



Evolve ETFs

Evolve Active Canadian Preferred Share 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 or SEDAR at 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

The Evolve Active Canadian Preferred Share Fund (the "Fund") seeks to provide holders of Units with stable income and long-term capital appreciation by investing primarily in a diversified mix of preferred shares of primarily Canadian issuers, in addition to U.S. and international issuers.

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

For the year ended December 31, 2019, Unhedged ETF Units returned -0.8%. Since the Unhedged Class A and F mutual fund units were launched on April 23, 2019, no performance data can be shown. The Fund's net assets were \$210.2MM as at December 31, 2019.

Portfolio Manager Commentary

The economic weakness experienced at the end of 2018 carried into the first quarter of 2019, with domestic growth slowed by lower investment spending, lower household spending, and a drop in exports. Further weighing on growth were the usual suspects: China/U.S. trade, a no-deal Brexit, growing tensions with Iran, and later in the year an economic slowdown across Europe (Germany in particular), and the increasingly violent standoff between Hong Kong and China. As a result of such trade tensions and geopolitical uncertainties, interest rates fell throughout the first quarter. The benchmark 10-year Government of Canada bond yield fell by approximately 40 basis points in the quarter and the two-year to 30-year yield spread widened by almost five basis points.

During the second quarter there continued to be reactionary selling pressure in pockets of the Canadian preferred share market. Pricing continued to be significantly dislocated from long term value and credit quality which has been a drag on performance given the strategies focus on lower risk companies and credit risk-adjusted returns.

Even though risk assets (equities, corporate bonds, etc.) performed strongly to start the year, the preferred share market in Canada was a little slower to rebound. When viewed with a longer-term investment time horizon, however, the asset class itself is attractively valued and offers a significant yield advantage over other fixed income options.

Overall, the portfolio strategy made modest changes in Q1 2019 to keep positioned in companies and their securities that are undervalued relative to the inherent credit risk profile. Capital was allocated towards investment opportunities offering the highest probability for superior risk-adjusted returns

With a US-China trade war reignited during Q2, uncertainty in the markets was heightened and continued to stoke fears of a recession. This once again translated into negative sentiment in risk markets and general pessimism.

The pref market, however, was at historically low levels and offered yields and spreads that were exceptionally wide versus other income producing assets. Additionally, flows within prefs have been focused on pref type or the reference rates despite significant credit spread dislocation. The Fund's strategy continued to focus on lower risk companies and credit risk-adjusted returns. While this asset class is expected to revert to a more properly priced environment as sentiment improves, the pricing dislocations were extremely elevated implying there will be significant opportunity for added value in the coming years.

Indeed, by Q4 there was a dramatic improvement in sentiment toward preferred shares as some uncertainty in the markets abated in light of news that global trade tensions were easing and geopolitical concerns were de-escalating. The news that the US and China set trade talks for Fall was welcomed by the market.

Heading into the fall, some market participants were concerned December would bring a repeat of 2018, which saw widespread tax-loss selling of preferred shares by retail investors. However, tax-loss activity this time around was largely in the form of investors switching out of individual preferred share issues into others with similar characteristics, resulting in a neutral market impact. The lack of tax-loss selling was another positive for investor sentiment at the end of 2019.

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Recent Developments

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

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

Management Fees

The Manager is entitled to an annual management fee of 0.65% of the net asset value of the Unhedged ETF Units and the Unhedged Class F mutual fund units and 1.40% of the net asset value of the Unhedged Class A mutual fund units of the Fund, accrued daily and are generally paid monthly in arrears. For the year ended December 31, 2019, the Fund incurred \$1,728,769 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 \$403,641 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; 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.

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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 Unit¹

	December 31, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
For the periods ended:			
Unhedged Units - Net Assets per Unit			
Net Assets per Unit, beginning of period	17.87	20.64	20.10
Increase (decrease) from operations:			
Total revenue	0.94	0.96	0.26
Total expenses	(0.17)	(0.22)	(0.05)
Realized gains (losses)	(1.34)	(0.30)	0.01
Unrealized gains (losses)	0.22	(5.78)	0.39
Total increase (decrease) from operations²	(0.35)	(5.34)	0.61
Distributions:			
From dividends	(0.77)	(0.44)	(0.06)
From capital gains	-	-	(0.01)
Return of capital	(0.14)	(0.40)	(0.14)
Total annual distributions³	(0.91)	(0.84)	(0.21)
Net Assets per Unit, end of period	16.86	17.87	20.64
Unhedged Class A - Net Assets per Unit			
Net Assets per Unit, beginning of period ⁴	20.00	N/A	N/A
Increase (decrease) from operations:			
Total revenue	0.77	N/A	N/A
Total expenses	(0.25)	N/A	N/A
Realized gains (losses)	(2.30)	N/A	N/A
Unrealized gains (losses)	4.63	N/A	N/A
Total increase (decrease) from operations²	2.85	N/A	N/A
Distributions:			
From dividends	(0.49)	N/A	N/A
Return of capital	(0.07)	N/A	N/A
Total annual distributions³	(0.56)	N/A	N/A
Net Assets per Unit, end of period	19.41	N/A	N/A
Unhedged Class F - Net Assets per Unit			
Net Assets per Unit, beginning of period ⁴	20.00	N/A	N/A
Increase (decrease) from operations:			
Total revenue	0.76	N/A	N/A
Total expenses	(0.02)	N/A	N/A
Realized gains (losses)	(1.41)	N/A	N/A
Unrealized gains (losses)	0.89	N/A	N/A
Total increase (decrease) from operations²	0.22	N/A	N/A
Net Assets per Unit, end of period	20.00	N/A	N/A

1 This information is derived from the Fund's audited annual financial statement as at December 31, 2019, 2018 and 2017. The Unhedged ETF Units began operations on September 29, 2017 and the Unhedged Class A and F mutual fund units began operations on April 23, 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.

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The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2019	December 31, 2018	December 31, 2017
Unhedged Units - Ratios/Supplemental Data			
Total Net Asset Value (\$) ⁵	209,870,181	226,117,125	6,708,228
Number of units outstanding ⁵	12,444,800	12,650,000	325,000
Management expense ratio ⁶	0.90%	0.90%	0.89%
Trading expense ratio ⁷	0.13%	0.21%	0.13%
Portfolio turnover rate ⁸	81.45%	37.33%	12.01%
Net Asset Value per unit (\$)	16.86	17.87	20.64
Closing market price (\$)	16.82	17.82	20.68
Unhedged Class A - Ratios/Supplemental Data			
Total Net Asset Value (\$) ⁵	375,544	N/A	N/A
Number of units outstanding ⁵	19,345	N/A	N/A
Management expense ratio ⁶	1.73%	N/A	N/A
Trading expense ratio ⁷	0.13%	N/A	N/A
Portfolio turnover rate ⁸	81.45%	N/A	N/A
Net Asset Value per unit (\$)	19.41	N/A	N/A
Unhedged Class F - Ratios/Supplemental Data			
Total Net Asset Value (\$) ⁵	20	N/A	N/A
Number of units outstanding ⁵	1	N/A	N/A
Management expense ratio ⁶	0.00%	N/A	N/A
Trading expense ratio ⁷	0.13%	N/A	N/A
Portfolio turnover rate ⁸	81.45%	N/A	N/A
Net Asset Value per unit (\$)	20.00	N/A	N/A

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

6 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.

7 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.

8 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 Unhedged Class A and F mutual fund units with inception date April 23, 2019, has been in operation for less than one year, providing performance data for the period is not permitted.

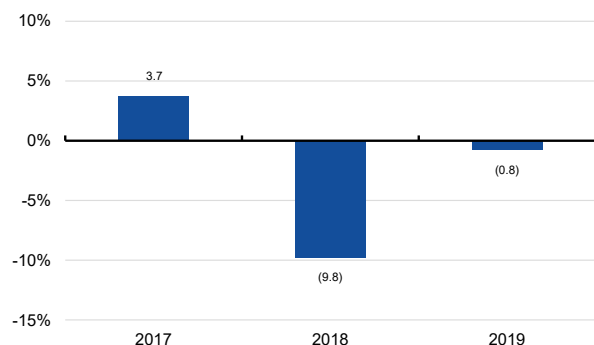
Year-by-Year Returns

The bar chart below shows the 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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DIVS Unhedged ETF Units¹



¹ The Unhedged ETF Units effectively began operations on September 29, 2017.

Annual Compound Return

The table shows the historical annual compound total return of the Unhedged ETF Units is listed below. The returns are for period ended December 31, 2019. As a basis of comparison, we have provided the performance of S&P/TSX Preferred Share Index ("Index"). As the criteria for determining the constituents of the Fund and the Index differ, it is not expected that the Fund's performance will mirror that of the Index. Further, the return of the Index is calculated without the deduction of management fees and fund expenses whereas the performance of the Fund is calculated after deducting such fees and expenses.

	Since Inception ¹ (%)	1 Year (%)
Unhedged ETF Units	(3.2)	(0.8)
S&P/TSX Preferred Share Index	(0.8)	3.5

¹ From inception date of September 29, 2017.

Summary of Investment Portfolio

Top 25 Positions

Security	Percentage of Net Asset Value (%)
Evolve Dividend Stability Preferred Share Index ETF	8.0
Enbridge Inc., Preferred, Series 'D'	2.7
BCE Inc., Preferred, Series 'AB'	2.5
Fairfax Financial Holdings Limited, Preferred, Series 'G'	2.5
Bank of Montreal, Preferred, Series '31'	2.3
Brookfield Office Properties Inc., Preferred, 4.85% series 'II'	2.1
Pembina Pipeline Corporation, Preferred, Series '15'	2.1
BCE Inc., Preferred, Series 'AI'	2.1
The Toronto-Dominion Bank, Preferred, 3.75% Series 'C'	2.0
The Toronto-Dominion Bank, Preferred, 3.80% Series '3'	2.0
Royal Bank of Canada, Preferred, Series 'BB'	2.0
TC Energy Corporation, Preferred, Series '7'	1.9
Sun Life Financial, Preferred, Series '3'	1.9
BCE Inc., Preferred, Series 'AG'	1.9

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Top 25 Positions (cont'd)

Security	Percentage of Net Asset Value (%)
Canadian Imperial Bank of Commerce, Preferred, Series '47'	1.8
Royal Bank of Canada, Preferred, 4.00% Series 'AZ'	1.8
Sun Life Financial Inc., Preferred, 4.75% Series '1'	1.8
Manulife Financial Corporation, Preferred, Series '17'	1.7
TC Energy Corporation, Preferred, Series '9'	1.7
Enbridge Inc., Preferred, Series '7'	1.6
The Toronto-Dominion Bank, Preferred, Series '18'	1.6
Enbridge Inc., Preferred, Series 'P'	1.6
Intact Financial Corporation, Preferred, Series '1'	1.6
Manulife Financial Corporation, Preferred, Series '9'	1.6
TransAlta Corporation, Preferred, Series 'F'	1.6
Total	54.5

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Communication Services	9.5
Energy	22.2
ETFs - Domestic Equity	8.0
Financials	46.8
Industrials	0.6
Real Estate	0.8
Utilities	11.3
Cash and Cash Equivalents	1.1
Other Assets, less Liabilities	(0.3)
Total	100.0

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.



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