



Evolve ETFs

# Evolve Innovation Index 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.

# Evolve Innovation Index Fund

December 31, 2019

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## Investment Objective and Strategies

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The Evolve Innovation Index Fund (the "Fund") seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the Solactive Global Innovation Index. The Solactive Global Innovation Index has been designed to reflect the performance of equity securities of companies listed domestically or internationally that are involved in innovative and disruptive trends across a broad range of industries.

## 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, Hedged ETF Units returned 32.6%. Since the Hedged Class A and F mutual fund units were launched on June 4, 2019, no performance data can be shown. The Fund's net assets were \$11.5MM as at December 31, 2019.

## Portfolio Manager Commentary

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### MACROECONOMIC HIGHLIGHTS:

2019 was marked by positive developments in connectivity, big data, artificial intelligence (AI), cloud computing, robotics, automaton, cyber security, and social media, dominated especially by big tech companies. These developments led to strong first quarter earnings reports by several leading companies held by the Fund, including Zscaler Inc., Salesforce.com Inc., Broadcom Inc., Nvidia Corp., Palo Alto Networks Inc., Proofpoint, Fortinet Inc; SAP, Facebook Inc., Snap Inc., and Twitter.

In January, several automotive companies showcased innovative developments in vehicles of the future at the annual Consumer Electronics Show (CES) in Las Vegas. Audi highlighted the use of virtual reality in in-car entertainment; Bell unveiled a full-scale prototype of a vertical-takeoff-and-landing air taxi; Harley-Davidson revealed its first electric motor; Nissan unveiled an improved version of its electric car, with a longer driving range and more torque; and Qualcomm, one of the Fund's holdings, highlighted its design to make vehicle-to-everything communication a reality.

In the artificial intelligence space, Google announced in April that it wants to position itself as an "AI first" company and plans to establish research centers across the globe in places such as Tokyo, Zurich, New York, and Paris. Google also expanded its partnership with Salesforce in an attempt to create a smarter customer service experience by combining Salesforce's customer knowledge with Google's customer service-related AI products.(i)

Facebook confirmed that it is working on an artificial intelligence-based digital voice assistant similar to Amazon's Alexa and Google Assistant. Facebook said it is focusing primarily on hands-free interaction via voice control and potentially gesture control.(ii)

A study by Accenture revealed that artificial intelligence is so important for business success that most executives fear their companies will fail without it. Seventy-five percent of executives believe they risk going out of business in 5 years if they don't scale AI. Additionally, 76% of respondents said they are struggling to widely adopt AI in their businesses.(iii)

In the robotics space, the California-based chip-maker, Nvidia opened its first full-blown robotics research lab and launched its new Jetson AGX Xavier Module that it hopes will become the go-to brain for next-generation robots.

A neuro-radiologist at Toronto's Western Hospital reportedly carried out the world's first robotic brain surgery in November. The robot-assisted aneurysm coiling was conducted on a 64-year-old female patient, using a CorPath GRX, a second-generation robotics platform capable of "submillimetric" movements. It is controlled using joysticks and touchscreen controls.(iv)

And in December, Amazon announced that it now has more than 200,000 robotic vehicles moving goods through its delivery-fulfillment centers around the U.S. That's double the 2018 number, and up from just 15,000 units in 2014. The robots, which perform alongside human workers, speed up productivity and bring down costs.(v)

In June, Google announced plans to bolster its cloud computing business by buying the data analytics start-up Looker for \$2.6 billion. The significant size of the deal, implies that Google intends to make a bigger push into the enterprise market, targeting specific industries like retail and finance.(vi)

# Evolve Innovation Index Fund

December 31, 2019

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Also, in cloud computing, IBM reported that it has built financial services-specific cloud technology in collaboration with Bank of America, which will be the first major bank to use the platform. The public platform, IBM's first industry-specific cloud, is designed to meet the high regulatory, security and resiliency standards required of the financial services industry. U.S. lawmakers have asked regulators to consider direct oversight of the cloud services big tech companies provide to banks - like Amazon's Web Services, Microsoft's Azure and Google Cloud - saying they have become a critical component of the global financial system.(vii)

In related news, Amazon is protesting the Pentagon's decision to award a \$10 billion cloud-computing contract to Microsoft, citing "unmistakable bias" in the process. Amazon's competitive bid for the "war cloud" project drew criticism from President Donald Trump and its business rivals. Amazon was widely considered the front-runner in the contract competition.(viii)

In June, Facebook announced plans to launch a cryptocurrency called Libra, meant primarily to help unbanked and underbanked people participate in the financial system. While Facebook designed Libra under great secrecy, it intends to turn control over the cryptocurrency to a body of partners, including, non-profits, credit card companies and payment brokers, among others. Libra remains controversial and has not been widely accepted by the banking system.

Google announced that it will offer consumer checking accounts next year. Citigroup and a credit union at Stanford University will reportedly manage the accounts. Customers would access their checking accounts through Google Pay, which is projected to have 100 million users by 2020.(ix)

## PERFORMANCE ATTRIBUTION:

The Fund tracks a benchmark index designed to expose investors to returns in seven sectors: 5G, big data and cloud computing, robotics and automaton, cyber security, automotive innovation, and social media, which together accounted for 86% of the weight of the portfolio; and genomics – which had a 14% weight. The best performing stock in the portfolio for 2019 was the Robotics and Automaton company, Advanced Micro Devices, followed by the Genomics company, Seattle Genetics Inc.

(i) <https://techcrunch.com/2019/04/10/salesforce-and-google-want-to-build-a-smarter-customer-service-experience/>

(ii) <https://www.theverge.com/2019/4/17/18412757/facebook-ai-voice-assistant-portal-oculus-vr-ar-products>

(iii) <https://fortune.com/2019/11/14/executives-fear-accenture-a-i/>

(iv) <https://www.digitaltrends.com/cool-tech/robot-brain-surgery-canada/>

(v) <https://abc3340.com/news/nation-world/as-robots-take-over-warehousing-workers-pushed-to-adapt-12-30-2019>

(vi) <https://www.cnn.com/2019/07/03/david-marcus-facebook-wont-control-libra-cryptocurrency.html>

(vii) <https://www.reuters.com/article/us-bank-of-america-ibm-cloud-idUSKBN1XG0J7>

(viii) <https://ca.finance.yahoo.com/news/amazon-protest-10b-pentagon-contract-234143664.html>

(ix) <https://www.forbes.com/sites/beasleydavid/2019/11/13/googles-latest-venture-checking-accounts/>

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

# Evolve Innovation Index Fund

December 31, 2019

## Management Fees

The Manager is entitled to an annual management fee of 0.40% of the net asset value of the Hedged ETF Units and the Hedged Class F mutual fund unit and 1.40% of the net asset value of the Hedged 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 \$35,827 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 \$19,829 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.

## 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 (\$)
For the periods ended:		
<b>Hedged Units - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period	17.35	20.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.15	0.11
Total expenses	(0.14)	(0.11)
Realized gains (losses)	0.64	(0.10)
Unrealized gains (losses)	4.99	(4.07)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>5.64</b>	<b>(4.17)</b>
<b>Distributions:</b>		
From dividends	(0.02)	-
Return of capital	-	(0.02)
<b>Total annual distributions<sup>3</sup></b>	<b>(0.02)</b>	<b>(0.02)</b>
<b>Net Assets per Unit, end of period</b>	<b>22.99</b>	<b>17.35</b>
<b>Hedged Class A - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period <sup>4</sup>	20.00	N/A
<b>Increase (decrease) from operations:</b>		
Total revenue	0.14	N/A
Total expenses	(0.02)	N/A
Realized gains (losses)	0.80	N/A
Unrealized gains (losses)	0.32	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>1.24</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>21.24</b>	<b>N/A</b>

# Evolve Innovation Index Fund

December 31, 2019

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

	December 31, 2019 (\$)	December 31, 2018 (\$)
For the periods ended:		
<b>Hedged Class F - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period <sup>4</sup>	20.00	N/A
<b>Increase (decrease) from operations:</b>		
Total revenue	0.06	N/A
Total expenses	(0.10)	N/A
Realized gains (losses)	0.03	N/A
Unrealized gains (losses)	0.25	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.24</b>	<b>N/A</b>
<b>Distributions:</b>		
Return of capital	(0.01)	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.01)</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>21.00</b>	<b>N/A</b>

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2019 and 2018. The Hedged ETF Units began operations on May 2, 2018. The Hedged Class A and F mutual fund units began operations on June 4, 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.

## The Fund's Ratios/Supplemental Data

	December 31, 2019	December 31, 2018
For the periods ended:		
<b>Hedged Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>5</sup>	11,493,197	11,280,089
Number of units outstanding <sup>5</sup>	500,000	650,000
Management expense ratio <sup>6</sup>	0.48%	0.60%
Trading expense ratio <sup>7</sup>	0.12%	0.15%
Portfolio turnover rate <sup>8</sup>	92.88%	20.34%
Net Asset Value per unit (\$)	22.99	17.35
Closing market price (\$)	23.01	17.37
<b>Hedged Class A - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>5</sup>	21	N/A
Number of units outstanding <sup>5</sup>	1	N/A
Management expense ratio <sup>6</sup>	0.00%	N/A
Trading expense ratio <sup>7</sup>	0.12%	N/A
Portfolio turnover rate <sup>8</sup>	92.88%	N/A
Net Asset Value per unit (\$)	21.24	N/A

# Evolve Innovation Index Fund

December 31, 2019

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

For the periods ended:	December 31, 2019	December 31, 2018
<b>Hedged Class F - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$)⁵	5,030	N/A
Number of units outstanding⁵	239	N/A
Management expense ratio⁶	0.54%	N/A
Trading expense ratio⁷	0.12%	N/A
Portfolio turnover rate⁸	92.88%	N/A
Net Asset Value per unit (\$)	21.00	N/A

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

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

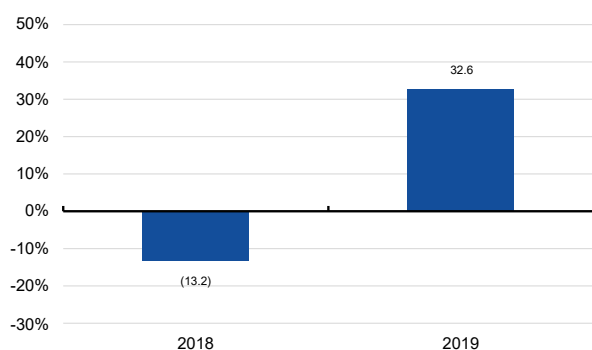
The performance information does not take into account sales, redemption, distribution, income taxes payable by any unitholder or other optional charges that, if applicable, would have reduced returns or performance. The performance information shown assumes that all distributions made by the investment 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 June 4, 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 Hedged 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.

### EDGE Hedged ETF Units¹



1 The Hedged ETF Units effectively began operations on May 2, 2018

# Evolve Innovation Index Fund

December 31, 2019

## Annual Compound Return

The table shows the historical annual compound total return of the Hedged 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	8.8	32.6
Solactive Global Innovation PR Index CAD hedged	8.7	35.1

1 From inception date of May 2, 2018.

## Summary of Investment Portfolio

### Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
Evolve Automobile Innovation Index Fund	15.5
Evolve Cyber Security Index Fund	13.8
QUALCOMM Inc.	3.0
Advanced Micro Devices Inc.	2.1
Yandex NV	1.8
BeiGene Limited	1.8
Seattle Genetics Inc.	1.7
NVIDIA Corporation	1.6
Nektar Therapeutics	1.6
Keyence Corporation	1.5
Splunk Inc.	1.5
Paycom Software Inc.	1.5
Baidu Inc.	1.5
Alphabet Inc.	1.5
Sony Corporation	1.5
OBIC Company Limited	1.5
Samsung Electronics Company Limited	1.5
SoftBank Group Corporation	1.5
Intel Corporation	1.5
Mail.Ru Group Limited	1.5
Intuitive Surgical Inc.	1.4
Genmab AS	1.4
Emerson Electric Company	1.4
Snap Inc.	1.4
Broadcom Inc.	1.4
<b>Total</b>	<b>66.4</b>

# Evolve Innovation Index Fund

December 31, 2019

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Communication Services	23.0
Consumer Discretionary	1.5
ETFs- International Equity	29.3
Health Care	14.4
Industrials	2.8
Information Technology	27.6
Derivative Assets	1.0
Derivative Liabilities	(0.1)
Cash and Cash Equivalents	0.7
Other Assets, less Liabilities	(0.2)
<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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