



# **Evolve Active Canadian Preferred Share ETF**

2017 ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

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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.

## **Management Discussion of Fund Performance**

For the period ended December 31, 2017

### **Investment Objective and Strategies**

The Evolve Active Canadian Preferred Share ETF (the "Fund") seeks to provide holders of Units with stable income and long-term capital appreciation by investing primarily in a diversified mix of preferred shares of primarily Canadian issuers, in addition to U.S. and international issuers.

### **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 was launched on September 29, 2017, no performance data can be shown. The Fund's net assets were \$6.7MM as at December 31, 2017.

### **Portfolio Manager Commentary**

Sentiment towards the domestic economy improved significantly for most of 2017 as data releases were positive and the Bank of Canada (BoC) conveyed an increasingly hawkish tone. This improvement translated into two rate hikes by the BoC in the third quarter which drove interest rates higher across the curve (although the curve did flatten quite dramatically).

The fourth quarter marked a reversal from the trend as, broadly, data was still encouraging but below the new higher expectations of the market. This led to the BoC moderating its tone and the market pushed interest rates lower for most of October (most notably for prefs the 5-year GoC rate fell about 13 bps). The situation did not last long, however, as the improving outlook for the Canadian economy and interest rates caused the 5-year GoC rate to move higher in December and finish the quarter up 11 bps from where it started.

Despite the month-to-month volatility, preferred shares as a group benefitted from the general economic trend and saw a good return in Q4 to finish a strong year. The portfolio continued to generate good value-added performance during the quarter, driven by superior security selection within each sector, which more than offset the meaningful underweight to the solidly performing financial sector.

Additionally, the overweight to telcos (the Bell complex) contributed to the outperformance as telcos were the best performing sector of the index.

As a comparison, the FGP Preferred Share Fund returned 3.5% in the quarter, outperforming the S&P/TSX Preferred Share Index return of 2.7%. In 2017.

### **Recent Developments**

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

### **Related Party Transactions**

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 0.65% 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, 2017, the Fund incurred \$7,051 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.

## 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>

#### Unhedged Units - Net Assets per Unit

Period from September 29, 2017 <sup>2</sup> to December 31, 2017		(\$)
Net Assets per Unit, beginning of period <sup>3</sup>		<b>20.10</b>
<b>Increase (decrease) from operations:</b>		
Total revenue		0.26
Total expenses		(0.05)
Realized gains (losses)		0.01
Unrealized gains (losses)		0.39
<b>Total increase (decrease) from operations<sup>4</sup></b>		<b>0.61</b>
<b>Distributions:</b>		
From dividends		(0.06)
From capital gains		(0.01)
Return of capital		(0.14)
Total annual distributions <sup>5</sup>		<b>(0.21)</b>
<b>Net Assets per Unit, end of period</b>		<b>20.64</b>

### The Fund's Ratios/Supplemental Data

#### Unhedged Units - Ratios/Supplemental Data

Period from September 29, 2017 <sup>2</sup> to December 31, 2017		(\$)
Total Net Asset Value (\$) <sup>6</sup>		6,708,228
Number of units outstanding <sup>6</sup>		325,000
Management expense ratio <sup>7</sup>		0.89%
Trading expense ratio <sup>8</sup>		0.13%
Portfolio turnover rate <sup>9</sup>		12.01%
Net Asset Value per unit (\$)		20.64
Closing market price (\$)		<b>20.68</b>

1. This information is derived from the Fund's audited annual financial statements.
2. This date represents the date of establishment of the fund.
3. This amount represents the initial launch price
4. 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.
5. Distributions were paid in cash or reinvested in additional units of the Fund, or both. Actual distributions may vary slightly owing to rounding.
6. This information is provided as at December 31 of the year shown.
7. 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.
8. 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.

9. 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 new, this information is not available.

## Summary of Investment Portfolio

As at December 31, 2017

### Top 25 Positions

Security	% of Net Asset Value
Canadian Western Bank, Preferred, Series 5	2.99
Enbridge Inc., Preferred, 4.00% Series D	2.90
Intact Financial Corporation, Preferred, Series 1	2.69
Bank of Montreal, Preferred, Series 31	2.64
BCE Inc., Preferred, Series AA	2.60
Pembina Pipeline Corporation, Preferred, 4.90%, Series 21	2.49
Pembina Pipeline Corporation, Preferred, Series 15	2.40
Enbridge Inc., Preferred, 5.15% Series 17	2.34
Canadian Utilities Limited, Preferred, Series AA	2.27
BCE Inc., Preferred, Series AI	2.25
Brookfield Office Properties Inc. Preferred, Series II	2.25
The Toronto-Dominion Bank, Preferred,, Series 5	2.16
Kinder Morgan Canada Ltd., Preferred, Series 1	2.12
Brookfield Infrastructure Partners LP, Preferred, Series 7	2.07
Brookfield Renewable Partners LP, Preferred, Series 11	2.03
TransAlta Corporation, Preferred, Series F	1.98
Fortis Inc., Preferred, Series J	1.98
Brookfield Office Properties Inc. Preferred, Series Y	1.96
Manulife Financial Corporation, Preferred, Series 11	1.89
Canadian Imperial Bank of Commerce, Preferred, Series 45	1.83
Royal Bank of Canada, Preferred, 3.90% Series BB	1.81
Royal Bank of CA, Preferred, 4.00%, Series AZ	1.80
Enbridge Inc., Preferred, Series 7	1.75
TransCanada Corporation, Preferred, Series 4	1.72
The Toronto-Dominion Bank, Preferred, 3.80% Series 3	1.70
<b>Total</b>	<b>54.63</b>

## Industry Allocation

	<b>% of Net assets Attributable to Unitholders</b>
<b>Portfolio by Category</b>	<b>December 31, 2017</b>
Equities	
Consumer Staples	1.3
Energy	24.5
Financials	48.9
Telecommunication Services	6.8
Utilities	17.7
Other Assets, less Liabilities	0.8
	<hr/> 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](http://www.evolveetfs.com).