EVOLVE ETFs

Evolve Canadian Banks and Lifecos Enhanced Yield Index Fund

December 31, 2022

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, 40 King Street West, Suite 3404, Toronto, ON, M5H 3Y2 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 Canadian Banks and Lifecos Enhanced Yield Index Fund (the “Fund”) seeks to replicate, to the extent reasonably possible and before fees and expenses, up to a 1.25 times multiple of the performance of the Solactive Canadian Core Financials Equal Weight Index, or any successor thereto, while mitigating downside risk. The Evolve Fund invests primarily in the equity constituents of the Solactive Canadian Core Financials Equal Weight Index, or any successor thereto, while writing covered call options on up to 33% of the portfolio securities in the portfolio, 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

Since the Fund effectively began operations on February 1, 2022, no performance data can be shown. The Fund's net assets were $34.9MM as at December 31, 2022.

Leverage

The table below shows the minimum and maximum leverage levels of the Fund for the year ended December 31, 2022, as well as the leverage at the end of the reporting period and as a percentage of the Fund’s net assets.

The Fund is classified as an “alternative mutual fund’ as defined in National Instrument 81 102, Investment Funds (“NI 81-102”). As an alternative mutual fund, the Fund is permitted to lever its assets per the restrictions outlined in NI 81-102. The Fund currently anticipates achieving its investment objectives and creating leverage through the use of cash borrowing. The maximum aggregate exposure of the funds to cash borrowing will not exceed approximately 25% of NAV. In order to ensure that unitholders’ risk is limited to the capital invested, the funds’ leverage will be rebalanced back to 25% of the funds’ NAV within two business days of the funds’ leverage exceeding 2% above its target leverage ratio of 25% of NAV.

Leverage Calculation (Investments Market Value/Net Asset Value)

Period Ended	Minimum Leverage	Maximum Leverage	Leverage at the end of the Reporting Period	Percentage of Net Asset Value (%)
December 31, 2022	1.227 : 1	1.278 : 1	1.255 : 1	125.50

Portfolio Manager Commentary

2022 was a challenging year for Canadian equities, to say the least. In fact, during the year, the S&P/TSX 60 Index returned -6.24% on the back of recessionary concerns following multiple consecutive quarters of negative GDP growth. Furthermore, with Canadian inflation rates at 6.3% on a year-over-year basis[1], the Bank of Canada has raised rates by 4.25% since the beginning of 2022 in an effort to combat inflation. The year began with rates at 0.25% and closed the year out at 4.25%, pushing borrowing costs to their highest level since 2008. The Bank of Canada has signalled that there will be more rate hikes to come, predicting that inflation will decline to about 3% by the end of next year, and will hit its 2% target by 2024.[2] Financial services and insurance providers typically performs well in a rising interest rate environment such as the one experienced in 2022. More specifically, financial institution revenues are usually positively correlated with higher interest rates because the net margins on the bank’s loan book increases. In the case of insurance providers, the relationship between interest rates and insurance company revenues is linear, meaning the higher the rate, the greater the revenue growth. This sentiment was echoed by the Royal Bank of Canada (RBC) Chief Executive Officer, Dave McKay, when he explained that the lower rates throughout the pandemic had been a drag on the banks’ revenues saying, “We are well-positioned to benefit from rising interest rates, given our leading Canadian deposit franchise and the asset-sensitive nature of U.S. wealth management style sheets,” McKay told investors during their December 2021 conference call. He added, “To highlight the potential benefit over time, the impact of lower interest rates reduced our revenue by approximately $1 billion in each of the last two years.”.[3]

This sentiment was reflected in the earnings results of Canadian Banks and Lifecos released throughout the year. In its fiscal third quarter 2022 report, Scotiabank, a holding in this Fund, announced net income of $2.59 billion compared to $2.54 billion in the same period last year. The bank also announced diluted earnings per share (EPS) of $2.09, compared to $1.99 in the same period in 2021.[4] Toronto-Dominion Bank Group, another holding in this Fund, announced third quarter diluted EPS of $1.75, compared with $1.92 in the third quarter of 2021. However, its Canadian Retail business reported a revenue increase of 7% compared with the third quarter of 2021 and attributed the increase to rising interest rates and growth in consumer activity.[5] While National Bank of Canada, a holding in this Fund, reported third quarter diluted EPS of $2.35, down 2% from the in the year previous driven by higher provisions for credit losses recorded to reflect a less favourable macroeconomic outlook.[6] Manulife Financial Corporation, also a holding in this Fund, reported third quarter net income of $1.3 billion, down $0.2 billion from the third quarter of 2021; and diluted EPS of $0.68, down from $0.80 in the same period in the year previous. The Lifeco partially attributed the decrease in net income to the impact of markets during the quarter, highlighting that unfavourable equity market performance and losses from the sale of available-for-sale bonds were partially offset by gains due to rising interest rates in the U.S., a flattening of the yield curve in Canada, and widening corporate spreads in the U.S.[7] Sun Life Financial Inc., another holding in this Fund, also reported underwhelming results, announcing third quarter net income of $466 million, down 54% year-over-year; and diluted EPS of $0.80 down from $1.74 in the same quarter in the year previous. Unsurprisingly, Sun Life cited similar market challenges as Manulife when attributing the draw down in earnings.[8]

Other noteworthy headlines during the year included that of RBC, a holding in this fund, which announced that it will acquire HSBC Canada for $13.5 billion on November 29th. The acquisition will allow RBC to grow its operations through the addition of 130 branches, 4,200 employees, and 780,000 customers in Canada.[9] Finally, in December, the Bank of Montreal, a holding in this fund, announced the issuance of common shares pursuant to a public offering totaling approximately $3.15 billion.[10]

Performance Attribution

For the twelve month period ending December 31, 2022, Manulife Financial Corp. made the biggest contribution to the Fund, followed by Sun Life Financial Inc. By weight, the Fund's largest holdings were Sun Life Financial Inc., Manulife Financial Corp, and Royal Bank of Canada.

(1) https://www.bloomberg.com/news/articles/2023-01-17/inflation-slows-to-6-3-in-canada-opening-door-to-rate-pause?leadSource=uverify%20wall

(2) https://www.cnbc.com/2022/09/23/borrowing-costs-hit-multi-year-highs-after-fed-hike.html

(3) https://financialpost.com/fp-finance/banking/canadas-big-banks-poised-to-benefit-from-rising-interest-rates-after-emerging-unscathed-from-pandemic

(4) https://www.scotiabank.com/content/dam/scotiabank/corporate/quarterly-reports/2022/q3/Q322_Quarterly_Press_Release-EN.pdf

(5) https://www.td.com/document/PDF/investor/2022/2022-Q3_Earnings_News_Release_F_EN.pdf

(6) https://www.nbc.ca/content/dam/bnc/a-propos-de-nous/relations-investisseurs/resultats-trimestriels/2022/report-shareholder-q3-2022.pdf

(7) https://www.manulife.com/content/dam/corporate/en/documents/investors/MFC_QPR_2022_Q3_EN.pdf

(8) https://www.sunlife.com/content/dam/sunlife/regional/global-marketing/documents/com/pa-e-q322-earnings.pdf

(9) https://www.cbc.ca/news/business/rbc-buying-hsbc-canada-1.6667564

(10) https://www.newswire.ca/news-releases/bank-of-montreal-announces-offering-of-common-shares-for-gross-proceeds-of-c-3-15-billion-following-the-increase-to-the-domestic-stability-buffer-849965913.html

Recent Developments

In the year ended December 31, 2022, the COVID-19 pandemic persisted and continued to result in unprecedented actions by governments around the world to curtail the spread of the disease. These events have resulted in a high level of uncertainty and volatility in the financial markets and have had an enormous impact on businesses and consumers in all sectors. The duration and impact of these developments are unknown at this time and as such, the financial impact to investments cannot be estimated.

Related Party Transactions

Evolve Funds Group Inc. (the “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 0.60% per annum of the average daily net asset value of the Fund. The fees are accrued daily and generally paid monthly. For the year ended December 31, 2022, the Fund incurred $102,204 in management fees. These management fees were received by the Manager 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 year ended December 31, 2022, the Fund incurred $25,551 in administration fees. These administration fees were received by the Manager 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 may, in any particular period, be less than or exceed the operating expenses that the Manager incurs for the Fund.

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, 2022 ($)
Unhedged ETF Units - Net Assets per Unit	
Net Assets per Unit, beginning of period[2]	**10.00**
Increase (decrease) from operations:	
Total revenue	**0.45**
Total expenses	**(0.14)**
Realized gains (losses)	**(0.17)**
Unrealized gains (losses)	**(1.01)**
Total increase (decrease) from operations[3]	**(0.87)**
Distributions:	
From dividends	**(0.14)**
From capital gains	**(0.07)**
Return of capital	**(0.56)**
Total annual distributions[4]	**(0.77)**
Net Assets per Unit, end of period	**7.34**

1 This information is derived from the Fund’s audited financial statements as at December 31, 2022. The Unhedged ETF Units effectively began operations on February 1, 2022.
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, 2022
Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value ($)[5]	**34,880,960**
Number of units outstanding[5]	**4,750,000**
Management expense ratio[6]	**1.70%**
Management expense ratio excluding cost of financing	**0.84%**
Trading expense ratio[7]	**0.22%**
Portfolio turnover rate[8]	**20.16%**
Net Asset Value per unit ($)	**7.34**
Closing market price ($)	**7.36**

5 This information is provided as at December 31, 2022.

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.

Past Performance

Since the Fund is a reporting issuer for less than one year, with inception date February 1, 2022, providing performance data for the period is not permitted.

Summary of Investment Portfolio

All Positions

Security	Percentage of Net Asset Value (%)
Sun Life Financial Inc.	13.8
Manulife Financial Corporation	13.5
Royal Bank of Canada	12.7
The Bank of Nova Scotia	12.7
The Toronto-Dominion Bank	12.6
National Bank of Canada	12.4
Great-West Lifeco Inc.	12.4
Bank of Montreal	12.3
Power Corporation of Canada	11.9
Canadian Imperial Bank of Commerce	11.2
Total	**125.5**

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Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Financials	125.5
Derivative Liabilities	(0.1)
Cash and Cash Equivalents	0.4
Other Assets, less Liabilities	(25.8)
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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