



Evolve ETFs

Sphere FTSE Emerging Markets Sustainable Yield 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 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.

Sphere FTSE Emerging Markets Sustainable Yield Index ETF

December 31, 2019

Investment Objective and Strategies

The Sphere FTSE Emerging Markets Sustainable Yield Index ETF (the "Fund") seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the FTSE Emerging Sustainable Yield 150 10% Capped 100% Hedge CAD Index (the "Benchmark"), or any successor thereto. The Fund invests directly or indirectly in up to 150 equity securities of public issuers from countries within the region classified by FTSE as emerging markets, exhibiting relatively high and sustainable yields, as at the time of reconstitution or balancing.

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, Hedged ETF Units returned 6.9% versus the FTSE Emerging Sustainable Yield 150 10% Capped 100% Hedge CAD Total Return Index return of 9.4%. The difference in performance of the Fund relative to its benchmark can be attributed primarily to management fees plus applicable sales taxes and to portfolio trading and hedging strategies. Fund's net assets were \$17.6MM as at December 31, 2019.

Portfolio Manager Commentary

MACROECONOMIC HIGHLIGHTS:

In spite of continuing strong GDP growth in emerging countries, their stock markets started 2019 in negative territory as a result of global uncertainty on trade, economic growth, and geopolitics. 2018 saw four interest rate hikes by the U.S. Federal Reserve, a strong U.S. dollar, and the commencement of the trade war between the U.S. and China.

However, emerging markets rebounded in the first half of 2019. Markets in Eastern Europe, led by Russia; and Latin America, led by Brazil, produced double digit returns in the first half of the year, based on the performance of the MSCI Emerging Markets Index. Money managers invested \$40.8 billion in emerging markets in June alone, with inflows into emerging market equities and bonds totaling \$12.6 billion and \$28.2 billion, respectively. Another \$55 billion flowed into countries like Russia and China over the following three months.(i)

After strong performance in the first half of the year, emerging markets equities had a difficult third quarter. Trade was the biggest driver of this performance. In Q3, the U.S.-China trade war heated up, with the United States slapping an additional 10% tariff on \$300 billion worth of Chinese imports.

The escalation in U.S.-China trade war and concerns of a global growth slowdown in the second half of 2019 rattled investors. This is hardly surprising, since the International Monetary Fund estimated in April that the country's \$14.2 trillion gross domestic product is larger than the euro zone's \$13.6 trillion and is second only to the U.S.' \$21.3 trillion.(ii)

The impact of a slowdown in China cannot be ignored as China accounts for 40% of the gross domestic product of developing economies. Its 1.3 billion population, and an increasingly affluent middle class, have made it a major purchaser of goods and services from other emerging markets. It is also the largest export destination not only for neighboring Asian countries but also for countries such as Brazil and Australia.(iii)

Tensions began to ease late in the Fall, however, after Washington and Beijing agreed on phase one of a deal that would wind down the trade war that had been preoccupying the market for most of 2019. With this prospective agreement came reduced U.S. tariffs on Chinese goods and the cancellation of additional planned tariffs.

At the same time, bipartisan agreement in Congress on the terms for the NAFTA replacement trade deal USMCA in Q4, and a seeming end to Brexit uncertainty after elections in the U.K., led to an increased appetite for riskier assets again late in the year. The MSCI's index ended December with its biggest monthly rise in 11 months, gaining 15.6% in 2019.(iv) Overall, emerging markets equities ended an up-and-down 2019 on a positive note, with the MSCI EM Index up 18.4%.(v)

Sphere FTSE Emerging Markets Sustainable Yield Index ETF

December 31, 2019

PERFORMANCE ATTRIBUTION:

At the end of 2019, the fund held a diversified portfolio of securities across the different regions of the world, with its largest exposure (53%) to the Asia Pacific region. China (29%), followed by Taiwan (14%), were the largest country holdings in the Asia Pacific. South and Central American countries represented the next largest regional exposure (16%), with Brazil the largest country exposure (14.5%). Eastern Europe (12.6%), North America (11%) and Africa and the Middle East (6.4%) were remaining regional exposures of significance. Russia (12.5%) was the largest Eastern European country exposure; the United States (8%) the largest North American exposure; while South Africa was the only country exposure in Africa and the Middle East.

(i) <https://www.forbes.com/sites/kenrapoza/2019/07/03/what-world-slump-55-billion-to-emerging-markets/>

(ii) <https://www.bloomberg.com/opinion/articles/2019-05-29/emerging-markets-can-t-resist-china-slowdown>

(iii) <https://www.bloomberg.com/opinion/articles/2019-05-29/emerging-markets-can-t-resist-china-slowdown>

(iv) <https://www.reuters.com/article/emerging-markets/emerging-markets-stocks-fall-on-last-trading-day-of-2019-fx-gains-as-dollar-weakens-idUSL8N2950XW>

(v) <https://www.bbc.com/news/business-45899310>

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 management fees are calculated based on 0.54% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid quarterly. For the year ended December 31, 2019, the Fund incurred \$117,866 in management fees. These management fees were received by Evolve Funds Group Inc. for the day-to-day operation 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 0.25% 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 \$52,670 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.

Sphere FTSE Emerging Markets Sustainable Yield Index ETF

December 31, 2019

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	December 31, 2016
For the periods ended:	(\$)	(\$)	(\$)	(\$)
Hedged Units - Net Assets per Unit				
Net Assets per Unit, beginning of period	9.38	10.90	9.97	10.00
Increase (decrease) from operations:				
Total revenue	0.50	0.46	0.42	0.09
Total expenses	(0.21)	(0.25)	(0.13)	(0.02)
Realized gains (losses)	(0.70)	(0.52)	0.47	(0.14)
Unrealized gains (losses)	1.15	(1.12)	0.40	0.13
Total increase (decrease) from operations²	0.74	(1.43)	1.16	0.06
Distributions:				
From income (excluding dividends)	-	-	(0.27)	(0.03)
From dividends	(0.26)	(0.25)	-	-
From capital gains	-	-	(0.14)	-
Return of capital	-	(0.05)	(0.01)	-
Total annual distributions³	(0.26)	(0.30)	(0.42)	(0.03)
Net Assets per Unit, end of period	9.77	9.38	10.90	9.97

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2019, 2018, 2017 and 2016. The Hedged ETF Units began operations on September 29, 2016.
- 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.

The Fund's Ratios/Supplemental Data

	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Hedged Units - Ratios/Supplemental Data				
Total Net Asset Value (\$) ⁴	17,583,486	22,522,336	23,986,000	8,973,000
Number of units outstanding ⁴	1,800,000	2,400,000	2,200,000	900,000
Management expense ratio ⁵	0.94%	1.11%	0.88%	0.68%
Management expense ratio before waivers or absorptions ⁵	0.94%	1.12%	1.38%	3.82%
Trading expense ratio ⁶	0.61%	0.77%	0.61%	1.13%
Portfolio turnover rate ⁷	91.04%	156.44%	142.84%	1.13%
Net Asset Value per unit (\$)	9.77	9.38	10.90	9.97
Closing market price (\$)	9.70	9.48	10.96	9.78

- 4 This information is provided as at December 31, 2019, 2018, 2017 and 2016.
- 5 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.
- 6 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.
- 7 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.

Sphere FTSE Emerging Markets Sustainable Yield Index ETF

December 31, 2019

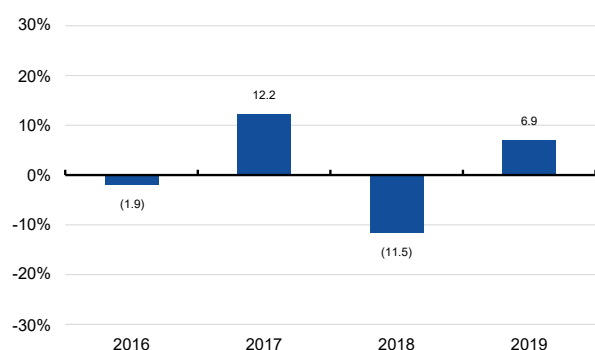
Past Performance

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.

Year-by-Year Returns

The bar chart below shows the Hedged ETF Unit's 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.

SHZ Hedged ETF Units¹



¹ The Hedged ETF Units effectively began operations on September 29, 2016.

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. 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".

	3 Year (%)	1 Year (%)	Since Inception ¹ (%)
Unhedged ETF Units	2.0	6.9	1.7
FTSE Emerging Sustainable Yield 150 10% Capped 100% Hedge CAD Total Return Index	4.6	9.4	4.2

¹ From inception date of September 29, 2016.

Summary of Investment Portfolio

Top 25 Positions

Security	Percentage of Net Asset Value (%)
Vale SA, ADR	7.5
Gazprom PJSC, ADR	7.2
Sberbank of Russia PJSC	6.9
Petroleo Brasileiro SA, ADR	5.8

Sphere FTSE Emerging Markets Sustainable Yield Index ETF

December 31, 2019

Top 25 Positions (cont'd)

Security	Percentage of Net Asset Value (%)
Franklin FTSE Brazil ETF	4.6
CNOOC Limited, ADR	4.4
Franklin FTSE India ETF	3.2
Tatneft PJSC	3.2
Formosa Plastics Corporation	2.7
Standard Bank Group Limited	2.5
China Petroleum & Chemical Corporation, Class 'H'	2.5
Franklin FTSE Saudi Arabia ETF	1.9
PetroChina Company Limited, Class 'H'	1.7
Grupo Mexico SAB de CV	1.6
Hang Seng Investment Index Funds Series - Hang Seng CEI ETF	1.6
CIMB Group Holdings Berhad	1.5
Rosneft Oil Company PJSC	1.4
Anhui Conch Cement Company Limited, Class 'H'	1.4
Yuanta Financial Holding Company Limited	1.3
Taiwan Cement Corporation	1.2
China Shenhua Energy Company Limited	1.2
CITIC Limited	1.1
Nedbank Group Limited	1.0
Telefonica Brasil SA, ADR	1.0
Kasikornbank Public Company Limited	1.0
Total	69.4

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Brazil	14.8
China	16.2
Colombia	0.8
Greece	0.9
Hong Kong	5.9
Indonesia	0.7
Malaysia	2.7
Mexico	4.4
Philippines	1.5
Russia	20.0
South Africa	6.5
Taiwan	10.0
Thailand	2.6
United States	11.4
Derivative Assets	0.8
Derivative Liabilities	(1.2)
Cash and Cash Equivalents	0.3
Other Assets, less Liabilities	1.7
Total	100.0

Sphere FTSE Emerging Markets Sustainable Yield Index ETF

December 31, 2019

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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