



# **Evolve Automobile Innovation Index 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 Automobile Innovation Index ETF (the “Fund”) seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the Solactive Future Cars Index Canadian Dollar Hedged (the “Benchmark”), or any successor thereto. CARS invests primarily in equity securities of companies that are directly or indirectly involved in developing electric drivetrains, autonomous driving or network connected services for automobiles.

### **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 \$6.0MM as at December 31, 2017.

### **Portfolio Manager Commentary**

Strong performance in the auto industry continued in 2017 with the S&P Automobile and Components sector rising 15.17% on the back of a continued rise in the number of new cars on the road. Auto manufacturers launched and announced new electric vehicle models as they moved to re-tool for the shift from internal combustion to battery powertrains. The Fund has a large exposure to semi-conductor manufacturers which also enjoyed strong performance. The S&P Information Technology sector rose 35.7% driving a large part of the rally in global equities, particularly in the United States. Auto-related revenue lines grew for large cap technology companies as automobile manufactures added new safety and connectivity features to models at the high end of their lines. Experimentation in self-driving related technologies continued to make headlines as these products move closer to real-world application.

As the composition of the Fund’s portfolio is based on replicating the constituents of the Benchmark, macro-economic, political and market movements do not have a direct impact on the Fund’s investment strategy.

### **Recent Developments**

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

### **Related Party Transactions**

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 management fees are calculated based on 0.40% 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 \$4,059 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.

## 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>20.39</b>
<b>Increase (decrease) from operations:</b>	
Total revenue	0.14
Total expenses	(0.07)
Realized gains (losses)	0.12
Unrealized gains (losses)	0.68
<b>Total increase (decrease) from operations<sup>4</sup></b>	<b>0.87</b>
<b>Distributions:</b>	
From dividends	(0.09)
Total annual distributions <sup>5</sup>	<b>(0.09)</b>
<b>Net Assets per Unit, end of period</b>	<b>21.21</b>

#### Hedged 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>20.26</b>
<b>Increase (decrease) from operations:</b>	
Total revenue	0.17
Total expenses	(0.07)
Realized gains (losses)	(0.49)
Unrealized gains (losses)	0.88
<b>Total increase (decrease) from operations<sup>4</sup></b>	<b>0.49</b>
<b>Distributions:</b>	
From dividends	(0.08)
Return of capital	(0.01)
Total annual distributions <sup>5</sup>	<b>(0.09)</b>
<b>Net Assets per Unit, end of period</b>	<b>20.90</b>

#### US Dollar Unhedged Units - Net Assets per Unit

Period from November 3, 2017 <sup>2</sup> to December 31, 2017	(\$)
Net Assets per Unit, beginning of period <sup>3</sup>	<b>25.51</b>
<b>Increase (decrease) from operations:</b>	

Total revenue	0.17
Total expenses	(0.06)
Realized gains (losses)	0.01
Unrealized gains (losses)	(1.70)
<b>Total increase (decrease) from operations<sup>4</sup></b>	<b>(1.58)</b>
<b>Distributions:</b>	
From dividends	(0.10)
Total annual distributions <sup>5</sup>	<b>(0.10)</b>
<b>Net Assets per Unit, end of period</b>	<b>24.09</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>	2,120,987
Number of units outstanding <sup>6</sup>	100,000
Management expense ratio <sup>7</sup>	0.64%
Trading expense ratio <sup>8</sup>	0.51%
Portfolio turnover rate <sup>9</sup>	12.56%
Net Asset Value per unit (\$)	21.21
Closing market price (\$)	21.28

### Hedged Units - Ratios/Supplemental Data

Period from September 29, 2017 <sup>2</sup> to December 31, 2017	
Total Net Asset Value (\$) <sup>6</sup>	2,612,453
Number of units outstanding <sup>6</sup>	125,000
Management expense ratio <sup>7</sup>	0.64%
Trading expense ratio <sup>8</sup>	0.51%
Portfolio turnover rate <sup>9</sup>	12.56%
Net Asset Value per unit (\$)	20.90
Closing market price (\$)	21.02

### US Dollar Unhedged Units - Ratios/Supplemental Data

Period from November 3, 2017 <sup>2</sup> to December 31, 2017	(\$)
Total Net Asset Value (\$) <sup>6</sup>	1,204,508
Number of units outstanding <sup>6</sup>	50,000
Management expense ratio <sup>7</sup>	0.66%
Trading expense ratio <sup>8</sup>	0.51%
Portfolio turnover rate <sup>9</sup>	12.56%
Net Asset Value per unit (\$)	24.09
Closing market price (\$)	24.09

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
ams AG	4.23
Volkswagen AG	3.92
STMicroelectronics NV	3.70
MaxLinear Inc.	3.68
Texas Instruments Inc.	3.65
Infineon Technologies AG	3.57
Ambarella Inc.	3.53
Integrated Device Technology Inc.	3.51
Tianneng Power International Limited	3.49
Maxim Integrated Products Inc.	3.46
Hella GmbH & Company KGaA	3.37
Ford Motor Company	3.36
AAC Technologies Holdings Inc.	3.36
EnerSys	3.32
NXP Semiconductors NV	3.31
Analog Devices Inc.	3.28
Silicon Laboratories Inc.	3.27
Visteon Corporation	3.27
Autoliv Inc.	3.26
NVIDIA Corporation	3.25
GS Yuasa Corporation	3.22
Cirrus Logic Inc.	3.11
Ferrari NV	3.07

Skyworks Solutions Inc.	2.93
General Motors Company	<u>2.91</u>
<b>Total</b>	<b><u>85.03</u></b>

## Industry Allocation

	<b>% of Net assets Attributable to Unitholders</b>
<b>Portfolio by Category</b>	<b>December 31, 2017</b>
Equities	
Consumer Discretionary	25.4
Consumer Staples	6.8
Energy	2.7
Industrials	10.0
Information Technology	54.1
Derivative Assets	0.9
Other Assets, less Liabilities	<u>0.1</u>
	<u>100.0</u>

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).