



# **Sphere FTSE Emerging Markets Sustainable Yield 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 1-800-764-0526, by writing to us at Sphere Investments, 161 Bay Street, Suite 2820, Toronto, ON, M5J 2S1 or by visiting our website at [www.spheretfs.com](http://www.spheretfs.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 year ended December 31, 2017

### **Investment Objectives and Strategies**

The Sphere FTSE Emerging Markets Sustainable Yield Index ETF (the “Fund”) seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the FTSE Emerging Sustainable Yield 150 10% Capped 100% Hedge CAD Index (the “Benchmark”), or any successor thereto. The Fund invests directly or indirectly in up to 150 equity securities of public issuers from countries within the region classified by FTSE as emerging markets, exhibiting relatively high and sustainable yields, as at the time of reconstitution or balancing.

### **Risks**

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**

The Fund’s units commenced trading on September 29, 2016 with initial net asset value of \$10.00 and subscriptions totaling \$5 million. For the year ended December 31, 2017, the Fund’s net asset value per unit returned 12.21 %. This compares to the Benchmark, which returned 16.25 % for the same period. The difference in the performance of the Fund relative to the Benchmark can be attributed primarily to the management fees and expenses incurred by the Fund, as well as the cost of portfolio trading and hedging strategies. The Fund’s net assets were \$23.986 MM as at December 31, 2017.

### **Portfolio Manager Commentary**

Stocks in China and Taiwan, when combined, account for over 38% of the Index on average for 2017, contributed the most to the Index’s return. China benefitted from a strengthening economic growth throughout many regions in the world. An increase in industrial output was spurred on by government stimulus and efforts on infrastructure development.

The Taiwanese markets experienced dramatic increase in technology related growth. This was led by component suppliers to the smartphone industry.

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**

The fund is now managed by Evolve Funds Group Inc. following the acquisition that took place on January 12, 2017.

### **Related Party Transactions**

The fund is now under the Management of Evolve Fund Group Inc. following the acquisition of the fund completed on January 12, 2017. The manager does not have an RPT with an affiliate of Canaccord Genuity. 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 0.54% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid quarterly. For the year ended December 31, 2017, the Fund incurred \$ 122,893 in management fees. These management fees were received by Sphere Investment Management Inc. for the day-to-day operation of the fund, including managing the portfolio, maintaining portfolio systems used to

manage the Fund, maintaining the [www.sphereetfs.com/ca](http://www.sphereetfs.com/ca) 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>

	Year ended December 31, 2017	Period from March 30, 2016* to December 31, 2016
<b>Net assets, beginning of year</b>	9.97	10.00
<b>Increase (decrease) from operations</b>		
Total investment income	0.42	0.09
Total expenses	(0.13)	(0.02)
Realized gains (losses) for the year	0.47	(0.14)
Unrealized gains (losses) for the year	0.40	0.13
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>1.16</b>	<b>0.06</b>
<b>Distributions</b>		
From income (excluding dividends)	(0.27)	(0.03)
From dividends	-	-
From capital gains	(0.14)	-
Return of capital	(0.01)	-
Total annual distributions <sup>3</sup>	(0.42)	(0.03)
<b>Net assets, at end of year</b>	<b>10.90</b>	<b>9.97</b>

<b>Ratios and Supplemental Data</b>	Year ended December 31 2017	Period from March 30, 2016* to December 31 2016
Total net asset value (000's) <sup>4</sup>	23,986	8,973
Number of units outstanding (000's) <sup>4</sup>	2,200	900
Management expense ratio <sup>5,6</sup>	0.88%	0.68%
Management expense ratio before waivers or absorptions <sup>5</sup>	1.38%	3.82%
Portfolio turnover rate <sup>7</sup>	142.84%	1.13%
Trading expense ratio <sup>8</sup>	0.61%	1.13%
Net asset value per unit	10.90	9.97
Closing market price	10.96	9.78

\* Date of establishment

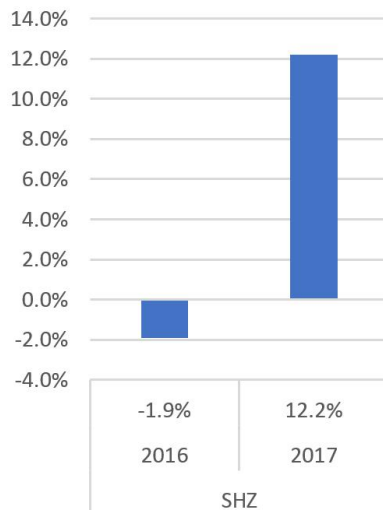
1. This information is derived from the Fund's audited annual financial statements.
2. Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the year.
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. This information is provided as at December 31 of the year shown.
5. Management expense ratio ("MER") is based on total expenses plus harmonized sales tax (excluding 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 year. This information is provided as at December 31 of the year shown.
6. The Manager, at its discretion, absorbed certain expenses otherwise payable by the Fund. The Manager may change the amount absorbed or discontinue absorbing these expenses at any time without notice.
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.
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.

## Past Performance

The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. 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 Fund's annual performance for the period 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.



## Annual Compound Return

The table shows the historical annual compound total return of the Fund is listed below. The returns are for period ended December 31, 2017. For a discussion of the relative performance of the Fund as compared to the index, please refer to the “Results of Operations” section in the “Management Discussion of Fund Performance”.

	Since Inception*	1 Year
the Fund	9.7%	12.2%
FTSE Emerging Sustainable Yield 150 10% Capped 100% Hedge CAD Index	13.9%	16.3%

\*From inception date of April 13, 2016.

## Summary of Investment Portfolio

As at December 31, 2017

### Top 25 Positions

Security	% of Net Asset Value
iShares MSCI Taiwan ETF	14.0
Taiwan Semiconductor Manufacturing Company, Ltd. ADR	9.8
iShares MSCI India ETF	9.8
LUKOIL PJSC	3.8
Gazprom PJSC	3.3
PTT Public Company Limited	2.7
China Petroleum & Chemical Corporation Cl. H	2.6
Petroleo Brasileiro SA-Petrobras	2.5
PT Telekomunikasi Indonesia Tbk Series B	2.2
Tenaga Nasional Berhad	2.2
iShares MSCI Poland Capped ETF	1.9
Credicorp Limited	1.9
Wal-Mart de Mexico SAB de CV Series V	1.8
PT Astra International Tbk	1.7
Agricultural Bank of China Limited Cl. H	1.7
iShares MSCI Brazil ETF	1.6
CIMB Group Holdings Bhd	1.4
OTP Bank Nyrt	1.4
China Shenhua Energy Company Limited Cl. H	1.2
Vedanta Limited	1.1
Hengan International Group Company Limited	1.1
iShares MSCI UAE ETF	1.1
Vodacom Group Limited	1.0
iShares MSCI Turkey ETF	0.9
Tiger Brands Limited	0.8
<b>Total</b>	<b>73.5</b>

## Country Allocation

<b>Country</b>	<b>% of Net Asset Value</b>
Bermuda	1.9
Brazil	3.5
Cayman Islands	3.1
Chile	0.4
China	8.8
Colombia	0.5
Greece	0.7
Hong Kong	1.0
Hungary	2.2
India	1.1
Indonesia	5.3
Malaysia	5.4
Mexico	4.6
Philippines	0.5
Russia	8.6
South Africa	3.7
Taiwan	10.8
Thailand	6.1
United States	29.5
Cash	0.6
Other assets and liabilities	1.7
<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).