



Evolve ETFs

# Evolve Dividend Stability Preferred Share Index ETF

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 Dividend Stability Index ETF (the "Fund") seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the Solactive Dividend Stability Canada Preferred Share Index, or any successor thereto. The Fund invests primarily in preferred equity securities of companies listed in Canada.

## 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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Since the Fund was launched on September 26, 2019, no performance data can be shown. The Fund's net assets were \$30.0MM as at December 31, 2019.

## Portfolio Manager Commentary

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### MACROECONOMIC HIGHLIGHTS:

Launched in late September 2019, the PREF Fund is an index-based fund that invests in a basket of 50 high quality preferred shares, including TC Energy Corp., Enbridge Inc., Westcoast Energy Inc., and Royal Bank of Canada. Because of its late start date in the year, PREF Fund saw its first Q4 but missed out on much of the up-and-down year in preferred shares that was 2019.

Even though risk assets (equities, corporate bonds, etc.) performed strongly to start 2019 year, the preferred share market in Canada in 2019 was a little slower to rebound from the troubles that ended 2018. When viewed with a longer-term investment time horizon, however, the asset class itself is attractively valued and may offer a significant yield advantage over other fixed income options.

The pref market in 2019 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. 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.

## 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.

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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 \$27,291 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 \$9,097 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 (\$)
For the period ended:	
<b>Unhedged Units - Net Assets per Unit</b>	
Net Assets per Unit, beginning of period <sup>2</sup>	25.02
<b>Increase (decrease) from operations:</b>	
Total revenue	0.34
Total expenses	(0.07)
Realized gains (losses)	0.01
Unrealized gains (losses)	0.39
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>0.67</b>
<b>Distributions:</b>	
From dividends	(0.12)
Return of capital	(0.17)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.29)</b>
<b>Net Assets per Unit, end of period</b>	<b>25.38</b>

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2019. The Fund began operations on September 26, 2019.

2 This amount represents the initial launch price.

3 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.

4 Distributions were paid in cash or reinvested in additional units of the Fund, or both. Actual distributions may vary slightly owing to rounding.

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## The Fund's Ratios/Supplemental Data

	December 31, 2019
For the period ended:	
<b>Unhedged Units - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>5</sup>	<b>29,944,328</b>
Number of units outstanding <sup>5</sup>	<b>1,180,000</b>
Management expense ratio <sup>6</sup>	<b>0.67%</b>
Trading expense ratio <sup>7</sup>	<b>0.31%</b>
Portfolio turnover rate <sup>8</sup>	<b>11.28%</b>
Net Asset Value per unit (\$)	<b>25.38</b>
Closing market price (\$)	<b>25.38</b>

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

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

Since the Fund is a reporting issuer for less than one year, with inception date September 26, 2019, providing performance data for the period is not permitted.

## Summary of Investment Portfolio

### Top 25 Positions

Security	Percentage of Net Asset Value (%)
TC Energy Corporation, Preferred, Series '15', Perpetual	8.2
Enbridge Inc., Preferred, Series '17', Perpetual	6.4
TC Energy Corporation, Preferred, Series '13', Perpetual	4.2
Westcoast Energy Inc., Preferred, Series '12', Perpetual	2.5
Royal Bank of Canada, Preferred, Series 'AA', Perpetual	2.5
Emera Inc., Preferred, Series 'H', Perpetual	2.4
Royal Bank of Canada, Preferred, Series 'W', Perpetual	2.4
Great-West Lifeco Inc., Preferred, Series 'G', Perpetual	2.4
Brookfield Asset Management Inc., Preferred, Series '48', Perpetual	2.4
Brookfield Asset Management Inc., Preferred, Series '46', Perpetual	2.4
Pembina Pipeline Corporation, Preferred, Perpetual	2.3
Pembina Pipeline Corporation, Preferred, Series '13', Perpetual	2.1
Brookfield Infrastructure Partners Limited Partnership, Preferred, Series '5', Perpetual	2.1
Canadian Utilities Limited, Preferred, Series 'FF', Perpetual	2.0
Brookfield Asset Management Inc., Preferred, Series '44', Perpetual	2.0
Power Financial Corporation, Preferred, Series 'R', Perpetual	2.0
Great-West Lifeco Inc., Preferred, Series 'P', Perpetual	2.0
George Weston Limited, Preferred	2.0
Pembina Pipeline Corporation, Preferred, Series '25', Perpetual	1.9
Power Financial Corporation, Preferred, Series 'V', Perpetual	1.9

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## Top 25 Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
Power Corporation of Canada, Preferred, Series 'D', Perpetual	1.9
Loblaw Companies Limited, Preferred, Serie	1.9
Brookfield Renewable Partners Limited Partnership, Preferred, Series '11', Perpetual	1.8
Brookfield Renewable Partners Limitd Partnership, Preferred, Series '9', Perpetual	1.7
Brookfield Office Properties Inc., Preferred, Series 'CC', Perpetual	1.7
<b>Total</b>	<b>65.1</b>

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Consumer Staples	5.4
Energy	27.6
Financials	43.6
Utilities	22.7
Cash and Cash Equivalents	1.1
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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