



Evolve ETFs

Evolve Active Core Fixed Income 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 Core Fixed Income Fund (the "Fund") seeks to provide a stable rate of return, primarily through income, and to a lesser extent, capital appreciation. The Fund invests primarily in domestic and international high quality fixed income securities, and to a lesser extent, adding yield or enhancing returns on the portfolio by opportunistically investing in international fixed income securities, emerging market debt, preferred shares, convertible bonds and non-investment grade bonds.

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 5.5%. Since the Unhedged 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 \$30.6MM 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 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. Credit performed well as both provincial and corporate bonds exceeded the performance of federal bonds as risk assets in the financial markets rebounded from the weakness seen at the end of last year.

Also, during Q1 2019 the credit markets saw a significant change in sentiment and spreads materially tightened across the curve and credit spectrum. The primary factors responsible for performance this quarter were security selection and the credit risk positioning of the fund. Our corporate bonds delivered solid performance relative to the index despite the relatively defensive positioning for the strategy. Overall portfolio strategy was little changed from the end of 2018.

The broader Canadian bond market had an eventful Q2 as both rates and spreads experienced volatility.

A number of variables, however, remained unchanged from Q1 – a moderating global growth environment, subdued (but still positive) inflation profiles across the developed world, and a market trying to decipher even the slightest of changes in ongoing trade tensions between global leaders.

Corporate credit performed well over the course of the quarter; however, spreads were volatile as the market reacted to surprises on the global trade front. The provincial segment of the market performed well from a spread perspective but also from the rate move as the sector benefited from its long duration in a declining rate environment. With credit markets finishing the quarter strong and spreads tightening across both the curve and credit spectrum we have once again turned our attention to de-risking the portfolio. Our corporate bonds performed relatively well despite the relatively defensive positioning for the strategy.

The preferred share market experienced renewed pessimism during the quarter as the credit environment weakened and concerns grew over the trade war eventually having a notable impact on growth. All that being said, the preferred share market was at historically low levels and offered yields and spreads that are exceptionally wide versus other income producing assets. 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 portfolio strategy was little changed throughout the quarter. The Fund continued to hold increased allocations to both corporate bonds and preferred shares compared to 2018. The portfolio's duration positioning should perform well against its benchmark in a stable to rising rate environment, notwithstanding the Fund's credit exposure and security selection being the driving factor in overall Fund performance over time.

The primary contributor to performance late in the year was the portfolio's below-benchmark duration position, which helped to offset the decline in bond prices that resulted from a rise in interest rates during the quarter. An overweight allocation to corporate bonds and exposure to hybrids and preferred shares also acted as key contributors to portfolio performance.

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Corporate bonds contributed positively to performance as our holdings outperformed both provincial and federal bonds and the corporate bond benchmark. The portfolio's exposure to preferred shares was a key contributor to performance as our holdings outperformed corporate bonds as well as the broader preferred share market during the quarter. The portfolio offers a meaningful yield advantage through a small weight in hybrid securities and an exposure to preferred shares. These hybrids and preferreds currently offer yields dramatically higher than bonds of companies with higher credit risk.

In keeping with our long-standing strategy of improving the credit quality of our corporate investments, we shifted away from Canadian Western Bank in November in favour of debt issues from banks with lower credit risk. Furthermore, the portfolio has no exposure to high-yield bonds, having eliminated the last position at the end of October.

Despite the increase in interest rates toward the end of 2019, long duration bonds – with a yield well below the rate of inflation – remain a risky investment. Our focus is on the preservation of capital in this low interest rate environment. We continue to look for opportunities to increase the credit quality of our portfolio without forfeiting our above-benchmark yield generation.

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 0.45% of the net asset value of the Unhedged ETF Units and the Unhedged Class F mutual fund units and 1.20% 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 \$121,950 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.evolveefs.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 \$43,038 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 (\$)
For the periods ended:		
Unhedged Units - Net Assets per Unit		
Net Assets per Unit, beginning of period	19.37	20.01
Increase (decrease) from operations:		
Total revenue	0.66	0.48
Total expenses	(0.11)	(0.12)
Realized gains (losses)	0.12	(0.03)
Unrealized gains (losses)	0.34	(0.40)
Total increase (decrease) from operations²	1.01	(0.07)
Distributions:		
From income (excluding dividends)	(0.47)	(0.32)
From dividends	(0.06)	(0.01)
From capital gains	(0.07)	(0.01)
Return of capital	(0.06)	(0.16)
Total annual distributions³	(0.66)	(0.50)
Net Assets per Unit, end of period	19.75	19.37
Unhedged Class A - Net Assets per Unit		
Net Assets per Unit, beginning of period ⁴	20.00	N/A
Increase (decrease) from operations:		
Total revenue	0.05	N/A
Total expenses	0.01	N/A
Realized gains (losses)	0.12	N/A
Unrealized gains (losses)	(0.09)	N/A
Total increase (decrease) from operations²	0.09	N/A
Net Assets per Unit, end of period	20.09	N/A
Unhedged Class F - Net Assets per Unit		
Net Assets per Unit, beginning of period ⁴	20.00	N/A
Increase (decrease) from operations:		
Total revenue	0.04	N/A
Total expenses	0.01	N/A
Realized gains (losses)	0.13	N/A
Unrealized gains (losses)	0.08	N/A
Total increase (decrease) from operations²	0.26	N/A
Net Assets per Unit, end of period	20.26	N/A

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2019 and 2018. The Unhedged ETF Units began operations on March 29, 2018 and the Unhedged 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.

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The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2019	December 31, 2018
Unhedged Units - Ratios/Supplemental Data		
Total Net Asset Value (\$)⁵	30,612,500	24,693,049
Number of units outstanding⁵	1,550,000	1,275,000
Management expense ratio⁶	0.58%	0.60%
Trading expense ratio⁷	0.00%	0.18%
Portfolio turnover rate⁸	30.80%	52.41%
Net Asset Value per unit (\$)	19.75	19.37
Closing market price (\$)	19.80	19.33
Unhedged Class A - Ratios/Supplemental Data		
Total Net Asset Value (\$)⁵	20	N/A
Number of units outstanding⁵	1	N/A
Management expense ratio⁶	0.00%	N/A
Trading expense ratio⁷	0.00%	N/A
Portfolio turnover rate⁸	30.80%	N/A
Net Asset Value per unit (\$)	20.09	N/A
Unhedged Class F - Ratios/Supplemental Data		
Total Net Asset Value (\$)⁵	20	N/A
Number of units outstanding⁵	1	N/A
Management expense ratio⁶	0.00%	N/A
Trading expense ratio⁷	0.00%	N/A
Portfolio turnover rate⁸	30.80%	N/A
Net Asset Value per unit (\$)	20.26	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 non-hedged class A and F mutual fund classes with inception date June 4, 2019, has been in operation for less than one year, providing performance data for the period is not permitted.

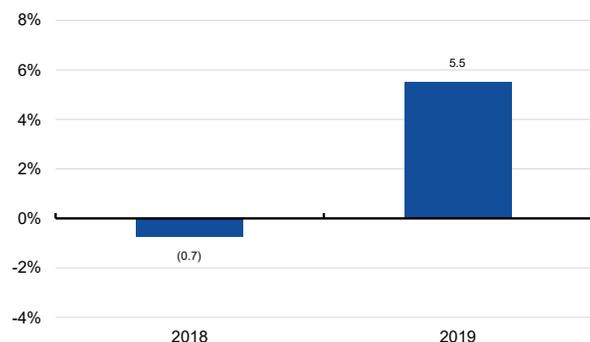
Year-by-Year Returns

The bar chart below shows the 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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FIXD Unhedged ETF Units¹



¹ The Unhedged ETF Units effectively began operations on March 29, 2018.

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 FTSE TMX Canada Universe Bond 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	2.7	5.5
FTSE TMX Canada Universe Bond Index	4.7	6.9

¹ From inception date of March 29, 2018.

Summary of Investment Portfolio

Top 25 Positions

Security	Percentage of Net Asset Value (%)
Evolve Active Canadian Preferred Share Fund	11.9
High Interest Savings Account Fund	4.9
The Toronto-Dominion Bank	4.1
Province of Ontario	3.9
Province of Saskatchewan	3.8
PSP Capital Inc.	3.4
Province of British Columbia	2.9
Canada Housing Trust No. 1	2.8
Province of Alberta	2.8
The Empire Life Insurance Company, Variable, Callable	2.8
Bow Centre Street Limited Partnership, Series 'A'	2.7
CPPIB Capital Inc.	2.4
Canada Housing Trust No. 1	2.3
Canada Housing Trust No. 1, Floating Rate	2.2

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Top 25 Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
Royal Bank of Canada	2.1
Enbridge Pipelines Inc., Callable	2.0
Teranet Holdings Limited Partnership	2.0
The Toronto-Dominion Bank, Variable, Callable	1.9
Province of Alberta	1.9
Fortis Inc.	1.7
Fifth Avenue Limited Partnership	1.6
Royal Office Finance Limited Partnership, Series 'A'	1.5
Bell Canada Inc., Callable	1.5
Original Wempi Inc., Series 'B2'	1.3
TransCanada PipeLines Limited	1.3
Total	71.7

Industry Allocation

	Percentage of Net Asset Value (%)
Portfolio by Category	
Debt Instruments	
Asset-Backed Securities	1.8
Communication Services	2.8
Consumer Discretionary	4.4
Energy	5.1
Financials	27.1
Government	34.2
Industrials	1.6
Utilities	4.3
Equities	
ETFs - Domestic Equity	16.8
Cash and Cash Equivalents	1.7
Other Assets, less Liabilities	0.2
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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