



Evolve ETFs

# Evolve Active Short Duration Bond 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](http://www.evolveetfs.com) or SEDAR at [www.sedar.com](http://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

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The Evolve Active Short Duration Bond ETF (the "Fund") seeks to provide holders of Units with a high level of current income through monthly distributions. Under normal market conditions, the Fund invests primarily in a diversified portfolio of below investment grade corporate debt securities rated "BB+" or lower by Standard & Poor's Rating Services ("S&P") and Fitch Ratings ("Fitch") or "Ba1" or lower by Moody's Investor Services, Inc. ("Moody's") at the time of investment. The portfolio will generally have an average duration of less than three years.

## Risk

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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

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For the year ended December 31, 2018, the Fund's net asset value per non-hedged units returned 8.18% and net asset value per hedged units returned -0.81%. The Fund's net assets were \$4.748MM as at December 31, 2018.

## Portfolio Manager Commentary

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Despite a supportive fundamental backdrop, high-yield bonds entered a broad selloff during the fourth quarter as risk sentiment turned negative amid headwinds from rising rates, newly created tariffs which spurred global trade tensions, a slowdown in the rate of earnings growth, and renewed positioning and pause over how late stage the credit cycle is. As year-end approached, any positive data was overlooked by negative sentiment that led to large outflows from the sector and overwhelmed the technical aspect in the market which gave way to lower prices and returns for the year. Nonetheless, credit fundamentals remain intact as high yield companies continue to demonstrate discipline through terming out debt and maintaining solid balance sheet leverage and coverage metrics, inflation is moderate, and the labor market and consumer spending are still strong. During the 2018 calendar year the total return of the portfolio outperformed the Barclays US HY 1-5 Yr index. Outperformance was led by modest underweights to the Insurance and Energy sectors and overweights to the Metals & Mining, and Consumer Cyclical sectors. Additionally, the continued up in quality tilt for the portfolio dampened return volatility, particularly as the steep decline in higher beta names unfolded during the fourth quarter. There were no material changes to positioning.

## Recent Developments

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

## Related Party Transactions

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The Manager complies with its current policy and procedures regarding investments in related issuers and reports periodically to the IRC.

## Management Fees

The management fees are calculated based on 0.70% 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 \$38,545 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](http://www.evolveetfs.com) website, and providing all other services including marketing and promotion.

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## 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 \$8,260 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<sup>1</sup>

	December 31, 2018 (\$)	December 31, 2017 (\$)
For the periods ended:		
<b>Unhedged Units - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period	19.76	19.95
<b>Increase (decrease) from operations:</b>		
Total revenue	1.13	0.25
Total expenses	(0.20)	(0.05)
Realized gains (losses)	-	(0.05)
Unrealized gains (losses)	0.65	(0.18)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>1.58</b>	<b>(0.03)</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.06)	(0.21)
Return of capital	(0.78)	-
<b>Total annual distributions<sup>3</sup></b>	<b>(0.84)</b>	<b>(0.21)</b>
<b>Net Assets per Unit, end of period</b>	<b>20.49</b>	<b>19.76</b>
<b>Hedged Units - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period	19.61	19.92
<b>Increase (decrease) from operations:</b>		
Total revenue	1.08	0.24
Total expenses	(0.19)	(0.05)
Realized gains (losses)	(0.55)	(0.70)
Unrealized gains (losses)	(0.49)	0.33
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(0.15)</b>	<b>(0.18)</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.06)	(0.21)
Return of capital	(0.78)	-
<b>Total annual distributions<sup>3</sup></b>	<b>(0.84)</b>	<b>(0.21)</b>
<b>Net Assets per Unit, end of period</b>	<b>18.62</b>	<b>19.61</b>

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 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.

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## The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2018	December 31, 2017
<b>Unhedged Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>4</sup>	1,024,714	987,850
Number of units outstanding <sup>4</sup>	50,000	50,000
Management expense ratio <sup>5</sup>	0.96%	1.01%
Trading expense ratio <sup>6</sup>	0.04%	0.22%
Portfolio turnover rate <sup>7</sup>	112.49%	97.14%
Net Asset Value per unit (\$)	20.49	19.76
Closing market price (\$)	20.54	19.83
<b>Hedged Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>4</sup>	3,723,192	3,922,072
Number of units outstanding <sup>4</sup>	200,000	200,000
Management expense ratio <sup>5</sup>	0.96%	1.01%
Trading expense ratio <sup>6</sup>	0.04%	0.22%
Portfolio turnover rate <sup>7</sup>	112.49%	97.14%
Net Asset Value per unit (\$)	18.62	19.61
Closing market price (\$)	18.65	19.65

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.

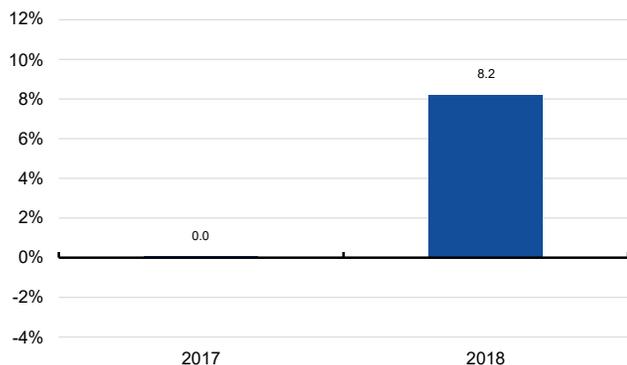
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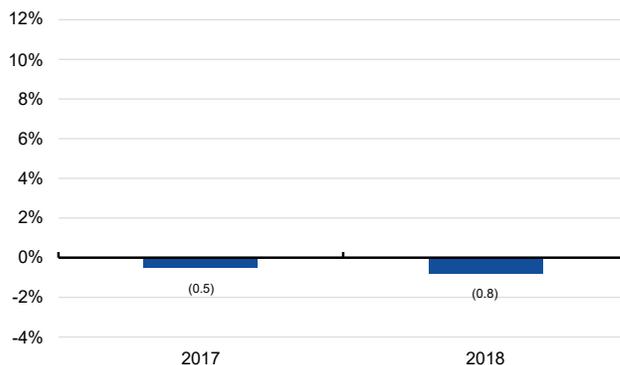
## Year-by-Year Returns

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.

**TIME/B<sup>1</sup>**



**TIME<sup>2</sup>**



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 (%)
NRG Energy Inc., Callable	1.5
The Chemours Company, Callable	1.5
T-Mobile US Inc., Callable	1.4
Allegheny Technologies Inc., Callable	1.4
Genesis Energy Limited Partnership/Finance Corporation	1.4
Level 3 Financing Inc., Callable	1.4
APX Group Inc., Callable	1.4
Beazer Homes USA Inc., Callable	1.3
Lennar Corporation	1.2
HCA Inc.	1.2
Hughes Satellite Systems Corporation	1.2
Dynegy Inc., Callable	1.2
Auto Ahorro Automotriz SA de CV, Callable	1.2
L Brands Inc.	1.2
CSC Holdings LLC	1.2
Sprint Corporation	1.2
The Gap Inc., Callable	1.2
KB Home, Callable	1.2
Scientific Games International Inc., Callable	1.2
Alcoa Inc., Callable	1.2
Netflix Inc.	1.2
AngloGold Ashanti Holdings PLC	1.2
Huntsman International LLC, Callable	1.2

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## Top 25 Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
MGM Resorts International	1.2
Anixter Inc.	1.2
<b>Total</b>	<b>31.7</b>

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Debt Instruments</b>	
Consumer Discretionary	20.5
Communication Services	17.0
Energy	13.2
Financials	12.4
Materials	8.9
Industrials	6.2
Information Technology	4.8
Utilities	3.8
Health Care	3.5
Consumer Staples	2.0
Real Estate	0.7
Derivative Assets	0.1
Derivative Liabilities	(2.9)
Cash and Cash Equivalents	9.0
Other Assets, less Liabilities	0.8
<b>Total</b>	<b>100.0</b>

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](http://www.evolveetfs.com).



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