



Evolve ETFs

# Sphere FTSE Emerging Markets Sustainable Yield Index ETF

June 30, 2019

Interim Management Report of Fund Performance

This interim management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the investment fund. You can get a copy of the interim 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.

# Sphere FTSE Emerging Markets Sustainable Yield Index ETF

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## Investment Objective and Strategies

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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.

## 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 six-month period ended June 30, 2019, the Fund's net asset value per unit returned 6.29% versus the FTSE Emerging Sustainable Yield 150 10% Capped 100% Hedge CAD Total Return Index return of 8.05%. The difference in performance of the Fund relative to its benchmark can be attributed primarily to management fees plus applicable sales taxes and to portfolio trading and hedging strategies. Fund's net assets were \$19.688MM as at June 30, 2019.

## Portfolio Manager Commentary

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In spite of continuing strong GDP growth in emerging countries, their stock markets started the year in negative territory as a result of four interest rate hikes by the U.S. Federal Reserve, a strong U.S. dollar, and the commencement of the trade war between the U.S. and China in 2018.

However, emerging markets rebounded in the first half of the year, notwithstanding a slowdown in Chinese growth, which was impacted by U.S.-imposed tariffs and restrictions on the activities of Chinese firms. Markets in Eastern Europe, led by Russia; and Latin America, led by Brazil, produced double digit returns in the first half of the year, based on the performance of the MSCI Emerging Markets Index.

With interest rates now near zero and trade tensions between the U.S. and China at a hiatus, global money managers have become more bullish on emerging markets.

According to the latest data from the Institute of International Finance, money managers invested \$40.8 billion in emerging markets in June alone, with inflows into emerging market equities and bonds totaling \$12.6 billion and \$28.2 billion, respectively. It is expected that another \$55 billion would flow into countries like Russia and China over the next three months.(i)

Recognizing that the U.S. dollar is probably in bear market territory, Morgan Stanley suggests that emerging-market currencies are in for a good ride this year despite a weaker outlook for global growth, noting that "emerging-market currencies have lagged, but with growing conviction that the dollar has turned, we think that a catch-up is under way." Its' favorite currency is the Russian ruble -- the best performing emerging market currency so far this year as at June 25. The bank is also betting on further gains for the Indian rupee.(ii)

Although emerging markets have done well, the impact of a slowdown in China cannot be ignored. China currently accounts for 40% of the gross domestic product of developing economies. Its' 1.3 billion population, and an increasingly affluent middle class, have made it a major purchaser of goods and services from other emerging markets. It is also the largest export destination not only for neighboring Asian countries but also for countries such as Brazil. Australia, for instance, a major mineral and commodity exporter, has already felt the adverse impact of the slowing Chinese economy.(iii)

China has also increased its global dominance. The International Monetary Fund estimated in April that the country's \$14.2 trillion gross domestic product is larger than the euro zone's \$13.6 trillion and is second only to the U.S.' \$21.3 trillion.(iv)

Last year, investors dumped shares of emerging markets while the Federal Reserve raised interest rates and as the trade war between the U.S. and China picked up steam. However, a potential slowdown in Fed policy tightening, a possible resolution to the U.S.-China trade war and valuations at multi-year lows will likely bolster emerging market stocks in the latter half of this year. Currently, EM valuations are at most attractive levels in nearly 3 years.(v)

## Performance Attribution

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At the end of June, the fund held a diversified portfolio of securities across the different regions of the world, with its largest exposure (58%) to the Asia Pacific region. China (33%), followed by Taiwan (16%), were the largest country holdings in the Asia Pacific. South and Central American countries represented the next largest regional exposure (15%), with Brazil the largest country exposure (13.6%). Eastern Europe (10.2%), North America (9.2%) and Africa and the Middle East (6.3%) were remaining regional exposures of significance. Russia (10%) was the largest Eastern European country exposure; the United States (6.2%) the largest North American exposure; while South Africa was the only country exposure in Africa and the Middle East.

(i) [www.forbes.com/sites/kenrapoza/2019/07/03/what-world-slump-55-billion-to-emerging-markets/#393b545a3b8b](http://www.forbes.com/sites/kenrapoza/2019/07/03/what-world-slump-55-billion-to-emerging-markets/#393b545a3b8b)

(ii) <https://www.bloomberg.com/news/articles/2019-06-25/morgan-stanley-says-it-s-time-to-buy-emerging-market-currencies>

(iii) <https://www.bloomberg.com/opinion/articles/2019-05-29/emerging-markets-can-t-resist-china-slowdown>

(iv) <https://www.bloomberg.com/opinion/articles/2019-05-29/emerging-markets-can-t-resist-china-slowdown>

(v) <https://www.cnbc.com/2018/12/27/beaten-down-emerging-market-stocks-could-be-a-winning-trade-in-2019.html>

## Recent Developments

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The Fund is now managed by Evolve Funds Group Inc. following the acquisition that took place on January 12, 2018. There are no known changes at this time to the investment strategy of the Fund.

## Related Party Transactions

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The Fund is now under the Management of Evolve Fund Group Inc. following the acquisition of the fund completed on January 12, 2018. 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 six-month period ended June 30, 2019, the Fund incurred \$59,941 in management fees. These management fees were received by Evolve Funds Group 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.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 0.25% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid monthly. For the six-month period ended June 30, 2019, the Fund incurred \$25,853 in administration fees. These administration fees were received by Evolve Funds Group Inc. for the following operating expenses of the Fund including but not limited to: mailing and printing expenses for periodic reports to unitholders; fees payable to the index provider, 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, in any particular period, be less than or exceed the operating expenses that the Manager incurs for that class.

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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>

For the periods ended:	June 30, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)	December 31, 2016 (\$)
<b>Hedged Units - Net Assets per Unit</b>				
Net Assets per Unit, beginning of period	9.38	10.90	9.97	10.00
<b>Increase (decrease) from operations:</b>				
Total revenue	0.22	0.46	0.42	0.09
Total expenses	(0.11)	(0.25)	(0.13)	(0.02)
Realized gains (losses)	(0.25)	(0.52)	0.47	(0.14)
Unrealized gains (losses)	0.84	(1.12)	0.40	0.13
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.70</b>	<b>(1.43)</b>	<b>1.16</b>	<b>0.06</b>
<b>Distributions:</b>				
From income (excluding dividends)	(0.13)	-	(0.27)	(0.03)
From dividends	-	(0.25)	-	-
From capital gains	-	-	(0.14)	-
Return of capital	-	(0.05)	(0.01)	-
<b>Total annual distributions<sup>3</sup></b>	<b>(0.13)</b>	<b>(0.30)</b>	<b>(0.42)</b>	<b>(0.03)</b>
<b>Net Assets per Unit, end of period</b>	<b>9.84</b>	<b>9.38</b>	<b>10.90</b>	<b>9.97</b>

- This information is derived from the Fund's unaudited interim financial statements as at June 30, 2019, and the audited annual financial statements as at December 31 for the years shown. The Fund began operations on September 29, 2016.
- 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.
- 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:	June 30, 2019	December 31, 2018	December 31, 2017	December 31, 2016
<b>Hedged Units - Ratios/Supplemental Data</b>				
Total Net Asset Value (\$) <sup>4</sup>	19,687,922	22,522,336	23,986,000	8,973,000
Number of units outstanding <sup>4</sup>	2,000,000	2,400,000	2,200,000	900,000
Management expense ratio <sup>5</sup>	0.98%	1.11%	0.88%	0.68%
Management expense ratio before waivers or absorptions <sup>5</sup>	0.98%	1.12%	1.38%	3.82%
Trading expense ratio <sup>6</sup>	0.76%	0.77%	0.61%	1.13%
Portfolio turnover rate <sup>7</sup>	36.39%	156.44%	142.84%	1.13%
Net Asset Value per unit (\$)	9.84	9.38	10.90	9.97
Closing market price (\$)	9.93	9.48	10.96	9.78

- This information is provided as at June 30, 2019 and December 31 for the other years shown.
- 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 trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average daily net assets during the period.
- 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.

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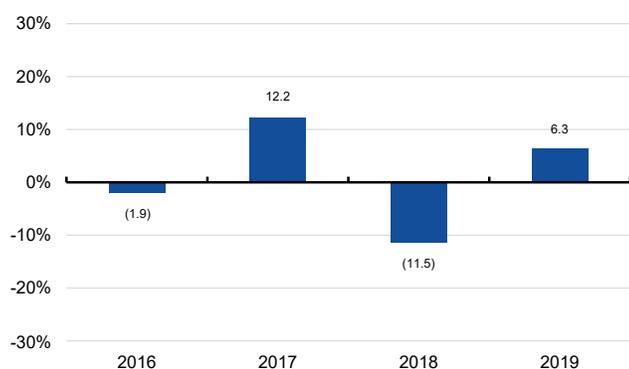
## Past Performance

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 Fund's annual performance for the periods 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.

### SHZ<sup>1</sup>



<sup>1</sup> The Fund effectively began operation on September 29, 2016.

## Summary of Investment Portfolio

### Top 25 Positions

Security	Percentage of Net Asset Value (%)
Sberbank of Russia PJSC	6.5
China Mobile Limited, ADR	6.3
Banco Bradesco SA, ADR	6.2
Vale SA, ADR	6.1
Petroleo Brasileiro SA, ADR	3.6
CNOOC Limited, ADR	3.5
iShares MSCI Brazil ETF	2.6
China Life Insurance Company Limited, ADR	2.4
Formosa Plastics Corporation	2.4
Standard Bank Group Limited	2.3
China Petroleum & Chemical Corporation, Class 'H'	2.2
Nan Ya Plastics Corporation	1.9
PT Telekomunikasi Indonesia (Persero) Tbk	1.7
CTBC Financial Holding Company Limited	1.6
iShares MSCI India ETF	1.5
PetroChina Company Limited, Class 'H'	1.5
Formosa Chemicals & Fibre Corporation	1.5

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## Top 25 Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
Country Garden Holdings Company Limited	1.5
Cathay Financial Holding Company Limited	1.4
Fubon Financial Holding Company Limited	1.4
Mega Financial Holding Company Limited	1.4
China Pacific Insurance Group Company Limited, Class 'H'	1.3
Grupo Mexico SAB de CV	1.3
CIMB Group Holdings Berhad	1.2
Geely Automobile Holdings Limited	1.1
<b>Total</b>	<b>64.4</b>

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Brazil	17.5
Chile	0.4
China	22.3
Colombia	0.6
Greece	0.6
Hong Kong	8.7
Hungary	0.1
India	0.6
Indonesia	2.6
Malaysia	1.9
Mexico	3.3
Philippines	0.9
Russia	9.1
South Africa	6.2
Taiwan	16.2
Thailand	0.9
United Kingdom	0.3
United States	5.6
Derivative Assets	1.2
Derivative Liabilities	(0.2)
Cash and Cash Equivalents	0.8
Other Assets, less Liabilities	0.4
<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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