

# Evolve Active Core Fixed Income 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](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.

# Evolve Active Core Fixed Income Fund

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## Investment Objective and Strategies

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The Evolve Active Core Fixed Income Fund (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

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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, 2022, Unhedged ETF Units returned -12.6%. The Unhedged Class A Mutual Fund Units returned -13.2% and the Unhedged Class F Mutual Fund Units returned -12.6%. The Fund's net assets were \$12.0MM as at December 31, 2022.

## Portfolio Manager Commentary

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Interest rates rose in the first quarter as the bond market reacted to inflation pressure and priced in future tightening of monetary policy. The yield curve continued to flatten during the quarter as 2-year yields rose over 130 basis points (bps) while 30-year rates rose 70 bps. The Bank of Canada and Federal Reserve tightened their overnight target rates by 25 bps and signaled more to come. Provincial and Corporate spreads widened into March driven by uncertainty surrounding the Russian invasion of Ukraine and rising interest rates, but reversed course and narrowed into quarter end supported by investor demand. The Fund benefited from off-benchmark allocations to "plus" components such as Preferred Shares and Global Bonds. This was partially offset by underperformance from the Core Fixed Income component which trailed due to its longer-than-benchmark duration.

The Bank of Canada twice hiked the overnight target rate by 50 bps during the second quarter (for a total of 100 bps). Similarly, the Federal Reserve tightened their target range by a total of 125 bps, while also signaling more to follow. Interest rates rose across the curve as the bond market moved to price in higher expectations for tightening of monetary policy this year. The Fund's returns declined alongside the broader bond market during the 2nd quarter, returning -6.50% (before fees) vs the benchmark return of -5.7%. Underperformance during the month was attributable to the off-benchmark allocation to Preferred Shares which declined more than Canadian bonds; although this was partially offset by the allocation to Global bonds which outperformed the broader bond market in Canadian dollar terms.

The Bank of Canada accelerated the pace of monetary policy tightening by raising the overnight target rate by 175 bps during the third quarter to 3.25%. Similarly, the Federal Reserve tightened their target range by a total of 150 bps, while also signaling more to follow. Shorter term (1-7 year) interest rates rose significantly in the third quarter as the bond market reacted to more aggressive tightening of monetary policy. In contrast, longer term (10 year and longer) rates were almost unchanged causing the yield curve to invert further. During the quarter, the Fund's underperformance was largely attributable to the off-benchmark allocation to Preferred Shares, combined with the allocation to Global bonds which underperformed their Canadian counterparts. However, this was partially offset by the relative strength of the Canadian Core Bonds component which exceeded the broader market.

The Bank of Canada slowed its pace of monetary policy tightening during the fourth quarter, raising the overnight target rate by 100 bps to 4.25%. Similarly, the Federal Reserve tightened by a total of 125 bps, to finish the year at a target range of 4.25% to 4.50%. Both Central Banks suggested that they have not finishing tightening for this cycle. Rates rose across the curve even as the Bank of Canada signaled a slower pace of tightening and inflation data continued moving lower. Short-term rates rose more than longer term. Domestic and global corporate spreads narrowed during the quarter after hitting the widest levels of the year in October, supported by a positive overall tone for risk markets.

## Recent Developments

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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.

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## 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 Manager is entitled to an annual management fee of 0.45% of the net asset value of the Unhedged ETF Units and the Unhedged Class F Mutual Fund Units and 1.20% of the net asset value of the Unhedged Class A Mutual Fund Units of the Fund, accrued daily and generally paid monthly in arrears. For the year ended December 31, 2022, the Fund incurred \$65,190 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 \$31,604 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<sup>1</sup>

	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
For the periods ended:	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Unhedged ETF Units - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	20.45	20.91	19.75	19.37	20.01
<b>Increase (decrease) from operations:</b>					
Total revenue	0.63	0.64	0.71	0.66	0.48
Total expenses	(0.10)	(0.11)	(0.11)	(0.11)	(0.12)
Realized gains (losses)	(1.73)	(0.37)	0.56	0.12	(0.03)
Unrealized gains (losses)	(1.76)	(0.06)	0.22	0.34	(0.40)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(2.96)</b>	<b>0.10</b>	<b>1.38</b>	<b>1.01</b>	<b>(0.07)</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.44)	(0.38)	(0.47)	(0.47)	(0.32)
From dividends	(0.10)	(0.15)	(0.15)	(0.06)	(0.01)
From capital gains	-	-	-	(0.07)	(0.01)
Return of capital	(0.12)	(0.13)	(0.04)	(0.06)	(0.16)
<b>Total annual distributions<sup>3</sup></b>	<b>(0.66)</b>	<b>(0.66)</b>	<b>(0.66)</b>	<b>(0.66)</b>	<b>(0.50)</b>
<b>Net Assets per Unit, end of period</b>	<b>17.24</b>	<b>20.45</b>	<b>20.91</b>	<b>19.75</b>	<b>19.37</b>

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

For the periods ended:	December 31, 2022 (\$)	December 31, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)	December 31, 2018 (\$)
<b>Unhedged Class A - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	20.64	21.27	20.09	20.17	N/A
<b>Increase (decrease) from operations:</b>					
Total revenue	0.62	0.65	0.63	0.05	N/A
Total expenses	(0.25)	(0.28)	(0.28)	0.01	N/A
Realized gains (losses)	(1.73)	(0.36)	0.08	0.12	N/A
Unrealized gains (losses)	(1.81)	(0.13)	1.85	(0.09)	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(3.17)</b>	<b>(0.12)</b>	<b>2.28</b>	<b>0.09</b>	<b>N/A</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.34)	(0.33)	(0.30)	-	N/A
From dividends	(0.08)	(0.13)	(0.09)	-	N/A
Return of capital	(0.24)	(0.20)	-	-	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.66)</b>	<b>(0.66)</b>	<b>(0.39)</b>	<b>-</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>17.27</b>	<b>20.64</b>	<b>21.27</b>	<b>20.09</b>	<b>N/A</b>
<b>Unhedged Class F - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	21.07	21.54	20.26	20.19	N/A
<b>Increase (decrease) from operations:</b>					
Total revenue	0.64	0.64	0.70	0.04	N/A
Total expenses	(0.10)	(0.11)	(0.13)	0.01	N/A
Realized gains (losses)	(1.74)	(0.18)	0.23	0.13	N/A
Unrealized gains (losses)	(1.39)	(0.08)	1.14	0.08	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(2.59)</b>	<b>0.27</b>	<b>1.94</b>	<b>0.26</b>	<b>N/A</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.48)	(0.35)	(0.30)	-	N/A
From dividends	(0.11)	(0.13)	(0.09)	-	N/A
Return of capital	(0.07)	(0.18)	-	-	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.66)</b>	<b>(0.66)</b>	<b>(0.39)</b>	<b>-</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>17.79</b>	<b>21.07</b>	<b>21.54</b>	<b>20.26</b>	<b>N/A</b>

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2022, 2021, 2020, 2019, and 2018. The Unhedged ETF Units effectively began operations on March 28, 2018 and the Unhedged Class A and F Mutual Fund Units effectively began operations on June 4, 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.

## The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	10,428,966	22,492,306	16,207,407	30,612,500	24,693,049
Number of units outstanding <sup>4</sup>	605,000	1,100,000	775,000	1,550,000	1,275,000
Management expense ratio excluding underlying fund expenses <sup>5</sup>	0.51%	0.50%	0.55%	0.58%	0.60%
Management expense ratio <sup>5</sup>	0.68%	0.70%	0.71%	0.70%	0.68%
Trading expense ratio <sup>6</sup>	0.03%	0.03%	0.02%	0.00%	0.18%
Portfolio turnover rate <sup>7</sup>	105.36%	134.05%	86.86%	30.80%	52.41%
Net Asset Value per unit (\$)	17.24	20.45	20.91	19.75	19.37
Closing market price (\$)	17.25	20.43	20.81	19.80	19.33

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

For the periods ended:	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
<b>Unhedged Class A - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	65,013	97,975	77,699	20	N/A
Number of units outstanding <sup>4</sup>	3,765	4,748	3,653	1	N/A
Management expense ratio excluding underlying fund expenses <sup>5</sup>	1.31%	1.30%	1.34%	0.00%	N/A
Management expense ratio <sup>5</sup>	1.47%	1.51%	1.54%	0.24%	N/A
Trading expense ratio <sup>6</sup>	0.03%	0.03%	0.02%	0.00%	N/A
Portfolio turnover rate <sup>7</sup>	105.36%	134.05%	86.86%	30.80%	N/A
Net Asset Value per unit (\$)	17.27	20.64	21.27	20.09	N/A
<b>Unhedged Class F - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	1,501,481	3,964,783	304,424	20	N/A
Number of units outstanding <sup>4</sup>	84,422	188,134	14,131	1	N/A
Management expense ratio excluding underlying fund expenses <sup>5</sup>	0.52%	0.51%	0.60%	0.00%	N/A
Management expense ratio <sup>5</sup>	0.68%	0.70%	0.80%	0.24%	N/A
Trading expense ratio <sup>6</sup>	0.03%	0.03%	0.02%	0.00%	N/A
Portfolio turnover rate <sup>7</sup>	105.36%	134.05%	86.86%	30.80%	N/A
Net Asset Value per unit (\$)	17.79	21.07	21.54	20.26	N/A

4 This information is provided as at December 31, 2022, 2021, 2020, 2019, and 2018.

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. The MER for prior periods has been restated to include the expenses of any underlying funds.

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.

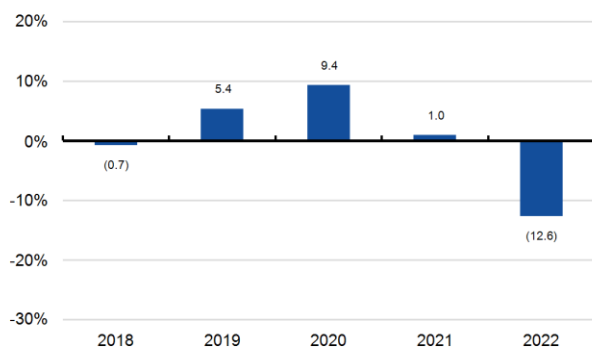
## Year-by-Year Returns

The bar chart below shows the Unhedged ETF Units' and the Unhedged Class A and F Mutual Fund Units' performance for each of the financial years 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.

# Evolve Active Core Fixed Income Fund

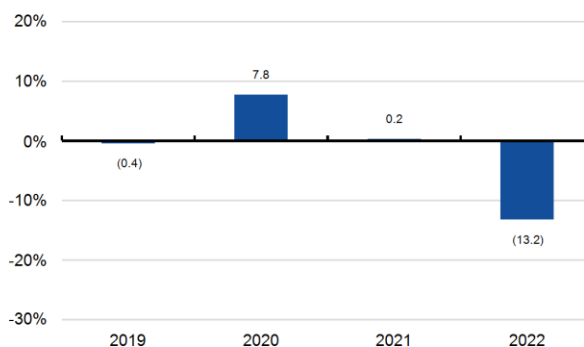
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## FIXD Unhedged ETF Units<sup>1</sup>



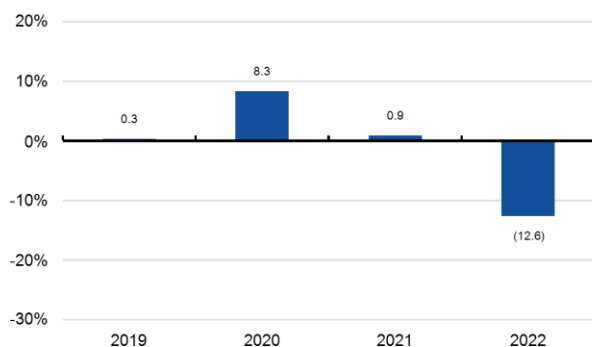
1 The Unhedged ETF Units of the Fund effectively began operations on March 28, 2018.

## Unhedged Class A Mutual Fund Units<sup>2</sup>



2 The Unhedged Class A Mutual Fund Units of the Fund effectively began operations on June 4, 2019.

## Unhedged Class F Mutual Fund Units<sup>3</sup>



3 The Unhedged Class F Mutual Fund Units of the Fund effectively began operations on June 4, 2019.

## Annual Compound Return

The table below shows the historical annual compound total return of the Unhedged ETF Units and the Unhedged Class A and F Mutual Fund Units. The returns are for period ended December 31, 2022. As a basis of comparison, we have provided the performance of FTSE Canada Universe Bond Index ("Index"). As the criteria for determining the constituents of the Fund and the Index differ, it is not expected that the Fund's performance will mirror that of the Index. Further, the return of the Index is calculated without the deduction of management fees and fund expenses whereas the performance of the Fund is calculated after deducting such fees and expenses.

	Since Inception <sup>1</sup> (%)	1 Year (%)	3 Year (%)
Unhedged ETF Units	0.2	(12.6)	(1.1)
FTSE Canada Universe Bond Index	0.3	(11.7)	(2.2)
Unhedged Class A Mutual Fund Units	(1.9)	(13.2)	(2.1)
FTSE Canada Universe Bond Index	(1.6)	(11.7)	(2.2)
Unhedged Class F Mutual Fund Units	(1.2)	(12.6)	(1.5)

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	Since Inception <sup>1</sup> (%)	1 Year (%)	3 Year (%)
FTSE Canada Universe Bond Index	(1.6)	(11.7)	(2.2)

1 From inception date of March 28, 2018 for the Unhedged ETF Units and from inception date of June 4, 2019 for the Unhedged Class A and F Mutual Fund Units.

## Summary of Investment Portfolio

### Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
Evolve Active Global Fixed Income Fund	9.3
Government of Canada 1.5% due April 01, 2025	8.1
Government of Canada 1.75% due December 1, 2053	5.4
Evolve Active Canadian Preferred Share ETF	5.0
Fair Hydro Trust, Callable	3.1
Royal Office Finance Limited Partnership, Series 'A'	3.0
Original Wempi Inc., Series 'B2'	2.8
The 55 Ontario School Board Trust, Series 'A'	2.3
The Hospital for Sick Children, Series 'A'	2.2
Canada Post Corporation 4.36% due July 16, 2040	2.1
Brookfield Corporation 5.95% due June 14, 2035	1.8
Government of Canada 4.00% due June 1, 2041	1.8
Enbridge Inc., Variable, Callable	1.8
Manulife Financial Corporation, Variable, Callable, Callable	1.8
TransCanada Trust, Variable, Callable	1.7
Enbridge Southern Lights Limited Partnership.	1.7
Province of British Columbia 2.8% due June 18, 2048	1.6
International Bank for Reconstruction and Development	1.5
Sun Life Financial Inc., Variable, Callable	1.4
OPB Finance Trust, Series 'A'	1.3
New Brunswick F-M Project Company Inc.	1.3
Province of Ontario 2.90% due June 2, 2049	1.3
University of Ontario Institute of Technology, Series 'A'	1.2
National Bank of Canada, Variable, Callable	1.1
Cenovus Energy Inc., Callable	1.1
<b>Total</b>	<b>65.7</b>

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## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Debt Instruments</b>	
Asset-Backed Securities	1.6
Communication Services	3.5
Consumer Discretionary	2.3
Consumer Staples	0.3
Energy	14.6
Financials	22.3
Government	30.8
Health Care	2.4
Industrials	1.3
Real Estate	3.3
Utilities	1.8
<b>Equities</b>	
ETFs - Domestic Equity	5.0
ETFs - International Fixed Income	9.3
Cash and Cash Equivalents	1.2
Other Assets, less Liabilities	0.3
<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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