

# Evolve Global Materials & Mining Enhanced Yield Index ETF

December 31, 2023

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.

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## Investment Objective and Strategies

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The Evolve Global Materials & Mining Enhanced Yield Index ETF (the "Fund") seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the Solactive Global Materials & Mining Index (the "Benchmark"), or any successor thereto, while mitigating downside risk. The Fund invests directly or indirectly in equity securities of global issuers engaged in the manufacturing, mining and/or integration of metals and materials, while writing covered call options on up to 33% of the portfolio securities, at the direction 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 year ended December 31, 2023, the Hedged ETF Units returned 16.1% versus the Solactive Materials & Mining Index PR CAD Hedge return of 13.8%. The Unhedged ETF Units returned 14.9% versus the Solactive Materials & Mining Index PR return of 13.2%. 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 \$73.4MM as at December 31, 2023.

## Portfolio Manager Commentary

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In the first half of 2023, the commodities market, particularly base materials and mining, witnessed turbulence but managed to secure marginal gains despite turmoil in the banking sector at the time. The influence of the banking crisis, while impactful, was short-lived allowing market fundamentals to stabilize post-initial uncertainties.<sup>1</sup>

The iron ore market was a hot topic during the year, with China's policy measures injecting cautious optimism into the market, despite some analysts foreseeing a temporary dip in demand due to a slowdown in construction activities over the summer.<sup>2</sup> Nonetheless, the sector's performance was negatively impacted by the broader economic environment which was marked by rising interest rates and persistent inflationary pressures, due to the fact that rising interest rates are traditionally inversely correlated to commodity prices.<sup>3</sup>

As the year progressed, the industry grappled with these inflation pressures driving up core operational costs. Yet, amidst these headwinds, the sector saw substantial activity in asset transactions, indicating a pivot towards commodities aligned with the global green transition. This shift was reflected in the significant increase in transactions involving transition metals and battery commodities such as lithium, cobalt, and nickel.<sup>4</sup>

By the end of the year, the Fund was influenced by a general downward trend in base metal prices which was largely attributed to the cooling demand from China's manufacturing industry. However, the steadfast focus on minerals essential for battery production and renewable energy technologies signaled an underlying current of strength that may herald recovery and growth in the sector, particularly as global investments in clean energy infrastructure continue to rise.<sup>4</sup>

In summary, while the Fund navigated through a year of notable fluctuations, its exposure to transition metals and the burgeoning market for battery-related minerals positioned it to capitalize on the long-term trends of renewable energy and the electrification of the economy. The adaptability and forward-looking stance of the sector suggest that the Fund is poised to embrace the evolving demands of the global economy, particularly as it pivots towards sustainable and clean energy resources.

## Performance Attribution

For the twelve-month period ending December 31, 2023, Steel Dynamics Inc. made the biggest contribution to the Fund, followed by Nucor Corporation. By weight, the Fund's largest holdings were United States Steel Corporation, Cleveland-Cliffs Inc, and ArcelorMittal.

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(1) <https://www.ft.com/content/0d689632-4125-4104-957a-309d825a643>

(2) <https://www.mining.com/web/iron-ore-price-extends-gains-on-china-stimulus-bets/>

(3) <https://www.thebalancemoney.com/commodity-prices-when-interest-rates-rise-4084273#:~:text=Interest%20rates%20and%20commodity%20prices%20have%20an%20inverse%20relationship%2C%20because,up%2C%20which%20pushes%20costs%20higher>

(4) <https://www.mining-technology.com/news/2023-in-data-the-trends-that-shaped-the-mining-sector/?cf-view>

## 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 Investment Review Committee.

## Management Fees

The management fees are calculated based on 0.60% 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, 2023, the Fund incurred \$449,254 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 year ended December 31, 2023, the Fund incurred \$113,331 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.

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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>

	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	26.01	27.73	24.91	21.33	20.00
<b>Increase (decrease) from operations:</b>					
Total revenue	0.94	1.34	1.24	0.58	0.41
Total expenses	(0.38)	(0.40)	(0.40)	(0.33)	(0.20)
Realized gains (losses)	0.24	0.13	1.95	0.81	(0.42)
Unrealized gains (losses)	2.93	(0.60)	1.26	5.48	3.46
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>3.73</b>	<b>0.47</b>	<b>4.05</b>	<b>6.54</b>	<b>3.25</b>
<b>Distributions:</b>					
From dividends	(0.63)	(0.97)	(0.96)	(0.30)	(0.15)
From capital gains	-	(0.23)	(0.61)	(0.78)	-
Return of capital	(1.77)	(1.08)	(0.16)	(0.12)	(0.45)
<b>Total annual distributions<sup>3</sup></b>	<b>(2.40)</b>	<b>(2.28)</b>	<b>(1.73)</b>	<b>(1.20)</b>	<b>(0.60)</b>
<b>Net Assets per Unit, end of period</b>	<b>27.30</b>	<b>26.01</b>	<b>27.73</b>	<b>24.91</b>	<b>21.33</b>
<b>Hedged ETF Units - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	25.60	29.01	25.71	21.50	20.00
<b>Increase (decrease) from operations:</b>					
Total revenue	0.93	1.39	1.27	0.58	0.44
Total expenses	(0.37)	(0.41)	(0.42)	(0.33)	(0.21)
Realized gains (losses)	0.28	(1.18)	(0.03)	1.08	(0.09)
Unrealized gains (losses)	2.86	(3.13)	1.18	5.02	2.01
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>3.70</b>	<b>(3.33)</b>	<b>2.00</b>	<b>6.35</b>	<b>2.15</b>
<b>Distributions:</b>					
From dividends	(0.60)	(0.97)	(0.77)	(0.25)	(0.11)
From capital gains	-	(0.23)	(0.70)	(0.65)	-
Return of capital	(1.80)	(1.08)	(0.26)	(0.30)	(0.49)
<b>Total annual distributions<sup>3</sup></b>	<b>(2.40)</b>	<b>(2.28)</b>	<b>(1.73)</b>	<b>(1.20)</b>	<b>(0.60)</b>
<b>Net Assets per Unit, end of period</b>	<b>27.12</b>	<b>25.60</b>	<b>29.01</b>	<b>25.71</b>	<b>21.50</b>

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2023, 2022, 2021, 2020, and 2019. The Hedged and Unhedged ETF Units effectively began operations on June 11, 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.

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## The Fund's Ratios/Supplemental Data

For the periods ended:	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>4</sup>	<b>25,934,903</b>	26,665,302	30,501,225	24,286,886	10,663,210
Number of units outstanding <sup>4</sup>	<b>950,000</b>	1,025,000	1,100,000	975,000	500,000
Management expense ratio <sup>5</sup>	<b>0.85%</b>	0.82%	0.82%	0.85%	0.84%
Trading expense ratio <sup>6</sup>	<b>0.20%</b>	0.20%	0.25%	0.43%	0.61%
Portfolio turnover rate <sup>7</sup>	<b>66.39%</b>	94.32%	69.36%	82.01%	61.38%
Net Asset Value per unit (\$)	<b>27.30</b>	26.01	27.73	24.91	21.33
Closing market price (\$)	<b>27.35</b>	25.87	27.70	24.97	21.29
<b>Hedged ETF Units - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	<b>47,455,011</b>	30,714,926	29,012,779	2,571,290	1,612,226
Number of units outstanding <sup>4</sup>	<b>1,750,000</b>	1,200,000	1,000,000	100,000	75,000
Management expense ratio <sup>5</sup>	<b>0.85%</b>	0.84%	0.85%	0.85%	0.85%
Trading expense ratio <sup>6</sup>	<b>0.20%</b>	0.20%	0.25%	0.43%	0.61%
Portfolio turnover rate <sup>7</sup>	<b>66.39%</b>	94.32%	69.36%	82.01%	61.38%
Net Asset Value per unit (\$)	<b>27.12</b>	25.60	29.01	25.71	21.50
Closing market price (\$)	<b>27.15</b>	25.54	29.08	25.70	21.50

4 This information is provided as at December 31, 2023, 2022, 2021, 2020, and 2019.

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.

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.

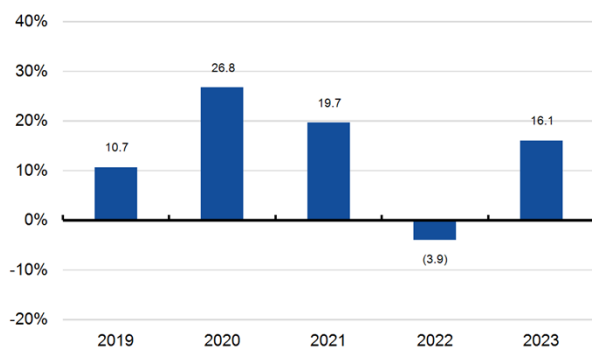
## Year-by-Year Returns

The bar chart below shows the Hedged and Unhedged ETF 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 of each financial period would have grown or decreased by the last day of that financial period.

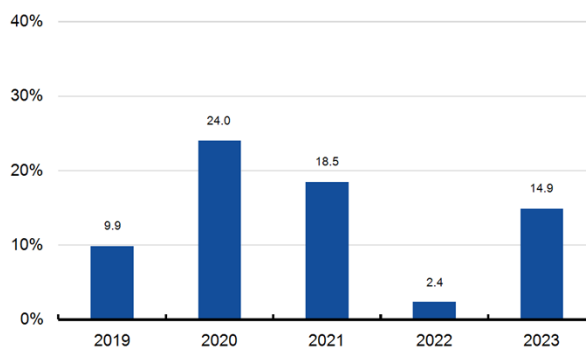
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## BASE Hedged ETF Units<sup>1</sup>



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



1 The Hedged ETF Units of the Fund effectively began operations on June 11, 2019.

2 The Unhedged ETF Units of the Fund effectively began operations on June 11, 2019.

## Annual Compound Return

The table below shows the historical annual compound total return of the Hedged and Unhedged ETF Units. The returns are for period ended December 31, 2023. 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 <sup>1</sup> (%)	1 Year (%)	3 Year (%)
Hedged ETF Units	14.8	16.1	10.1
Solactive Materials & Mining Index PR CAD Hedge	9.9	13.8	6.0
Unhedged ETF Units	15.1	14.9	11.7
Solactive Materials & Mining Index PR	12.9	13.2	8.6

1 From inception date of June 11, 2019.

## Summary of Investment Portfolio

### All Positions

Security	Percentage of Net Asset Value (%)
United States Steel Corporation	6.4
Cleveland-Cliffs Inc.	5.9
ArcelorMittal SA	5.4
Eastman Chemical Company	5.4
Vale SA, ADR	5.3
BHP Group Limited, ADR	5.3
Freeport-McMoRan Inc.	5.2
Rio Tinto PLC, ADR	5.2
Southern Copper Corporation	5.2
Nucor Corporation	5.1
Ternium SA, ADR	5.0
Steel Dynamics Inc.	4.9
Dow Inc.	4.8
Reliance Steel & Aluminum Company	4.8

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## All Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
Newmont Corporation	4.6
LyondellBasell Industries NV, Class 'A'	4.5
Gold Fields Limited	4.5
DuPont de Nemours Inc.	4.4
POSCO Holdings Inc., ADR	4.4
AngloGold Ashanti PLC	4.2
<b>Total</b>	<b>100.5</b>

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Materials	100.5
Derivative Assets	0.4
Derivative Liabilities	(0.5)
Cash and Cash Equivalents	1.7
Other Assets, less Liabilities	(2.1)
<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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