns about consumer credit and mortgage exposure continue to persist.

Despite experiencing above-average spread volatility during the quarter, provincial spreads ended the month of June mostly unchanged. What was notable was the under-performance from the Province of Ontario, which is by far the nation's largest provincial borrower, against virtually every other province. This should not be too surprising given the string of deficits that the province has produced since 2008, adding approximately $130 billion in new net debt and driving the debt-to-GDP ratio from 26% to 38% today. Unfortunately, there is little in the way of a plan to bring its finances back into balance.

The primary factors influencing the performance of the Fund were the portfolio's above-index exposure to corporate bonds and an underweight exposure to provincial debt, notably the Province of Ontario which has continued an extended period of performance weakness relative to virtually every other province in the country. Although the corporate bonds index did not have a particularly strong quarter relative to federal and provincial bonds, security selection in the corporate bond space generated meaningful outperformance. A factor that weighed modestly against performance was the continued flattening of the yield curve with duration positioning also having a modest impact.

Preferred shares provided a continued yield enhancement in Q2. The preferred share holdings provide a reduction in the portfolio's sensitivity to movements in interest rates which is a meaningful benefit in the current yield environment.

Overall portfolio strategy was little changed from the first quarter of the year. Portfolio duration remained below the benchmark's duration as FGP continued to have an unfavorable long-term view of the bond market's risk/reward characteristics. Responding to the fall in interest rates that took place since mid-May, duration was shortened to just over one year below the benchmark level. FGP continued to believe that interest rates remain at a level inconsistent with Canada's healthy economic fundamentals. The portfolio positioned to perform well against its benchmark from a rising rate environment and from any steepening to the interest rate curve.

The Fund maintained its exposure to preferred shares as we see value in the broader preferred share market as it has not fully reflected increases in short-to-mid term government yields over the last 12 months.

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 the quarter. 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.

Corporate bond markets were relatively stable, although modestly tighter, once again this quarter as corporate yield spreads remain in a tight range that dates to the first quarter of 2017. High yield bonds again outperformed investment grade bonds. By sector, and on a duration-adjusted basis, there was not much dispersion in returns although financial and energy issues performed the best while infrastructure and communication issues lagged.

In Q2 the primary factors influencing the performance of the portfolio were the fund's short duration positioning and security selection. Additionally, the above-index exposure to corporate bonds and an underweight exposure to provincial debt contributed as the corporate bond index had a particularly strong quarter relative to federal and provincial bonds. The fund had meaningful exposure to higher quality corporates that saw spreads tighten more meaningfully than much of the lower quality segment of the market. Additionally, the fund's Enbridge holdings performed particularly well while the holdings in first mortgage bonds continued to perform much better than the unsecured real estate segment. The financial sector had a relatively strong quarter and while the fund was slightly underweight to the sector the security selection within financials translated into outperformance.

Preferred shares provided a continued return and yield enhancement in Q3. The preferred share holdings provide a reduction in the portfolio's sensitivity to movements in interest rates which is a meaningful benefit in the current yield environment.

Overall portfolio strategy was little changed from the second quarter of the year. Portfolio duration remains below the benchmark's duration as FGP continued to have an unfavorable long-term view of the bond market's risk/reward characteristics. FGP continued to believe that interest rates remain at a level inconsistent with Canada's healthy economic fundamentals. The portfolio was positioned to perform well against its benchmark from a rising rate environment and from any steepening to the interest rate curve.

The portfolio continued to maintain an overweight position in Canadian corporate bonds as overall credit quality remains in good shape and the domestic economy continues to grow.

The Fund maintained its exposure to preferred shares as we saw value in the broader preferred share market as it has not fully reflected increases in short-to-mid term government yields over the last 12 months.

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.

The primary factors responsible for performance this quarter were related to both the short duration position, credit positioning in the fund – specifically an overweight to preferred shares, an underweight in provincial bonds, and defensive positioning in corporate bonds as credit spreads weakened throughout the quarter. Our corporate bonds notably outperformed the corporate bond index given the high quality nature of the holdings.

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.

Overall portfolio strategy saw modest changes from the previous quarter. The portfolio's duration position has been maintained at one year below that of the benchmark. With long-term federal government bond yields very near to the level of domestic core inflation, there remains little reason to be reaching for the marginal amount of additional yield that a long bond provides. With the yield spread between two-year bonds and 30-year bonds at only about 25 basis points, investors are still not being sufficiently compensated for the additional risk of investing in long term bonds. Additionally, the economies of North America still performing adequately, even though the outlook for 2019 has become more muddled. The 10 year bond yield fell back to the level where we began the year and expectations for a continuation of the rate hike cycles in both Canada and the U.S. have almost been fully priced out of the market. With any resolution to the mostly geo-political issues that the economy faces we would expect interest rates to head higher once again.

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. 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 0.45% 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 $64,249 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 $24,991 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.

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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 period ended:	December 31, 2018 ($)
Unhedged Units - Net Assets per Unit	
Net Assets per Unit, beginning of period[2]	**20.01**
Increase (decrease) from operations:	
Total revenue	**0.48**
Total expenses	**(0.12)**
Realized gains (losses)	**(0.03)**
Unrealized gains (losses)	**(0.40)**
Total increase (decrease) from operations[3]	**(0.07)**
Distributions:	
From income (excluding dividends)	**(0.32)**
From dividends	**(0.01)**
From capital gains	**(0.01)**
Return of capital	**(0.16)**
Total annual distributions[4]	**(0.50)**
Net Assets per Unit, end of period	**19.37**

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2018. The Fund began operations on March 29, 2018.
2 This amount represents the initial launch price.
3 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.
4 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 period ended:	December 31, 2018
Unhedged Units - Ratios/Supplemental Data	
Total Net Asset Value ($)[5]	**24,693,049**
Number of units outstanding[5]	**1,275,000**
Management expense ratio[6]	**0.60%**
Trading expense ratio[7]	**0.18%**
Portfolio turnover rate[8]	**52.41%**
Net Asset Value per unit ($)	**19.37**
Closing market price ($)	**19.33**

5 This information is provided as at December 31, 2018.
6 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.
7 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.
8 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.

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Past Performance

Since the Fund is a reporting issuer for less than one year, with inception date March 29, 2018, providing performance data for the period is not permitted.

Summary of Investment Portfolio

Top 25 Positions

Security	Percentage of Net Asset Value (%)
Evolve Active Canadian Preferred Share ETF	11.4
Province of Ontario	4.2
Province of Saskatchewan	3.5
Canada Housing Trust No. 1	3.4
Bow Centre Street Limited Partnership	3.3
Province of British Columbia	3.3
Canada Housing Trust No. 1	3.2
Province of Alberta	3.1
The Empire Life Insurance Company, Variable, Callable	2.9
Teranet Holdings Limited Partnership	2.1
PSP Capital Inc.	2.1
Fifth Avenue Limited Partnership	2.1
Canada Housing Trust No. 1, Floating Rate	2.0
CPPIB Capital Inc.	1.9
Royal Office Finance Limited Partnership	1.9
Original Wempi Inc.	1.7
TransCanada Pipelines Limited	1.6
The Toronto-Dominion Bank, Variable, Callable	1.5
Fortis Inc.	1.5
Province of Alberta	1.5
Bell Canada Inc., Callable	1.4
PSP Capital Inc.	1.4
Enbridge Inc.	1.4
Royal Bank of Canada, Variable, Callable	1.4
Canadian Western Bank	1.3
Total	**65.1**

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Debt Instruments	
Asset-Backed Securities	2.2
Communication Services	3.4
Consumer Discretionary	4.9
Energy	5.2
Financials	27.5
Government	36.0
Industrials	1.8
Utilities	4.8

Industry Allocation (cont'd)

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
ETFs - Domestic Equity	11.3
Cash and Cash Equivalents	2.7
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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