



Evolve ETFs

# Evolve US Banks Enhanced Yield Fund

December 31, 2019

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, 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.

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## Investment Objective and Strategies

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The Evolve US Banks Enhanced Yield Fund (the "Fund") seeks to replicate, to the extent reasonably possible before fees and expenses, the performance of the Solactive Equal Weight US Bank Index (the "Benchmark"), or any successor thereto, while mitigating downside risk. The Fund invests primarily in the equity constituents of the Solactive Equal Weight US Bank Index, or any successor thereto, while writing covered call options on up to 33% of the portfolio securities, at the discretion of the 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, 2019, the Unhedged ETF Units returned 26.2% versus the Solactive Equal Weight US Bank Index return of 26.2%. The Hedged ETF Units returned 31.4% versus the Solactive Equal Weight US Bank Index Canadian Dollar Hedged return of 31.2%. The difference in performance of the hedged units relative to its benchmark can be attributed primarily to management fees plus applicable sales taxes and to portfolio trading and hedging strategies. The difference in performance of the unhedged units relative to its benchmark can be attributed primarily to management fees plus applicable sales taxes and to portfolio trading. Furthermore, the difference can also be attributed to the implementation of the call writing strategy where the Fund tend 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. Since the US Dollar Unhedged ETF Units were launched on November 27, 2019, no performance data can be shown. The Fund's net assets were \$6.1MM as at December 31, 2019.

## Portfolio Manager Commentary

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### MACROECONOMIC HIGHLIGHTS:

America's banks ended 2018 on a negative note, with their stock prices falling on fears that they had flown too high in the face of looser regulation, tax cuts, and rising interest rates under the Trump administration. Investors were worried that the long economic expansion would soon come to an end and that banks' profitability was therefore at its peak.

The good news for investors, however, is that 2019—despite its ups and downs—saw a broad rebound in bank stocks.(i) The American economy remained strong and growing in 2019, despite geopolitical tensions and continued concerns about an impending correction. 2019 represented the U.S. economy's 11th straight year of growth, making it the longest expansion in the nation's history.(ii)

Beginning in July, the Federal Reserve reduced the benchmark U.S. interest rate three times over the course of 2019 as "insurance" for the American economy given concerns through much of the year about a trade war with China and an overall global slowdown.(iii) With its final rate cut in October, amidst news of renewed trade talks with China, the Fed indicated that reductions had come to an end for the time being and reiterated that they did not anticipate a recession on the horizon.(iv)

At the end of Q1 2019, most major U.S. banks beat earnings and revenue estimates. JPMorgan Chase beat earnings and revenue estimates for its Q1 2019, putting up \$2.65 per share versus \$2.32 expected. The bank JPMorgan reported an 8 percent net interest income growth and a 2.5 percent increase in net interest margin. It returned \$7.4 billion to shareholders via stock dividends and buybacks. Wells Fargo also beat estimates on top and bottom lines: \$1.20 per share versus \$1.08 expected, on \$21.61 billion in revenues that were 3.44% ahead of consensus, though lower than the \$21.93 billion reported in Q1 2018. Wells Fargo told investors that a lower interest rate outlook, flatter yield curve and tightening loan spreads will drive down its net interest income by at least 2 per cent in 2019.

PNC Financial also topped estimates by 2 cents to \$2.61 per share on earnings of \$4.29 billion, better than the \$4.24 billion expected, and plus 4% year over year.(v)

As well, Bank of America beat expectations with first quarter earnings results of \$0.70 a share and record profits of \$7.3 billion. Goldman Sachs and Citigroup posted solid results.(vi)

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By Q4, most major U.S. banks continued to beat earnings and revenue estimates to finish the year strong, including a number of banks held by the Fund.

Bank of America fourth-quarter trading revenue climbed 13% from the year earlier, with investment banking revenue 3% to 4% higher. Overall, shares of Bank of America surged more than 40% in 2019, exceeding the 29% gain in the Standard & Poor's 500.(vii)

Citigroup had their best year since 1999, with profits surging more than 53% in 2019. Citigroup posted revenue of \$18.378 billion over a forecast of \$17.855 billion. The bank's global consumer business also grew by 5% to \$8.5 billion, buoyed by a 10% expansion in branded credit cards in Q4.(viii)

J.P. Morgan Chase reported fourth-quarter earnings that topped analyst expectations. Profits jumped 21% overall in Q4 thanks to bond-trading revenue that outpaced predictions by skyrocketed by nearly 90%.(ix) J.P. Morgan Chase posted the best year for any U.S. bank in history in 2019, in fact, with annual earnings surpassing a record \$36.4 billion.(x)

Wells Fargo's 2019 results fell short of predictions. Q4 profits were \$2.87 billion, compared with \$6.06 billion in 2018. Low interest rates were a drag on the bank's net interest income, a main engine of its profits. Wells Fargo also took a loss as it booked a \$1.5 billion charge for legal costs related to litigation stemming from its fake-account problems.(xi)

## PERFORMANCE ATTRIBUTION:

At the end of 2019, the Fund held a diversified portfolio of banks and finance companies, with roughly equal weights. The best performing stock was Ameriprise Financial Inc., which also made the largest contribution to the Fund's total return. The second best performing stock was Citigroup Inc., followed by JP Morgan Chase & Co.

(i) <https://www.cnn.com/2019/12/11/bank-of-america-ceo-brian-moynihan-says-consumers-spending-5point5percent-more.html>

(ii) <https://www.washingtonpost.com/business/2019/10/30/us-slowdown-deepens-economic-growth-slips-percent-pace-third-quarter/>

(iii) <https://www.washingtonpost.com/business/2019/10/30/federal-reserve-cuts-interest-rate-third-time-this-year-effort-boost-us-economy/>

(iv) <https://www.washingtonpost.com/business/2019/10/30/federal-reserve-cuts-interest-rate-third-time-this-year-effort-boost-us-economy/>

(v) <https://www.nasdaq.com/article/major-banks-post-strong-q1-earnings-results-cm1128522>

(vi) <https://www.businessinsider.com/bank-of-america-is-reporting-first-quarter-earnings-q1-2019-4>

(vii) <https://www.cnn.com/2020/01/15/bank-of-america-bac-earnings-q4-2019.html>

(viii) <https://www.cnn.com/2020/01/14/citigroup-c-earnings-q4-2019.html>

(ix) <https://www.cnn.com/2020/01/14/jp-morgan-chase-jpm-earnings-q4-2019.html>

(x) <https://www.bloomberg.com/news/articles/2020-01-14/jpmorgan-s-trading-surge-helps-fuel-most-profitable-year-ever>

(xi) <https://www.cnn.com/2020/01/14/wells-fargo-wfc-earnings-q4-2019.html>

## Recent Developments

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Subsequent to year end, COVID-19 became a global pandemic and resulted unprecedented actions by governments around the world to curtail the spread of the disease. These events have resulted in a high level of uncertainty and volatility in the financial markets and have had an enormous impact on businesses and consumers in all sectors. The duration and impact of these developments is unknown at this time and as such, the financial impact to investments cannot be estimated.

## Related Party Transactions

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The Manager complies with its current policy and procedures regarding investments in related issuers and reports periodically to the Independent Review Committee.

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## Management Fees

The management fees are calculated based on 0.45% 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, 2019, the Fund incurred \$21,792 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.

## 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, 2019, the Fund incurred \$7,264 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 may, in any particular period, be less than or exceed the operating expenses that the Manager incurs for that class.

## 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, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
For the periods ended:			
<b>Unhedged Units - Net Assets per Unit</b>			
Net Assets per Unit, beginning of period	18.10	21.25	19.65
<b>Increase (decrease) from operations:</b>			
Total revenue	0.59	0.51	0.10
Total expenses	(0.31)	(0.34)	(0.05)
Realized gains (losses)	(0.47)	(10.55)	(0.14)
Unrealized gains (losses)	5.21	5.07	1.49
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>5.02</b>	<b>(5.31)</b>	<b>1.40</b>
<b>Distributions:</b>			
From dividends	(0.32)	(0.24)	(0.03)
Return of capital	(0.94)	(0.66)	(0.12)
<b>Total annual distributions<sup>3</sup></b>	<b>(1.26)</b>	<b>(0.90)</b>	<b>(0.15)</b>
<b>Net Assets per Unit, end of period</b>	<b>21.46</b>	<b>18.10</b>	<b>21.25</b>

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## The Fund's Net Assets Per Unit<sup>1</sup> (cont'd)

For the periods ended:	December 31, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
<b>Hedged Units - Net Assets per Unit</b>			
Net Assets per Unit, beginning of period	16.45	21.08	19.62
<b>Increase (decrease) from operations:</b>			
Total revenue	0.54	0.48	0.09
Total expenses	(0.28)	(0.32)	(0.05)
Realized gains (losses)	(2.13)	(1.36)	(0.80)
Unrealized gains (losses)	5.31	(5.41)	1.99
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>3.44</b>	<b>(6.61)</b>	<b>1.23</b>
<b>Distributions:</b>			
From dividends	(0.30)	(0.15)	(0.03)
Return of capital	(0.96)	(0.75)	(0.12)
<b>Total annual distributions<sup>3</sup></b>	<b>(1.26)</b>	<b>(0.90)</b>	<b>0.15</b>
<b>Net Assets per Unit, end of period</b>	<b>20.21</b>	<b>16.45</b>	<b>21.08</b>
<b>US Dollar Unhedged Units - Net Assets per Unit<sup>5</sup></b>			
Net Assets per Unit, beginning of period <sup>4</sup>	26.40	N/A	N/A
<b>Increase (decrease) from operations:</b>			
Total revenue	0.09	N/A	N/A
Total expenses	(0.05)	N/A	N/A
Realized gains (losses)	0.40	N/A	N/A
Unrealized gains (losses)	(0.21)	N/A	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.23</b>	<b>N/A</b>	<b>N/A</b>
<b>Distributions:</b>			
From dividends	(0.01)	N/A	N/A
Return of capital	(0.14)	N/A	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.15)</b>	<b>N/A</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>26.68</b>	<b>N/A</b>	<b>N/A</b>

- 1 This information is derived from the Fund's audited annual financial statement as at December 31, 2019, 2018 and 2017. The Unhedged and Hedged ETF Units began operations on October 16, 2017 and the US Dollar Unhedged ETF Units began operations on November 27, 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.
- 4 This amount represents the initial launch price.
- 5 Per unit figures are stated in CAD equivalent.

## The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2019	December 31, 2018	December 31, 2017
<b>Unhedged Units - Ratios/Supplemental Data</b>			
Total Net Asset Value (\$) <sup>6</sup>	3,219,518	2,262,348	1,062,375
Number of units outstanding <sup>6</sup>	150,000	125,000	50,000
Management expense ratio <sup>7</sup>	0.70%	0.68%	0.70%
Trading expense ratio <sup>8</sup>	0.43%	0.52%	0.19%
Portfolio turnover rate <sup>9</sup>	103.77%	100.98%	2.61%
Net Asset Value per unit (\$)	21.46	18.10	21.25
Closing market price (\$)	21.46	18.10	21.36

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## The Fund's Ratios/Supplemental Data (cont'd)

For the periods ended:	December 31, 2019	December 31, 2018	December 31, 2017
<b>Hedged Units - Ratios/Supplemental Data</b>			
Total Net Asset Value (\$) <sup>6</sup>	1,515,581	822,343	1,054,094
Number of units outstanding <sup>6</sup>	75,000	50,000	50,000
Management expense ratio <sup>7</sup>	0.70%	0.68%	0.70%
Trading expense ratio <sup>8</sup>	0.43%	0.52%	0.19%
Portfolio turnover rate <sup>9</sup>	103.77%	100.98%	2.61%
Net Asset Value per unit (\$)	20.21	16.45	21.08
Closing market price (\$)	20.21	16.45	21.16
<b>US Dollar Unhedged Units - Ratios/Supplemental Data</b>			
Total Net Asset Value (\$) <sup>6</sup>	1,334,148	N/A	N/A
Number of units outstanding <sup>6</sup>	50,000	N/A	N/A
Management expense ratio <sup>7</sup>	0.09%	N/A	N/A
Trading expense ratio <sup>8</sup>	0.43%	N/A	N/A
Portfolio turnover rate <sup>9</sup>	103.77%	N/A	N/A
Net Asset Value per unit (\$)	26.68	N/A	N/A
Closing market price (\$)	26.70	N/A	N/A

6 This information is provided as at December 31, 2019, 2018 and 2017.

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

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.

Since the US Dollar Unhedged ETF Units with inception date November 27, 2019 has been in operations for less than one year, providing performance data for the period is not permitted.

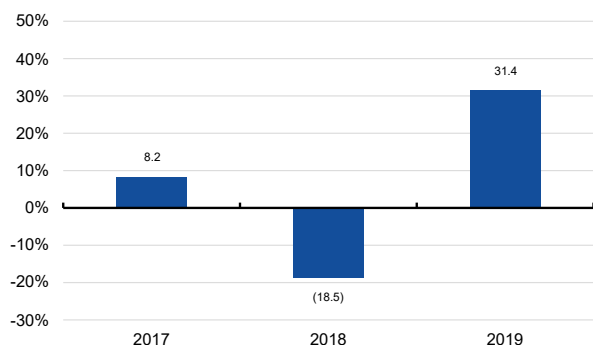
## Year-by-Year Returns

The bar chart below shows the Hedged and Unhedged ETF Units' 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.

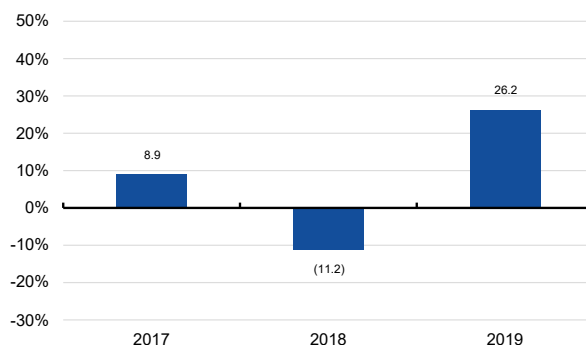
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## CALL Hedged ETF Units<sup>1</sup>



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



1 The Hedged ETF Units of the Fund effectively began operations on October 16, 2017.

2 The Unhedged ETF Units of the Fund effectively began operations on October 16, 2017.

## Annual Compound Return

The table shows the historical annual compound total return of the Hedged and Unhedged ETF Units is listed below. The returns are for period ended December 31, 2019. 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 (%)
Hedged ETF Units	6.9	31.4
Solactive Equal Weight US Bank Index PR Canadian Dollar Hedged	5.7	31.2
Unhedged ETF Units	9.4	26.2
Solactive Equal Weight US Bank Index	9.1	26.2

1 From inception date of October 16, 2017.

## Summary of Investment Portfolio

### Top 25 Positions

Security	Percentage of Net Asset Value (%)
Truist Financial Corporation	9.5
First Republic Bank	5.6
JPMorgan Chase & Company	5.3
Bank of America Corporation	5.2
Zions Bancorp NA	5.2
The PNC Financial Services Group Inc.	5.2
Citigroup Inc.	5.1
Ameriprise Financial Inc.	5.1
SVB Financial Group	5.0
KeyCorp	5.0
Citizens Financial Group Inc.	4.9
Comerica Inc.	4.9
Wells Fargo & Company	4.9
Fifth Third Bancorp	4.9

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## Top 25 Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
M&T Bank Corporation	4.9
U.S. Bancorp	4.7
Regions Financial Corporation	4.7
The Goldman Sachs Group Inc.	4.7
Huntington Bancshares Inc.	4.6
<b>Total</b>	<b>99.4</b>

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Financials	99.4
Derivative Assets	0.4
Derivative Liabilities	(0.0)
Cash and Cash Equivalents	0.3
Other Assets, less Liabilities	(0.1)
<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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