



Evolve ETFs

# Evolve Active Canadian Preferred Share Fund

December 31, 2020

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, 40 King Street West, Suite 3404, Toronto, ON, M5H 3Y2 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 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

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Effective August 18, 2020, the risk rating of the Unhedged ETF Units and the Unhedged Class A and F Mutual Fund Units of the Fund was changed from "Low to Medium" to "Medium". 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, 2020, Unhedged ETF Units returned -1.3%. The Unhedged Class A Mutual Fund Units returned -2.2% and the Unhedged Class F Mutual Fund Units returned -0.5%. The Fund's net assets were \$137.0MM as at December 31, 2020.

## Portfolio Manager Commentary

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### MACROECONOMIC HIGHLIGHTS

New year optimism faded during the first quarter of the year amid the growing impact, both human and economic, of the ongoing coronavirus pandemic. Population lockdowns, business shutdowns, and travel restrictions all had a dampening impact on GDP growth. Global trade and industrial supply chains were negatively impacted, weakening global growth prospects in the short to medium term.

Commodity prices turned sharply lower at the end of February amid concerns that the pandemic would lead to weaker demand for raw materials, fuel, and food across the globe. Softer energy markets, slow global growth and a general flight to quality had bond yields heading lower once again. This decline in yields resulted in positive returns for the overall bond market.

The Evolve Active Canadian Preferred Share Fund underperformed the S&P/TSX Preferred Share Index during the first two calendar quarters, primarily due to security and structure selection. Interest rates remained low, particularly the Government of Canada 5-year rate, which is a negative factor for the preferred share market. This headwind was more than offset by credit spreads narrowing in the first half of the year due to optimistic expectations for a full economic recovery from the COVID impact.

The second half of the year was more positive for the Fund, which outperformed the Index in Q3 and outperformed its benchmark in Q4.

The Fund outperformed the Index during the third quarter in part due to being overweight in the Bank sector. The issuance of Limited Recourse Capital Notes (LRCN) by Canadian banks into the bond market proved to be the catalyst needed to boost the preferred share market and the bank preferred shares in particular. The market is now expecting limited preferred supply from the banks and for the overall market to shrink due to these LRCN's. The Index's quarterly sector returns for Perpetuals, Fixed Resets and Floating Rates in Q3 were 8.36%, 12.27%, and 14.12%, respectively.

Outperformance during the fourth quarter was attributable to being overweight in low rate Fixed-Rate Resets, combined with strong sector and security selection. The announcement of viable vaccines and the conclusion of the U.S. election created a positive environment for risk assets, including the preferred share market. The lack of new preferred share supply and several redemptions also contributed to the positive returns. The Index's quarterly sector returns for Perpetuals, Fixed Resets and Floating Rates in Q4 were 2.88%, 8.42%, and 11.72%, respectively.

The lack of supply will continue to be a positive theme in 2021 because of more Limited Recourse Capital Notes (LRCN) being issued by the banks and now also by Life Insurers. In addition, large redemptions are expected in 2021 for Bank Fixed Resets (\$4.7 Billion). We expect interest rates to remain in a low range, which is supportive for the asset class. Investors will be drawn to Preferred Shares for their higher yields and as a hedge against higher rates. We have been adding to Fixed Resets and have reduced our Perpetual overweight. We are overweight in P2's, focusing on issuers with strong credit fundamentals.

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Substantial stimulus by governments and central bankers lessened the economic decline due to the pandemic in 2020 and substantial economic recovery has already taken place. However, the global economy will still require significant time to repair the damage. We are cautious on the outlook for the market, but believe the market is exhibiting good long-term value. Yields are attractive as we expect them to stay low and be range bound. We have been cautiously adding to the Fund's Fixed Reset exposure and reducing its Perpetuals because of their relative valuations. We have significantly reduced the Fund's exposure to Floating Rate preferred shares from where it was in the first quarter of the year. The credit quality of the Fund has also been enhanced with the Fund overweight P3 from its previous overweight position during the first quarter of the calendar year. We are overweight in P2's, focusing on issuers with strong credit fundamentals.

## Recent Developments

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In the year 2020, COVID-19 became a global pandemic and resulted in 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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Evolve Funds Group Inc. (the "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 generally paid monthly in arrears. For the year ended December 31, 2020, the Fund incurred \$1,130,374 in management fees. These management fees were received by the Manager 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](http://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, 2020, the Fund incurred \$265,640 in administration fees. These administration fees were received by the Manager 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 the Fund.

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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 Unit<sup>1</sup>

	December 31, 2020 (\$)	December 31, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
For the periods ended:				
<b>Unhedged ETF Units - Net Assets per Unit</b>				
Net Assets per Unit, beginning of period	16.86	17.87	20.64	20.10
<b>Increase (decrease) from operations:</b>				
Total revenue	0.85	0.94	0.96	0.26
Total expenses	(0.16)	(0.17)	(0.22)	(0.05)
Realized gains (losses)	(4.85)	(1.34)	(0.30)	0.01
Unrealized gains (losses)	2.55	0.22	(5.78)	0.39
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(1.61)</b>	<b>(0.35)</b>	<b>(5.34)</b>	<b>0.61</b>
<b>Distributions:</b>				
From dividends	(0.74)	(0.77)	(0.44)	(0.06)
From capital gains	-	-	-	(0.01)
Return of capital	(0.10)	(0.14)	(0.40)	(0.14)
<b>Total annual distributions<sup>3</sup></b>	<b>(0.84)</b>	<b>(0.91)</b>	<b>(0.84)</b>	<b>(0.21)</b>
<b>Net Assets per Unit, end of period</b>	<b>15.68</b>	<b>16.86</b>	<b>17.87</b>	<b>20.64</b>
<b>Unhedged Class A - Net Assets per Unit</b>				
Net Assets per Unit, beginning of period	19.41	20.00	N/A	N/A
<b>Increase (decrease) from operations:</b>				
Total revenue	0.97	0.77	N/A	N/A
Total expenses	(0.32)	(0.25)	N/A	N/A
Realized gains (losses)	(5.15)	(2.30)	N/A	N/A
Unrealized gains (losses)	4.91	4.63	N/A	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.41</b>	<b>2.85</b>	<b>N/A</b>	<b>N/A</b>
<b>Distributions:</b>				
From dividends	(0.84)	(0.49)	N/A	N/A
Return of capital	-	(0.07)	N/A	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.84)</b>	<b>(0.56)</b>	<b>N/A</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>18.04</b>	<b>19.41</b>	<b>N/A</b>	<b>N/A</b>

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

	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
For the periods ended:	(\$)	(\$)	(\$)	(\$)
<b>Unhedged Class F - Net Assets per Unit</b>				
Net Assets per Unit, beginning of period	20.22	20.00	N/A	N/A
<b>Increase (decrease) from operations:</b>				
Total revenue	1.01	0.76	N/A	N/A
Total expenses	(0.03)	(0.02)	N/A	N/A
Realized gains (losses)	(5.98)	(1.41)	N/A	N/A
Unrealized gains (losses)	4.90	0.89	N/A	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(0.10)</b>	<b>0.22</b>	<b>N/A</b>	<b>N/A</b>
<b>Distributions:</b>				
From dividends	(0.07)	-	N/A	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.07)</b>	<b>-</b>	<b>N/A</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>20.06</b>	<b>20.22</b>	<b>N/A</b>	<b>N/A</b>

- 1 This information is derived from the Fund's audited annual financial statement as at December 31, 2020, 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.

## The Fund's Ratios/Supplemental Data

	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>				
Total Net Asset Value (\$) <sup>4</sup>	136,368,768	209,870,181	226,117,125	6,708,228
Number of units outstanding <sup>4</sup>	8,694,800	12,444,800	12,650,000	325,000
Management expense ratio <sup>5</sup>	0.92%	0.90%	0.90%	0.89%
Trading expense ratio <sup>6</sup>	0.18%	0.13%	0.21%	0.13%
Portfolio turnover rate <sup>7</sup>	60.97%	81.45%	37.33%	12.01%
Net Asset Value per unit (\$)	15.68	16.86	17.87	20.64
Closing market price (\$)	15.63	16.82	17.82	20.68
<b>Unhedged Class A - Ratios/Supplemental Data</b>				
Total Net Asset Value (\$) <sup>4</sup>	615,781	375,544	N/A	N/A
Number of units outstanding <sup>4</sup>	34,136	19,345	N/A	N/A
Management expense ratio <sup>5</sup>	1.78%	1.73%	N/A	N/A
Trading expense ratio <sup>6</sup>	0.18%	0.13%	N/A	N/A
Portfolio turnover rate <sup>7</sup>	60.97%	81.45%	N/A	N/A
Net Asset Value per unit (\$)	18.04	19.41	N/A	N/A

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

For the periods ended:	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
<b>Unhedged Class F - Ratios/Supplemental Data</b>				
Total Net Asset Value (\$) <sup>4</sup>	20	20	N/A	N/A
Number of units outstanding <sup>4</sup>	1	1	N/A	N/A
Management expense ratio <sup>5</sup>	0.00%	0.00%	N/A	N/A
Trading expense ratio <sup>6</sup>	0.18%	0.13%	N/A	N/A
Portfolio turnover rate <sup>7</sup>	60.97%	81.45%	N/A	N/A
Net Asset Value per unit (\$)	20.06	20.22	N/A	N/A

4 This information is provided as at December 31, 2020, 2019, 2018 and 2017.

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.

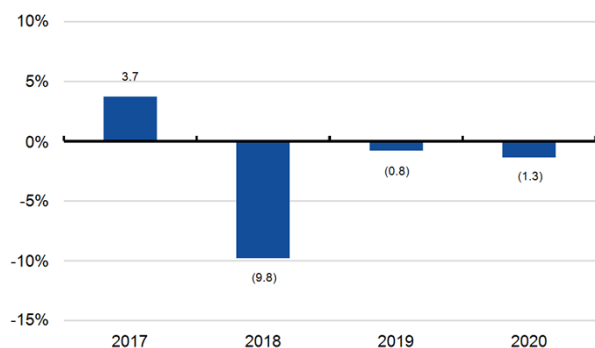
## Past Performance

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.

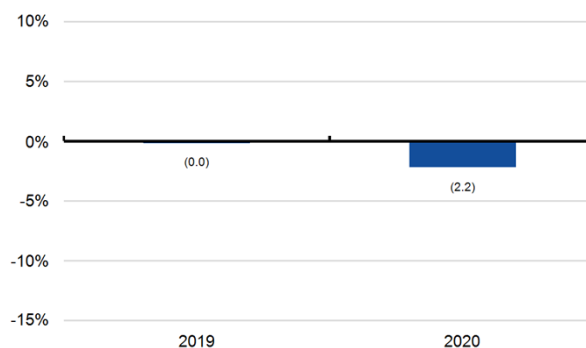
## Year-by-Year Returns

The bar chart below shows the Unhedged ETF Units' and the Unhedged Class A and F Mutual Fund 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.

### DIVS Unhedged ETF Units<sup>1</sup>



### Unhedged Class A Mutual Fund Units<sup>2</sup>



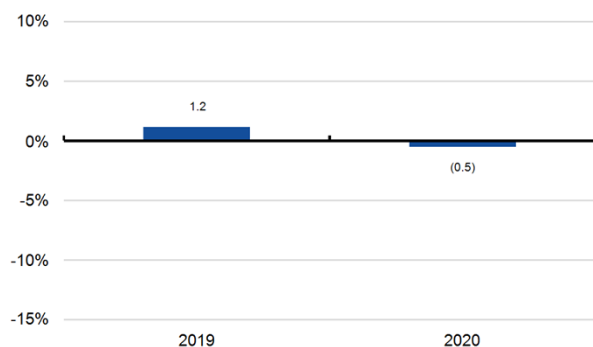
1 The Unhedged ETF Units effectively began operations on September 29, 2017.

2 The Unhedged Class A Mutual Fund Units of the Fund effectively began operations on April 23, 2019.

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## Unhedged Class F Mutual Fund Units<sup>3</sup>



<sup>3</sup> The Unhedged Class F Mutual Fund Units of the Fund effectively began operations on April 23, 2019.

## Annual Compound Return

The table below shows the historical annual compound total return of the Unhedged ETF Units and the Unhedged Class A and F Mutual Fund Units. The returns are for period ended December 31, 2020. 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 <sup>1</sup> (%)	3 Year (%)	1 Year (%)
Unhedged ETF Units	(2.7)	(9.8)	(1.3)
S&P/TSX Preferred Share Index	1.3	(7.9)	6.2
Unhedged Class A Mutual Fund Units	(1.3)	N/A	(2.2)
S&P/TSX Preferred Share Index	4.9	N/A	6.2
Unhedged Class F Mutual Fund Units	0.2	N/A	(0.5)
S&P/TSX Preferred Share Index	4.9	N/A	6.2

<sup>1</sup> From inception date of September 29, 2017 for the Unhedged ETF Units and from inception date of April 23, 2019 for the Unhedged Class A and F Mutual Fund Units.

## Summary of Investment Portfolio

### Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
Enbridge Inc., Preferred, Series 'D'	4.2
Canadian Imperial Bank of Commerce, Preferred, Series '47'	3.9
Royal Bank of Canada, Preferred, Series 'BK'	3.9
Power Corporation of Canada, Preferred, Series 'G'	3.6
The Toronto-Dominion Bank, Preferred, 3.80% Series '3'	3.5
Bank of Montreal, Preferred, Series '31'	3.2
The Toronto-Dominion Bank, Preferred, Series '5'	3.2
Bank of Montreal, Preferred, 3.900%, Series '29'	2.9
Manulife Financial Corporation, Preferred, Series '11'	2.7

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## Top 25 Positions (cont'd)

Security	Percentage of Net Asset Value (%)
Royal Bank of Canada, Preferred, 4.00% Series 'AZ'	2.6
Canadian Imperial Bank of Commerce, Preferred, Series '45'	2.5
Royal Bank of Canada, Preferred, Series 'BB'	2.5
Pembina Pipeline Corporation, Preferred, Series '15'	2.4
Power Financial Corporation, Preferred, Series 'V'	2.4
Manulife Financial Corporation, Preferred, Series '17'	2.3
The Toronto-Dominion Bank, Preferred, Series '14'	2.2
Sun Life Financial Inc., Preferred, 4.75% Series '1'	2.2
Brookfield Office Properties Inc., Preferred, 4.85% Series 'II'	2.2
Manulife Financial Corporation, Preferred, Series '9'	2.1
The Toronto-Dominion Bank, Preferred, Series '18'	2.1
TC Energy Corporation, Preferred, Series '9'	2.0
TC Energy Corporation, Preferred, Series '7'	2.0
Enbridge Inc., Preferred, Series '7'	1.9
AltaGas Limited, Preferred, Series 'E'	1.9
Enbridge Inc., Preferred, Series '3'	1.8
<b>Total</b>	<b>66.2</b>

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Communication Services	1.0
Energy	18.1
ETFs - Domestic Equity	0.1
Financials	68.0
Real Estate	3.7
Utilities	8.3
Cash and Cash Equivalents	1.1
Other Assets, less Liabilities	(0.3)
<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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