



Evolve ETFs

# Evolve Dividend Stability Preferred Share Index ETF

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.

# Evolve Dividend Stability Preferred Share Index ETF

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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 (the "Benchmark"), 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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For the year ended December 31, 2020, the Unhedged ETF Units returned 3.2% versus the Solactive Dividend Stability Canada Preferred Share Index PR return of -1.1%. The difference in performance of the unhedged units relative to its benchmark can be attributed primarily to management fees plus applicable sales taxes and to portfolio trading strategies. The Fund's net assets were \$34.7MM as at December 31, 2020.

## Portfolio Manager Commentary

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### MACROECONOMIC HIGHLIGHTS

Canadian preferred shares underperformed all major asset classes during the first half of the year, led by floating rate and fixed reset preferreds with low resets which experienced a sharp sell-off.

During the first quarter, preferreds did not escape market volatility triggered by the coronavirus, and were further impacted by central banks around the world cutting interest rates to record lows in their quest to stimulate their economies which had slowed to a crawl.

The Bank of Canada cut interest rate three times in the month of March alone, with rates declining dramatically, from 1.75% to 0.25%, where they would remain for the remainder of 2020.

As a result, interest rates came under substantial pressure with global yields courting negative territory on the back of an uncertain global economic outlook. Fixed reset preferreds which make up almost three-quarters of the Canadian preferred market were the most affected by low yields.

In the second quarter, preferreds regained some ground on the back of tightening credit spreads and stabilizing fund flows, albeit in a continuing low rate environment. Credit spreads tightened in June in the wake of government and central bank stimulus.

The Fund outperformed its peers because it has no exposure to floating rate preferreds, and the portfolio has a higher allocation to P1 credit quality which has proven to be more resilient during market sell offs. In addition, all rate reset preferreds held by the Fund have a minimum floor built in.

Canadian preferred share prices rallied through the summer with a Q3 total return of 11.4%, compared to the S&P/TSX at 4.7% and FTSE Canada Bond Universe at 0.4% over the same period.

Canadian preferred shares ended 2020 with a rally of 2.42% for December driven primarily by tightening credit spreads. This brought the 2020 annual return for Canadian preferred shares to 6.16%.

## 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.

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## Related Party Transactions

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 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 generally paid monthly. For the year ended December 31, 2020, the Fund incurred \$155,970 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 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 \$56,026 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.

## 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 (\$)
For the periods ended:		
<b>Unhedged ETF Units - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period	25.38	25.02
<b>Increase (decrease) from operations:</b>		
Total revenue	1.25	0.34
Total expenses	(0.18)	(0.07)
Realized gains (losses)	(0.06)	0.01
Unrealized gains (losses)	0.65	0.39
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>1.66</b>	<b>0.67</b>
<b>Distributions:</b>		
From dividends	(0.99)	(0.12)
Return of capital	(0.15)	(0.17)
<b>Total annual distributions<sup>3</sup></b>	<b>(1.14)</b>	<b>(0.29)</b>
<b>Net Assets per Unit, end of period</b>	<b>24.97</b>	<b>25.38</b>

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2020 and 2019. The Fund began operations on September 26, 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.

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## The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2020	December 31, 2019
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>4</sup>	34,658,310	29,944,328
Number of units outstanding <sup>4</sup>	1,388,044	1,180,000
Management expense ratio <sup>5</sup>	0.64%	0.67%
Trading expense ratio <sup>6</sup>	0.09%	0.31%
Portfolio turnover rate <sup>7</sup>	80.14%	11.28%
Net Asset Value per unit (\$)	24.97	25.38
Closing market price (\$)	24.97	25.38

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

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.

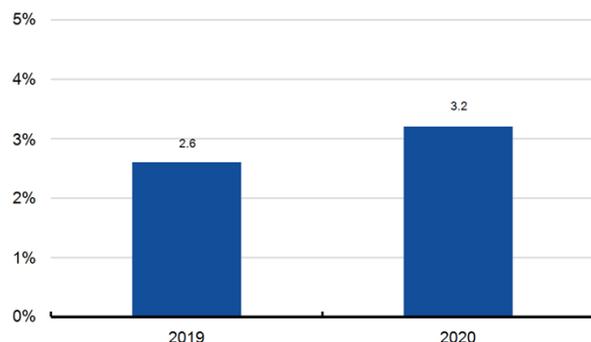
## Past Performance

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' 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.

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



1 The Unhedged ETF Units of the Fund effectively began operations on September 26, 2019.

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## Annual Compound Return

The table below shows the historical annual compound total return of the Unhedged ETF Units. The returns are for period ended December 31, 2020. 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 (%)
Unhedged ETF Units	4.6	3.2
Solactive Dividend Stability Canada Preferred Share Index PR	0.4	(1.1)

1 From inception date of September 26, 2019.

## Summary of Investment Portfolio

### Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
TC Energy Corporation, Preferred, Series '15', Perpetual	8.7
Enbridge Inc., Preferred, Series '17', Perpetual	6.4
TC Energy Corporation, Preferred, Series '13', Perpetual	4.5
Sun Life Financial Inc., Preferred, Series '1'	3.4
The Manulife Financial Corporation, Preferred, Series '2'	2.9
Sun Life Financial Inc., Preferred, Series '2'	2.8
Emera Inc., Preferred, Series 'H', Perpetual	2.7
Brookfield Asset Management Inc., Preferred, Series '46', Perpetual	2.7
Westcoast Energy Inc., Preferred, Series '12'	2.7
Brookfield Asset Management Inc., Preferred, Series '48', Perpetual	2.7
Great-West Lifeco Inc., Preferred, Series 'G', Perpetual	2.6
Great-West Lifeco Inc., Preferred, Series 'H', Perpetual	2.6
Canadian Utilities Limited, Preferred, Series 'FF', Perpetual	2.3
Power Financial Corporation, Preferred, Series 'V', Perpetual	2.2
Power Financial Corporation, Preferred, Series 'R', Perpetual	2.2
Great-West Lifeco Inc., Preferred, Series 'P', Perpetual	2.2
Pembina Pipeline Corporation, Preferred, Series '13', Perpetual	2.2
Brookfield Infrastructure Partners Limited Partnership, Preferred, Series '5', Perpetual	2.2
Power Corporation of Canada, Preferred, Series 'D', Perpetual	2.2
Brookfield Asset Management Inc., Preferred, Series '44', Perpetual	2.2
George Weston Limited, Preferred, Series 'I', Perpetual	2.1
Power Financial Corporation, Preferred, Series 'I', Perpetual	1.8
Brookfield Renewable Partners Limited Partnership, Preferred, Series '9', Perpetual	1.8
Power Corporation of Canada, Preferred, Series 'G', Perpetual	1.8
Power Financial Corporation, Preferred, Series 'E', Perpetual	1.8
<b>Total</b>	<b>71.7</b>

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## Industry Allocation

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Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Consumer Staples	5.6
Energy	24.4
Financials	48.1
Utilities	19.5
Cash and Cash Equivalents	2.7
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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