



Evolve ETFs

# Bitcoin ETF

June 30, 2021

Interim Management Report of Fund Performance

This interim management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the investment fund. You can get a copy of the interim 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 Bitcoin 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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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 effectively began operations on February 17, 2021, no performance data can be shown. The Fund's net assets were \$59.5MM as at June 30, 2021.

## Portfolio Manager Commentary

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A report from Citi Global Perspectives and Solutions (GPS), the bank's "thought leadership" arm, says that Bitcoin is at the "tipping point of its existence" thanks to large institutional investment and growing regulation. The report speculates that Bitcoin could "become the currency of choice for international trade," thanks to its "decentralized design, lack of foreign exchange exposure, fast (and potentially cheaper) money movements, secure payment channels, and traceability."(i)

And in another sign of cryptocurrency's growing mainstream presence, Google Finance now includes a dedicated "crypto" field at the top of the page. Where users are given the option to "compare markets," crypto is listed alongside default markets like the US, Europe, Asia, and "Currencies." For now, Google Finance tracks Bitcoin, Ethereum, Litecoin, and Bitcoin cash.(ii)

In March, Tesla CEO Elon Musk announced via tweet that the electric vehicle manufacturer would accept Bitcoin as payment to buy their cars. Tesla appears to be investing heavily in Bitcoin as part of its operations, having purchased \$1.5 billion US of the digital currency earlier this year.(iii)

This initiative was short lived, however, as Musk once again roiled the cryptocurrency world in May by announcing a halt to purchases of vehicles with Bitcoin. The about-face came over concerns about the "rapidly increasing use of fossil fuels for Bitcoin mining."

Tesla won't be selling the \$2.5 billion worth of Bitcoin it currently holds and is open to resuming Bitcoin-based purchases once Bitcoin's mining "transitions to more sustainable energy."(iv) Musk pegged this at ~50% of mining-related energy needs filled by clean, renewable sources. He also announced that Tesla would be looking into using other more energy-friendly cryptocurrencies.(v)

In an interview with crypto-journalist Laura Shin, Miami Mayor Francis Suarez pitched the idea of his city becoming a "clean energy" Bitcoin mining hub. He suggested that Miami's access to nuclear power, "a clean energy supply that's essentially unlimited," would help alleviate some of the environmental concerns about Bitcoin mining done overseas that relies on fossil fuel power sources. Mayor Suarez also proposed that residents be able to pay for services in Bitcoin and that city employees be given the option of getting paid in the virtual coin. The city's commissioners voted to study the use of crypto before proceeding.(vi)

The MIT Media Lab's Digital Currency Initiative (DCI) has raised \$4 million from prominent backers for a multi-year Bitcoin research and development program. The DCI has made the long-term health of the Bitcoin protocol its primary focus. Notable backers of the initiative include CoinShares' Meltem Demirors, Twitter's Jack Dorsey and MicroStrategy's Michael Saylor, and Fidelity Digital Assets. The four-year program envisioned by the DCI includes Bitcoin Core development and the study of long-standing questions about Bitcoin's core attributes, such as the stability of the network (which has only gone down twice in 12 years).(vii)

In testimony before the US House Financial Services Committee, new Securities and Exchange Commission (SEC) Chairman Gary Gensler suggested Congress could grant a federal regulatory oversight authority over cryptocurrency. Gensler said that regulation of crypto exchanges would help protect cryptocurrency investors given that, as of now, the SEC has limited jurisdiction in the crypto space.

Gensler made no specific suggestions for what kind of regulatory regime he might propose for greater oversight by either the SEC or its sister agency, the Commodity Futures Trading Commission (CFTC). However, what is clear is that Gensler is particularly concerned with preventing possible fraud or manipulation around the cryptocurrency markets.(viii)

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Online payments company PayPal made several cryptocurrency announcements in the first half of the year.

PayPal, which last year added the ability for users to buy, hold and sell cryptocurrency, announced they will now allow customers who hold Bitcoin or other digital currencies to convert their holdings into fiat currencies at checkouts to make purchases. The crypto payments will work the same as a credit card or a debit card currently works inside a PayPal wallet. By pushing cryptocurrency as a payment method to its 29 million+ online merchants, PayPal makes itself one of the largest mainstream financial companies to open its network to cryptocurrencies.(ix)

PayPal will also allow users to withdraw cryptocurrency held in PayPal accounts off-platform and into third-party wallets. Previously, customers have been prevented from moving their digital coins out of the PayPal system.(x)

The Chinese government ordered a crackdown on Bitcoin mining in May and ordered banks and payment firms, like China Construction Bank and Alipay, to prevent cryptocurrency trading and purchases on their platforms.(xi) To date, while China has banned crypto exchanges and initial coin offerings it has not barred its citizens from holding cryptocurrencies.(xii)

According to estimates, China accounts for between 50% and 70% of the world's crypto mining, and the crackdown on mining had significant impacts on global crypto markets. Trading volumes on major cryptocurrency exchanges fell by more than 40% in June because of the Chinese ban and lower volatility overall.(xiii)

## Performance Attribution

EBIT provides investors with exposure to the daily price movements of the U.S. dollar price of Bitcoin while experiencing minimal tracking error by utilizing the benefits of the creation and redemption processes offered by the exchange-traded fund structure. EBIT offers investors exposure to Bitcoin by investing directly in Bitcoin, with EBIT's holdings of Bitcoin priced based on the CME CF Bitcoin Reference Rate, a once-a-day benchmark index price for Bitcoin denominated in U.S. dollars.

(i) <https://www.coindesk.com/citi-Bitcoin-at-tipping-point-as-institutions-come-on-board>

(ii) <https://www.coindesk.com/google-finance-adds-crypto-data-tab>

(iii) <https://www.bbc.com/news/technology-56508568>

(iv) <https://www.cnbc.com/2021/05/13/why-elon-musk-is-worried-about-Bitcoin-environmental-impact.html>

(v) <https://www.reuters.com/business/finance/Bitcoin-jumps-after-musk-says-tesla-could-use-it-again-2021-06-14/>

(vi) <https://www.coindesk.com/miami-mayor-wants-city-to-become-Bitcoin-mining-hub>

(vii) <https://www.coindesk.com/mits-digital-currency-initiative-Bitcoin>

(viii) <https://www.coindesk.com/sec-chair-gary-gensler-recommends-congress-regulate-crypto-exchanges>

(ix) <https://www.reuters.com/article/us-crypto-currency-paypal-exclusive/exclusive-paypal-launches-crypto-checkout-service-idUSKBN2BM10N>

(x) <https://www.reuters.com/technology/paypal-allow-users-withdraw-cryptocurrency-third-party-wallets-2021-05-26/>

(xi) <https://www.reuters.com/technology/chinas-central-bank-urges-financial-institutions-crack-down-cryptocurrencies-2021-06-21/>

(xii) <https://www.reuters.com/technology/china-says-it-will-crack-down-bitcoin-mining-trading-activities-2021-05-21/>

(xiii) <https://www.reuters.com/business/cryptocurrency-trading-volumes-slump-40-june-data-shows-2021-07-12/>

## 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 0.75% per annum of the average daily net asset value of the Fund. The fees are accrued daily and generally paid monthly. For the six-month period ended June 30, 2021, the Fund incurred \$192,616 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.

## Operating Expenses

Unless waived or reimbursed by the Manager, the Fund pays for all operating expenses of the Fund incurred in connection with the operation and administration of the Evolve Fund, including but not limited to: mailing and printing expenses for periodic reports to Unitholders; fees payable to the 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 (if applicable) and CDS fees; banking costs and interest with respect to any borrowing (if applicable); website maintenance costs; 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, bitcoin consultant (if any), CF Benchmarks (in respect of index licensing and/or consulting fees, if any) Custodian and Manager which are incurred in respect of matters not in the normal course of the Fund's activities. Additional costs which are also payable by the Fund include any taxes payable by Fund to which the Fund may be subject, including income taxes, sales taxes (including GST/HST) and/or withholding taxes; expenditures incurred upon termination of the Fund; extraordinary expenses that the Fund may incur and all amounts paid on account of any indebtedness (if applicable); any expenses of insurance and costs of all suits or legal proceedings in connection with the Fund or the assets of the Fund or to protect the unitholders, the Trustee, the Manager, and the directors, officers, employees or agents of any of them; any expenses of indemnification of the Trustee, the Unitholders, the Manager, and the directors, officers, employees or agents of any of them to the extent permitted under the Declaration of Trust; and expenses relating to the preparation, printing and mailing of information to unitholders in connection with meetings of unitholders. The Fund is also responsible for all commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time, including brokerage and trading commissions and other fees and expenses associated with the execution of transactions in respect of the Fund's investment in bitcoin.

## 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>

	June 30, 2021 (\$)
For the period ended:	
<b>Unhedged ETF Units - Net Assets per Unit<sup>4</sup></b>	
Net Assets per Unit, beginning of period <sup>2</sup>	20.00
<b>Increase (decrease) from operations:</b>	
Total expenses	(0.13)
Realized gains (losses)	(0.22)
Unrealized gains (losses)	(7.82)
<b>Total increase (decrease) from operations<sup>3</sup></b>	(8.17)
<b>Net Assets per Unit, end of period</b>	13.28

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

	June 30, 2021 (\$)
For the period ended:	
<b>US Dollar Unhedged ETF Units - Net Assets per Unit</b>	
Net Assets per Unit, beginning of period <sup>2</sup>	20.00
<b>Increase (decrease) from operations:</b>	
Total expenses	(0.13)
Realized gains (losses)	(0.17)
Unrealized gains (losses)	(8.61)
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>(8.91)</b>
<b>Net Assets per Unit, end of period</b>	<b>13.27</b>

1 This information is derived from the Fund's unaudited interim financial statements as at June 30, 2021. The Fund began operations on February 17, 2021.

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 Per unit figures are stated in USD equivalent.

## The Fund's Ratios/Supplemental Data

	June 30, 2021
For the period ended:	
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>5</sup>	47,726,049
Number of units outstanding <sup>5</sup>	3,595,001
Management expense ratio <sup>6</sup>	1.46%
Trading expense ratio <sup>7</sup>	0.47%
Portfolio turnover rate <sup>8</sup>	15.29%
Net Asset Value per unit (\$)	13.28
Closing market price (\$)	13.32
<b>US Dollar Unhedged ETF Units - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>5</sup>	11,800,421
Number of units outstanding <sup>5</sup>	889,001
Management expense ratio <sup>6</sup>	1.46%
Trading expense ratio <sup>7</sup>	0.47%
Portfolio turnover rate <sup>8</sup>	15.29%
Net Asset Value per unit (\$)	13.27
Closing market price (\$)	13.37

5 This information is provided as at June 30, 2021.

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 February 12, 2021, providing performance data for the period is not permitted.

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## Summary of Investment Portfolio

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### Top 25 Positions or all Positions

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	Percentage of Net Asset Value (%)
Security	
Bitcoin	100.0
<b>Total</b>	<b>100.0</b>

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### Industry Allocation

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Portfolio by Category	Percentage of Net Asset Value (%)
<b>Digital Assets</b>	
Bitcoin	100.0
Cash and Cash Equivalents	0.3
Other Assets, less Liabilities	(0.3)
<b>Total</b>	<b>100.0</b>

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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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