

# Evolve US Banks Enhanced Yield Fund

June 30, 2024

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, 40 King Street West, Suite 3404, Toronto, ON, M5H 3Y2 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 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 Canadian Dollar Hedged (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 Canadian Dollar Hedged, or any successor thereto, while writing covered call options on up to 33% of the portfolio securities, at the discretion of the portfolio manager. The level of covered call option writing may vary based on market volatility and other factors.

## 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 six-month period ended June 30, 2024, the Unhedged ETF Units returned 14.3% versus the Solactive Equal Weight US Bank Index PR return of 15.3%. The Hedged ETF Units returned 10.2% versus the Solactive Equal Weight US Bank Index PR Canadian Dollar Hedged return of 12.1%. The US Dollar Unhedged ETF Units returned 10.7% versus the Solactive Equal Weight US Bank Index PR return of 15.3%. The difference in performance of the hedged units relative to its benchmark can be attributed primarily to management and administration fees plus applicable sales taxes, to portfolio trading and hedging strategies and to the assumption that all distributions made by the investment fund were reinvested in additional securities whereas the index performance is of price return only. The difference in performance of the unhedged units relative to its benchmark can be attributed primarily to management and administration fees plus applicable sales taxes, to portfolio trading and to the assumption that all distributions made by the investment fund were reinvested in additional securities whereas the index performance is of price return only. Furthermore, the difference can also be attributed to the implementation of the call writing strategy where the Fund tends 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. The Fund's net assets were \$98.8MM as at June 30, 2024.

## Portfolio Manager Commentary

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The first half of 2024 has been strong for the Fund, as elevated interest rates have acted as a significant tailwind for U.S. banks. This high interest rate environment has generally bolstered their performance, although, earnings reports from the first quarter of the year revealed mixed outcomes across the sector.

Goldman Sachs Group, the largest holding of the Fund, was a standout performer in their first quarter earnings in April. Goldman Sachs reported that first quarter profit increased 28.0%<sup>1</sup>, bolstered by their investment banking unit and increased deal flow. First Citizens BancShares beat profit estimates as the lender earned higher interest income and started seeing benefits of its acquisition of Silicon Valley Bank (SVB) following its collapse last year<sup>2</sup>. In fact, First Citizens BancShares reported a significant 42.0% increase in net income compared to the fourth quarter of 2023<sup>3</sup>. The bank also stated that they are keeping cash aside as they look for further potential acquisition targets. Bank of America also demonstrated strong results during the period, particularly in investment banking and digital platform growth, although it faced challenges in the commercial real estate sector<sup>4</sup>. JPMorgan Chase reported solid financials overall but noted rising expenses and net interest income as areas of concern<sup>5</sup>.

Investors are closely monitoring macroeconomic data and potential interest rate cuts to understand their impact on the banking sector's future performance. During the period, the Federal Reserve held the Federal Funds Rate steady at a two-decade high of 5.25% to 5.50%<sup>6</sup>. Economists expect that a rate cut could come in the third quarter of 2024, pending the support of continued positive macroeconomic data. Under a lower interest rate environment, the net interest income of these banks may decrease, but it is expected that other aspects of their operations such as mortgages and loans will be positively impacted.

In summary, the U.S. banking industry has had a strong first half of the year, buoyed by a favorable interest rate environment and strong earnings results.

## Performance Attribution

For the six-month period ending June 30, 2024, First Citizens BancShares Inc. made the biggest contribution to the Fund, followed by JPMorgan Chase & Company. By weight, the Fund's largest holdings were The Goldman Sachs Group, Inc., Bank of America Corporation, and First Citizens BancShares Inc.

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- (1) <https://www.wsj.com/finance/banking/goldman-sachs-gs-q1-earnings-report-2024-932af5bd>
- (2) <https://www.reuters.com/markets/us/svb-owner-first-citizens-profit-beats-estimates-interest-income-strength-2024-04-25/>
- (3) <https://www.pymnts.com/earnings/2024/first-citizens-reports-strong-liquidity-a-year-after-svb-purchase/>
- (4) <https://finance.yahoo.com/news/bank-of-america-profits-drop-as-key-lending-revenue-weakens-111910530.html>
- (5) <https://www.reuters.com/markets/us/jpmorgans-profit-rises-interest-income-strength-2024-04-12/>
- (6) <https://www.bloomberg.com/news/articles/2024-06-12/fed-officials-dial-back-rate-forecasts-signal-just-one-24-cut?smd=homepage-canada>

## Recent Developments

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

## Related Party Transactions

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Evolve Funds Group Inc. (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 Manager is entitled to an annual management fee of 0.45% of the net asset value of the Fund, accrued daily and generally paid monthly. For the six-month period ended June 30, 2024, the Fund incurred \$241,748 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](http://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, 2024, the Fund incurred \$81,069 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; 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 may, in any particular period, be less than or exceed the operating expenses that the Manager incurs for the Fund.

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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<sup>1</sup>

	June 30, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019
For the periods ended:	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Unhedged ETF Units - Net Assets per Unit</b>						
Net Assets per Unit, beginning of period	14.02	17.70	22.38	17.70	21.46	18.10
<b>Increase (decrease) from operations:</b>						
Total revenue	0.27	0.56	0.54	0.48	0.56	0.59
Total expenses	(0.10)	(0.22)	(0.24)	(0.25)	(0.30)	(0.31)
Realized gains (losses)	0.78	(3.56)	0.67	2.16	(4.01)	(0.47)
Unrealized gains (losses)	0.97	1.07	(3.86)	3.36	1.80	5.21
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>1.92</b>	<b>(2.15)</b>	<b>(2.89)</b>	<b>5.75</b>	<b>(1.95)</b>	<b>5.02</b>
<b>Distributions:</b>						
From dividends	-	(0.39)	(0.26)	(0.24)	(0.30)	(0.32)
From capital gains	-	-	(0.33)	-	-	-
Return of capital	-	(1.11)	(0.91)	(1.17)	(1.08)	(0.94)
<b>Total annual distributions<sup>3</sup></b>	<b>-</b>	<b>(1.50)</b>	<b>(1.50)</b>	<b>(1.41)</b>	<b>(1.38)</b>	<b>(1.26)</b>
<b>Net Assets per Unit, end of period</b>	<b>15.25</b>	<b>14.02</b>	<b>17.70</b>	<b>22.38</b>	<b>17.70</b>	<b>21.46</b>
<b>Hedged ETF Units - Net Assets per Unit</b>						
Net Assets per Unit, beginning of period	11.52	14.75	20.44	16.27	20.21	16.45
<b>Increase (decrease) from operations:</b>						
Total revenue	0.22	0.46	0.47	0.45	0.49	0.54
Total expenses	(0.08)	(0.18)	(0.21)	(0.25)	(0.26)	(0.28)
Realized gains (losses)	0.34	(2.40)	(0.50)	1.16	(1.83)	(2.13)
Unrealized gains (losses)	0.65	2.56	(3.77)	2.70	3.75	5.31
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>1.13</b>	<b>0.44</b>	<b>(4.01)</b>	<b>4.06</b>	<b>2.15</b>	<b>3.44</b>
<b>Distributions:</b>						
From dividends	-	(0.26)	(0.23)	(0.18)	(0.23)	(0.30)
From capital gains	-	-	(0.34)	-	-	-
Return of capital	-	(1.24)	(0.93)	(1.23)	(1.15)	(0.96)
<b>Total annual distributions<sup>3</sup></b>	<b>-</b>	<b>(1.50)</b>	<b>(1.50)</b>	<b>(1.41)</b>	<b>(1.38)</b>	<b>(1.26)</b>
<b>Net Assets per Unit, end of period</b>	<b>11.93</b>	<b>11.52</b>	<b>14.75</b>	<b>20.44</b>	<b>16.27</b>	<b>20.21</b>

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## The Fund's Net Assets Per Unit<sup>1</sup> (cont'd)

For the periods ended:	June 30, 2024 (\$)	December 31, 2023 (\$)	December 31, 2022 (\$)	December 31, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)
<b>US Dollar Unhedged ETF Units - Net Assets per Unit<sup>4</sup></b>						
Net Assets per Unit, beginning of period	16.98	21.69	27.56	21.82	26.68	26.40
<b>Increase (decrease) from operations:</b>						
Total revenue	0.33	0.69	0.66	0.57	0.71	0.09
Total expenses	(0.12)	(0.27)	(0.29)	(0.31)	(0.38)	(0.05)
Realized gains (losses)	0.93	(4.00)	0.94	2.43	(5.82)	0.40
Unrealized gains (losses)	1.20	2.32	(4.61)	2.81	3.17	(0.21)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>2.34</b>	<b>(1.26)</b>	<b>(3.30)</b>	<b>5.50</b>	<b>(2.32)</b>	<b>0.23</b>
<b>Distributions:</b>						
From dividends	-	(0.42)	(0.36)	(0.26)	(0.35)	(0.01)
From capital gains	-	-	(0.48)	-	-	-
Return of capital	-	(1.60)	(1.28)	(1.51)	(1.50)	(0.14)
<b>Total annual distributions<sup>3</sup></b>	<b>-</b>	<b>(2.02)</b>	<b>(2.12)</b>	<b>(1.77)</b>	<b>(1.85)</b>	<b>(0.15)</b>
<b>Net Assets per Unit, end of period</b>	<b>18.35</b>	<b>16.98</b>	<b>21.69</b>	<b>27.56</b>	<b>21.82</b>	<b>26.68</b>

1 This information is derived from the Fund's unaudited interim financial statements as at June 30, 2024, and the audited annual financial statements as at December 31, 2023, 2022, 2021, 2020, and 2019. The Unhedged and Hedged ETF Units effectively began operations on October 12, 2017 and the US Dollar Unhedged ETF Units began operations on November 26, 2019.

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.

4 Per unit figures are stated in CAD equivalent.

## The Fund's Ratios/Supplemental Data

For the periods ended:	June 30, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>						
Total Net Asset Value (\$) <sup>5</sup>	9,150,708	6,308,757	7,079,005	5,035,885	3,097,714	3,219,518
Number of units outstanding <sup>5</sup>	600,000	450,000	400,000	225,000	175,000	150,000
Management expense ratio <sup>6</sup>	0.62%	0.69%	0.67%	0.64%	0.70%	0.70%
Trading expense ratio <sup>7</sup>	0.18%	0.29%	0.16%	0.19%	0.67%	0.43%
Portfolio turnover rate <sup>8</sup>	19.68%	71.99%	61.13%	78.93%	203.76%	103.77%
Net Asset Value per unit (\$)	15.25	14.02	17.70	22.38	17.70	21.46
Closing market price (\$)	15.21	14.03	17.70	22.38	17.70	21.46
<b>Hedged ETF Units - Ratios/Supplemental Data</b>						
Total Net Asset Value (\$) <sup>5</sup>	83,191,559	87,820,980	36,133,370	24,525,649	4,881,866	1,515,581
Number of units outstanding <sup>5</sup>	6,975,000	7,625,000	2,450,000	1,200,000	300,000	75,000
Management expense ratio <sup>6</sup>	0.65%	0.68%	0.68%	0.68%	0.69%	0.70%
Trading expense ratio <sup>7</sup>	0.18%	0.29%	0.16%	0.19%	67.00%	0.43%
Portfolio turnover rate <sup>8</sup>	19.68%	71.99%	61.13%	78.93%	203.76%	103.77%
Net Asset Value per unit (\$)	11.93	11.52	14.75	20.44	16.27	20.21
Closing market price (\$)	11.91	11.53	14.75	20.51	16.25	20.21

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## The Fund's Ratios/Supplemental Data (cont'd)

For the periods ended:	June 30, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019
<b>US Dollar Unhedged ETF Units - Ratios/Supplemental Data</b>						
Total Net Asset Value (\$)⁵	6,423,783	6,791,732	3,795,085	3,445,043	1,636,700	1,334,148
Number of units outstanding⁵	350,000	400,000	175,000	125,000	75,000	50,000
Management expense ratio⁶	0.65%	0.69%	0.67%	0.65%	0.77%	0.09%
Trading expense ratio⁷	0.18%	0.29%	0.16%	0.19%	0.67%	0.43%
Portfolio turnover rate⁸	19.68%	71.99%	61.13%	78.93%	203.76%	103.77%
Net Asset Value per unit (\$)	18.35	16.98	21.69	27.56	21.82	26.68
Closing market price (\$)	18.35	16.99	21.68	27.58	21.85	26.70

5 This information is provided as at June 30, 2024, and December 31, 2023, 2022, 2021, 2020, and 2019.

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.

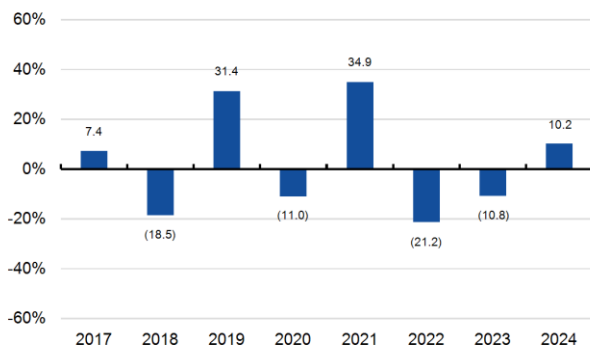
## Past Performance

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.

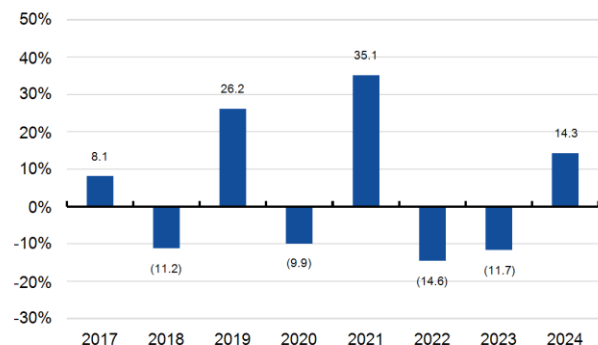
## Year-by-Year Returns

The bar chart below shows the Hedged, Unhedged, and US Dollar Unhedged ETF Units' performance for each of the financial years shown and for the six-month period ended June 30, 2024. The chart shows, in percentage terms, how much an investment made in the Fund on the first day of each financial period would have grown or decreased by the last day of that financial period.

### CALL Hedged ETF Units<sup>1</sup>



### CALL/B Unhedged ETF Units<sup>2</sup>



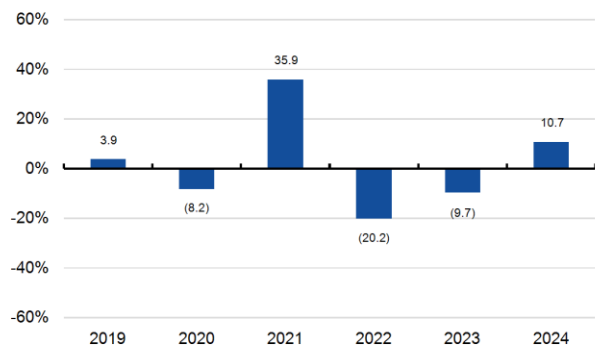
1 The Hedged ETF Units of the Fund effectively began operations on October 12, 2017.

2 The Unhedged ETF Units of the Fund effectively began operations on October 12, 2017.

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## CALL/U US Dollar Unhedged ETF Units<sup>3</sup>



<sup>3</sup> The US Dollar Unhedged ETF Units of the Fund effectively began operations on November 26, 2019. Returns presented based on NAV equivalent in USD.

## Summary of Investment Portfolio

### All Positions

	Percentage of Net Asset Value (%)
Security	
The Goldman Sachs Group Inc.	7.0
Bank of America Corporation	6.7
First Citizens BancShares Inc., Class 'A'	6.6
Citigroup Inc.	6.6
JPMorgan Chase & Company	6.5
M&T Bank Corporation	6.4
Citizens Financial Group Inc.	6.3
Truist Financial Corporation	6.3
Wells Fargo & Company	6.3
Regions Financial Corporation	6.2
The PNC Financial Services Group Inc.	6.2
Fifth Third Bancorp	6.1
Huntington Bancshares Inc.	5.9
East West Bancorp Inc.	5.7
KeyCorp	5.7
U.S. Bancorp	5.5
<b>Total</b>	<b>100.0</b>

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## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Financials	100.0
Derivative Assets	0.0
Derivative Liabilities	(0.6)
Cash and Cash Equivalents	1.3
Other Assets, less Liabilities	(0.7)
<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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