Evolve ETFs

# Evolve US Banks Enhanced Yield Fund

June 30, 2019

Interim Management Report of Fund Performance

This interim management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the investment fund. You can get a copy of the interim 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.

# Evolve US Banks Enhanced Yield Fund

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### Investment Objective and Strategies

The Evolve US Banks Enhanced Yield Fund (the “Fund”) seeks to replicate, to the extent reasonably possible before fees and expenses, the performance of the Solactive Equal Weight US Bank Index (the “Benchmark”), or any successor thereto, while mitigating downside risk. The Fund invests primarily in the equity constituents of the Solactive Equal Weight US Bank Index, or any successor thereto, while writing covered call options on up to 33% of the portfolio securities, at the discretion of the Manager. The level of covered call option writing may vary based on market volatility and other factors.

### 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 six-month period ended June 30, 2019, the non-hedged units returned 11.73% versus the Solactive Equal Weight US Bank Index return of -13.92%. The hedged units returned 15.80% versus the Solactive Equal Weight US Bank Index Canadian Dollar Hedged return of 17.18%. The difference in performance of the hedged units relative to its benchmark can be attributed primarily to management fees plus applicable sales taxes and to portfolio trading and hedging strategies. The difference in performance of the non-hedged units relative to its benchmark can be attributed primarily to management fees plus applicable sales taxes and to portfolio trading. Furthermore, the difference can also be attributed to the implementation of the call writing strategy where the Fund tend to outperform in flat or down markets and underperform during sharp market advances. This performance difference can be seen over the period the calls are written, typically with one to two months to expiry, and then resets when new option positions are established. Fund's net assets were $4.303MM as at June 30, 2019.

### Portfolio Manager Commentary

America’s banks ended 2018 on a negative note, with their stock prices falling on fears that they had climbed too high as a result of looser regulation, tax cuts and rising interest rates under the Trump administration. Investors were worried that the long economic expansion would soon come to an end and that banks’ profitability was therefore at its peak

Major U.S. banks had shaved about $21 billion from their tax bills last year, benefitting the Republican tax overhaul. Their effective tax rates fall below 19 percent from the roughly 28 per cent.(i)

But the fourth quarter earnings season which commenced in mid-January 2019 reassured investors that the big banks remained healthy, with only Citigroup and the Bank of New York Mellon recording a return on equity below 10%.(ii) In fact, for the first time ever, the six biggest U.S. banks reported a profit of over $100 billion.(iii)

At the end of the first quarter, most major banks beat earnings and revenue estimates. JPMorgan Chase beat earnings and revenue estimates for its Q1 2019, putting up $2.65 per share versus $2.32 expected. The bank JPMorgan reported an 8-percent net interest income growth and a 2.5-percent increase in net interest margin. It returned $7.4 billion to shareholders via stock dividends and buybacks.

Wells Fargo also beat estimates on top and bottom lines: $1.20 per share versus $1.08 expected, on $21.61 billion in revenues that were 3.44% ahead of consensus, though lower than the $21.93 billion reported in Q1 2018. Wells Fargo told investors that a lower interest rate outlook, flatter yield curve and tightening loan spreads will drive down its net interest income by at least 2 per cent in 2019.

PNC Financial also topped estimates by 2 cents to $2.61 per share on earnings of $4.29 billion, better than the $4.24 billion expected, and +4% year over year.(iv)

As well, Bank of America beat expectations with first-quarter earnings results of $0.70 a share and record profits of $7.3 billion. Goldman Sachs and Citigroup posted solid results.(v)

In June, the Federal Reserve announced that all of the 34 banks had passed the second, tougher part of its annual stress test, showing that many of the biggest lenders have not only built up adequate capital levels but also improved their risk management procedures. One bank, Capital One Financial Corp, must resubmit its scheme by year-end, though the Fed is still allowing it to go forward with its capital plan in the meantime. Capital One must resubmit plans because it did not appropriately account for risks in one of its most material businesses.(vi)

The Federal Reserve has put the brakes on rising interest rates due to signs of softness in the U.S. economy. This shift could impact second quarter bank results which are expected to be announced in July. Typically, flat to falling interest rates are not good news for bank interest margins. Slowdown jitters have also hit 10-year Treasury yields. The benchmark bond's yield hit a 15-month low in the first quarter, flattening the yield curve and narrowing the gap between the interest banks pay depositors and the interest they charge consumers, which is bad news for bank profits.

Performance Attribution

At the end of the June, the portfolio held a diversified portfolio of banks and finance companies, with roughly equal weights. The best performing stock was Ameriprise Financial Inc., which also made the largest contribution to the Fund's total return. The second-best performing stock was Citigroup Inc., followed by Suntrust Banks Inc.

*(i) https://www.bloomberg.com/news/articles/2019-02-06/banks-reaping-21-billion-tax-windfall-cut-staff-ease-off-loans*

*(ii) https://www.economist.com/finance-and-economics/2019/01/19/the-big-beasts-of-american-banking-rumble-on*

*(iii) https://www.bloomberg.com/news/articles/2019-01-16/it-s-official-wall-street-just-made-100-billion-for-first-time*

*(iv) https://www.nasdaq.com/article/major-banks-post-strong-q1-earnings-results-cm1128522*

*(v) https://www.businessinsider.com/bank-of-america-is-reporting-first-quarter-earnings-q1-2019-4*

*(vi) https://www.businessinsider.com/fed-stress-tests-big-banks-pass-capital-one-resubmit-2017-6*

**Recent Developments**

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

**Related Party Transactions**

The Manager complies with its current policy and procedures regarding investments in related issuers and reports periodically to the Independent 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 six-month period ended June 30, 2019, the Fund incurred $10,941 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 six-month period ended June 30, 2019, the Fund incurred $3,647 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; fees payable to the index provider, 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.

# Evolve US Banks Enhanced Yield Fund

June 30, 2019

## 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: | **June 30, 2019 ($)** | December 31, 2018 ($) | December 31, 2017 ($) |
|---|---|---|---|
| **Unhedged Units - Net Assets per Unit** | | | |
| Net Assets per Unit, beginning of period | **18.10** | 21.25 | 19.65 |
| **Increase (decrease) from operations:** | | | |
| Total revenue | **0.29** | 0.51 | 0.10 |
| Total expenses | **(0.16)** | (0.34) | (0.05) |
| Realized gains (losses) | **(0.72)** | (10.55) | (0.14) |
| Unrealized gains (losses) | **2.71** | 5.07 | 1.49 |
| **Total increase (decrease) from operations[2]** | **2.12** | **(5.31)** | **1.40** |
| **Distributions:** | | | |
| From income (excluding dividends) | **(0.57)** | - | - |
| From dividends | **-** | (0.24) | (0.03) |
| Return of capital | **-** | (0.66) | (0.12) |
| **Total annual distributions[3]** | **(0.57)** | **(0.90)** | **(0.15)** |
| **Net Assets per Unit, end of period** | **19.65** | **18.10** | **21.25** |
| **Hedged Units - Net Assets per Unit** | | | |
| Net Assets per Unit, beginning of period | **16.45** | 21.08 | 19.62 |
| **Increase (decrease) from operations:** | | | |
| Total revenue | **0.27** | 0.48 | 0.09 |
| Total expenses | **(0.15)** | (0.32) | (0.05) |
| Realized gains (losses) | **(1.89)** | (1.36) | (0.80) |
| Unrealized gains (losses) | **3.62** | (5.41) | 1.99 |
| **Total increase (decrease) from operations[2]** | **1.85** | **(6.61)** | **1.23** |
| **Distributions:** | | | |
| From income (excluding dividends) | **(0.57)** | - | - |
| From dividends | **-** | (0.15) | (0.03) |
| Return of capital | **-** | (0.75) | (0.12) |
| **Total annual distributions[3]** | **(0.57)** | **(0.90)** | **0.15** |
| **Net Assets per Unit, end of period** | **18.47** | **16.45** | **21.08** |

1 This information is derived from the Fund's unaudited interim financial statement as at June 30, 2019, and the audited annual financial statements as at December 31 for the years shown. The Fund began operations on October 16, 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: | **June 30, 2019** | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **Unhedged Units - Ratios/Supplemental Data** | | | |
| Total Net Asset Value ($)[4] | **2,456,416** | 2,262,348 | 1,062,375 |
| Number of units outstanding[4] | **125,000** | 125,000 | 50,000 |
| Management expense ratio[5] | **0.71%** | 0.68% | 0.70% |
| Trading expense ratio[6] | **0.50%** | 0.52% | 0.19% |
| Portfolio turnover rate[7] | **35.26%** | 100.98% | 2.61% |
| Net Asset Value per unit ($) | **19.65** | 18.10 | 21.25 |
| Closing market price ($) | **19.64** | 18.10 | 21.36 |
| **Hedged Units - Ratios/Supplemental Data** | | | |
| Total Net Asset Value ($)[4] | **1,846,685** | 822,343 | 1,054,094 |
| Number of units outstanding[4] | **100,000** | 50,000 | 50,000 |
| Management expense ratio[5] | **0.71%** | 0.68% | 0.70% |
| Trading expense ratio[6] | **0.50%** | 0.52% | 0.19% |
| Portfolio turnover rate[7] | **35.26%** | 100.98% | 2.61% |
| Net Asset Value per unit ($) | **18.47** | 16.45 | 21.08 |
| Closing market price ($) | **18.46** | 16.45 | 21.16 |

4 This information is provided as at June 30, 2019 and December 31 for the other years shown.

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.

# Evolve US Banks Enhanced Yield Fund

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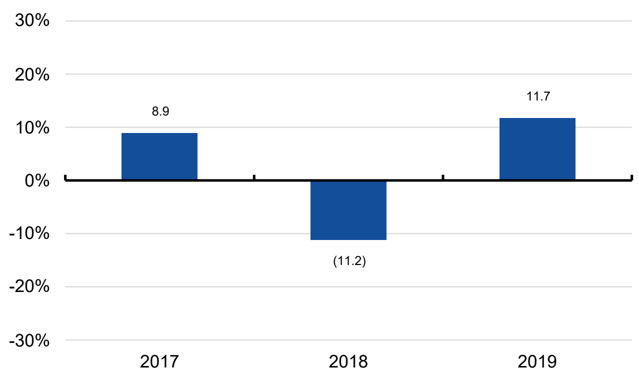
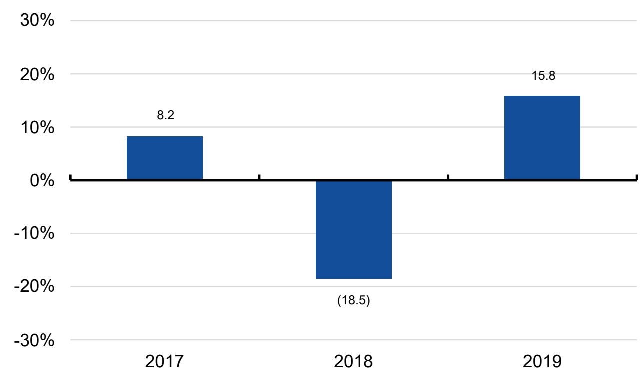
### Year-by-Year Returns

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.

**CALL/B[1]**




**CALL[2]**




1 The non-hedged class of the Fund effectively began operation on October 16, 2017.

2 The hedged class of the Fund effectively began operation on October 16, 2017.

### Summary of Investment Portfolio

### Top 25 Positions

| Security | Percentage of Net Asset Value (%) |
|---|---|
| Ameriprise Financial Inc. | 6.1 |
| Citigroup Inc. | 5.9 |
| JPMorgan Chase & Company | 5.6 |
| The PNC Financial Services Group Inc. | 5.5 |
| KeyCorp | 5.4 |
| Fifth Third Bancorp | 5.4 |
| U.S. Bancorp | 5.3 |
| M&T Bank Corporation | 5.3 |
| Citizens Financial Group Inc. | 5.2 |
| Bank of America Corporation | 5.2 |
| Huntington Bancshares Inc. | 5.2 |
| SunTrust Banks Inc. | 5.1 |
| BB&T Corporation | 5.1 |
| Regions Financial Corporation | 5.0 |
| First Republic Bank | 5.0 |
| Wells Fargo & Company | 4.9 |
| Zions Bancorporation NA | 4.9 |
| SVB Financial Group | 4.8 |
| Comerica Inc. | 4.5 |
| **Total** | **99.4** |

# Evolve US Banks Enhanced Yield Fund

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### Industry Allocation

| Portfolio by Category | Percentage of Net Asset Value (%) |
|---|---|
| **Equities** | |
| Financials | 99.4 |
| Derivative Assets | 0.3 |
| Derivative Liabilities | (0.6) |
| Cash and Cash Equivalents | 1.4 |
| Other Assets, less Liabilities | (0.5) |
| **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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