

# Evolve Cryptocurrencies ETF

December 31, 2022

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 Cryptocurrencies ETF's (the "Fund") investment objective is to provide unitholders with exposure to the daily price movements of certain digital assets selected by the Manager from time to time, on a market capitalization basis, while experiencing minimal tracking error by investing in other publicly offered investment funds managed by the Manager.

## 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, 2022, the Unhedged ETF Units returned -63.5%. The US Dollar Unhedged ETF Units returned -65.9%. The Fund's net assets were \$14.2MM as at December 31, 2022.

## Portfolio Manager Commentary

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The year of 2022 was defined by widespread cryptocurrency adoption by governmental bodies and corporations alike. In January, Rio de Janeiro, Brazil's second-most populous city, announced plans to allocate 1% of the city's treasury reserves to cryptocurrencies.<sup>1</sup> In the same month, Intel announced it would release a new "ultra-low-voltage" Bitcoin mining chip, which would reduce the energy consumption required to mine the cryptocurrency in an exciting development for the network.<sup>2</sup> Then, in February, KPMG Canada announced that it would add Bitcoin and Ethereum to its corporate balance sheet, becoming one of the highest profile firms to invest in cryptocurrencies.<sup>3</sup> That announcement was followed by one made by State Street Corporation, the largest custodial service provider in the world, in which the firm announced they had plans to launch custodial services for bitcoin and other cryptocurrencies.<sup>4</sup> Then in April, the Central African Republic declared Bitcoin as an official currency, becoming the second nation after El Salvador to accept the cryptocurrency as legal tender.<sup>5</sup> Later in August, Coinbase, the world's second largest cryptocurrency exchange platform, and BlackRock, the world's largest asset manager, announced a partnership to help institutional investors manage and trade Bitcoin.<sup>6</sup> The last notable announcement came in October, when America's Oldest Bank, BNY Mellon, announced it will offer cryptocurrency custodial services.<sup>7</sup>

On September 15th, Ethereum's transition from proof-of-work (PoW) to proof-of-stake (PoS) consensus, otherwise known as "The Merge", was successfully completed. The highly anticipated technical upgrade significantly reduces the amount of energy used by the network and provides the framework for Ethereum to lower its fees and massively expand its user base. The Merge did result in a fork, known as ETHW, as Proof of Work miners continued to run their mining infrastructure to mine the token on the Proof of Work system. However, most of the Ethereum community has rejected the legitimacy of the alternate blockchain, and whether the chain has any material value is not necessarily certain.<sup>8</sup> The next steps of the Ethereum upgrade will be The Surge, The Verge, The Purge, and The Splurge. After all the upgrades have been deployed, the new Ethereum blockchain, known as Ethereum 2.0, is expected to be more scalable, secure, and sustainable, while still being decentralized.<sup>9</sup>

During the year, the cryptocurrency market also faced several considerable challenges such as the collapse of Stablecoin Terra USD and LUNA, Celsius, Voyager Digital, and FTX. In May, the collapse of algorithmic stablecoin TerraUSD (UST) and its sister coin that backed it, Terra (LUNA) resulted in \$40 billion in investor losses and created somewhat of a domino effect throughout the cryptocurrency industry. This collapse damaged consumer confidence in the cryptocurrency market, accelerating the onset of a "crypto winter" and an industry-wide sell-off that spurred a bank run-style series of withdrawals by Celsius users. Then, in June, Celsius posted a memo informing users that it had frozen their assets, then filed for bankruptcy shortly thereafter in July. Voyager Digital, a crypto brokerage service, also filed for bankruptcy in July. Prior to this filing, it has also paused customer withdrawals.<sup>10</sup> Finally, and perhaps most notably, in November, cryptocurrency exchange FTX and its sister trading firm Alameda Research, filed for bankruptcy on November 11th on concerns about improper use of client funds that led to a run-on deposits, creating an estimate \$8 billion liquidity shortfall.<sup>11</sup>

Subsequently, investment banks and surviving cryptocurrency firms announced plans to acquire devalued cryptocurrency companies. In December, Goldman Sachs, revealed plans to spend tens of millions of dollars to buy or invest in cryptocurrency companies while valuations are down, and investor interest is dampened. As of December 6th, Goldman has invested in 11 digital asset companies that provide services such as compliance, cryptocurrency data and blockchain management, and continues to see cryptocurrency companies as a viable investment opportunity.<sup>12</sup> Later in the month, Binance.US announced that it would acquire bankrupt Voyager Digital's assets for \$1 billion.<sup>13</sup> In fact, the cryptocurrency exchange outlined plans to continue to explore more acquisition opportunities in an effort to add new assets, users, and capabilities to their platform.<sup>14</sup>

(1) <https://www.coindesk.com/video/rio-de-janeiro-to-allocate-1-of-treasury-reserves-to-crypto#:~:text=The%20mayor%20of%20Rio%20de,city's%20treasury%20reserves%20to%20cryptocurrencies>

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- (2) <https://decrypt.co/90643/intel-energy-efficient-bitcoin-mining-chip>
- (3) <https://www.bloomberg.com/news/articles/2022-02-07/kpmg-canada-adds-bitcoin-ethereum-to-corporate-balance-sheet?leadSource=uverify%20wall>
- (4) <https://bitcoinmagazine.com.cdn.ampproject.org/c/s/bitcoinmagazine.com/.amp/business/state-street-corporation-to-offer-custodial-services-for-bitcoin-and-crypto>
- (5) <https://www.bloomberg.com/news/articles/2022-04-28/bitcoin-is-declared-a-legal-currency-in-central-african-republic-12isppnb?leadSource=uverify%20wall>
- (6) <https://www.bloomberg.com/news/articles/2022-08-04/coinbase-s-blackrock-pact-reinforces-crypto-status-burns-shorts?srnd=technology-vp&leadSource=uverify%20wall>
- (7) <https://www.wsj.com/articles/americas-oldest-bank-bny-mellon-will-hold-that-crypto-now-11665460354>
- (8) <https://time.com/6213329/ethereum-merge-done/>
- (9) <https://academy.binance.com/en/articles/the-merge-ethereum-upgrade-all-you-need-to-know>
- (10) <https://www.nerdwallet.com/article/investing/crypto-winter#:~:text=Now%2C%20multiple%20crypto%2Drelated%20companies,known%20as%20%22crypto%20winter.%22>
- (11) <https://www.bloomberg.com/news/articles/2022-11-10/sam-bankman-fried-s-ftx-faces-8-billion-shortfall-possible-bankruptcy>
- (12) <https://www.reuters.com/technology/goldman-sachs-hunt-bargain-crypto-firms-after-ftx-fiasco-2022-12-06/>
- (13) <https://www.cNBC.com/2022/12/19/binance-to-acquire-voyager-assets-weeks-after-ftx-deal-fell-through-bankruptcy.html>
- (14) <https://www.bloomberg.com/news/articles/2022-12-19/binance-us-explores-buying-other-distressed-assets-after-voyager?srnd=markets-vp&leadSource=uverify%20wall>

## Recent Developments

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### COVID-19 Pandemic

In the year ended December 31, 2022, the COVID-19 pandemic persisted and continued to result 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 are unknown at this time and as such, the financial impact to investments cannot be estimated.

### Underlying Funds Appoint Coinbase as Sub-Custodian

Subsequent to December 31, 2022, the Fund's underlying funds announced the appointment of Coinbase Custody Trust Company, LCC as Sub-Custodian for all digital assets, effective February 22, 2023. The digital assets of the underlying funds were transferred to Coinbase Custody Trust Company, LLC, over the period from February 22, 2023 to March 10, 2023. No changes have been made to the investment objectives or strategies of the Fund or the underlying funds as a result of the Sub-Custodian appointment.

### Related Party Transactions

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For the year ended December 31, 2022, the Fund invested in the Bitcoin ETF and Ether ETF (the "Underlying Funds"), each of which is an investment fund managed by Evolve Funds Group Inc. (the "Manager"). 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 directly payable to the Manager by the Fund are nil. However, the Underlying Funds held by the Fund pays management fees.

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## Underlying Fund Management Fees

The Underlying Funds currently pay management fees calculated based on 0.75% per annum of the average daily net asset value of the Underlying Funds. The fees are accrued daily and generally paid monthly. These management fees were received by the Manager for the day-to-day operations of the Underlying Funds, including managing the portfolio, maintaining portfolio systems used to manage the Underlying Funds, maintaining the www.evolveetfs.com website, and providing all other services including marketing and promotion.

## Operating Expenses

The Manager pays for all operating expenses incurred by the Fund, other than the following fund costs: taxes payable by the 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, any of the Sub-Advisors 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.

## Underlying Fund Operating Expenses

The Fund indirectly bears the operating expenses that are borne by each of the underlying funds incurred in connection with their operation, administration and related portfolio transactions, 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; 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 auditor and legal advisors; 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, consultants (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.

## 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, 2022 (\$)	December 31, 2021 (\$)
For the periods ended:		
<b>Unhedged ETF Units - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period <sup>2</sup>	11.12	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.01	-
Realized gains (losses)	(1.86)	0.23
Unrealized gains (losses)	(5.00)	(3.11)
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>(6.85)</b>	<b>(2.88)</b>
<b>Net Assets per Unit, end of period</b>	<b>4.06</b>	<b>11.12</b>

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

	December 31, 2022	December 31, 2021
	(\$)	(\$)
For the periods ended:		
<b>US Dollar Unhedged ETF Units - Net Assets per Unit<sup>4</sup></b>		
Net Assets per Unit, beginning of period <sup>2</sup>	14.03	12.66
<b>Increase (decrease) from operations:</b>		
Realized gains (losses)	(2.01)	0.42
Unrealized gains (losses)	(8.18)	(1.62)
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>(10.19)</b>	<b>(1.20)</b>
<b>Net Assets per Unit, end of period</b>	<b>5.12</b>	<b>14.03</b>

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2022 and 2021. The Unhedged ETF Units and US Dollar Unhedged ETF Units effectively began operations on September 24, 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 CAD equivalent.

## The Fund's Ratios/Supplemental Data

	December 31, 2022	December 31, 2021
For the periods ended:		
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>5</sup>	13,483,326	30,500,213
Number of units outstanding <sup>5</sup>	3,323,700	2,743,800
Management expense ratio excluding proportion of expenses from underlying investment funds <sup>6</sup>	0.00%	0.00%
Management expense ratio <sup>6,9</sup>	1.71%	1.17%
Trading expense ratio <sup>7</sup>	0.05%	0.03%
Portfolio turnover rate <sup>8</sup>	23.71%	66.14%
Net Asset Value per unit (\$)	4.06	11.12
Closing market price (\$)	4.05	11.11
<b>US Dollar Unhedged ETF Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>5</sup>	718,287	3,128,387
Number of units outstanding <sup>5</sup>	140,300	223,000
Management expense ratio excluding proportion of expenses from underlying investment funds <sup>6</sup>	0.00%	0.00%
Management expense ratio <sup>6,9</sup>	1.70%	1.21%
Trading expense ratio <sup>7</sup>	0.05%	0.03%
Portfolio turnover rate <sup>8</sup>	23.71%	66.14%
Net Asset Value per unit (\$)	5.12	14.03
Closing market price (\$)	5.10	14.05

- 5 This information is provided as at December 31, 2022 and 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.
- 9 The Fund's MER includes an estimated proportion of the MER for any underlying investment funds held in the Fund's portfolio during the year.

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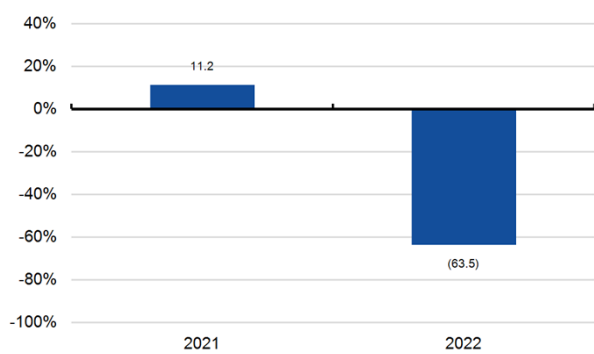
## Past Performance

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.

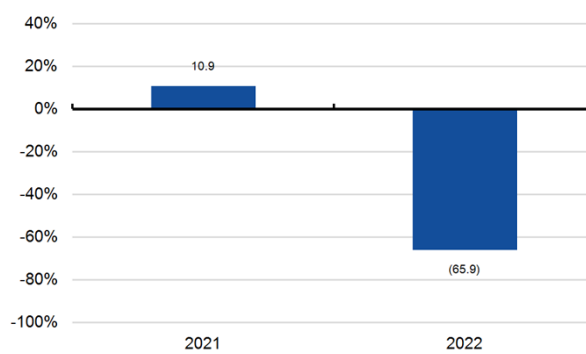
## Year-by-Year Returns

The bar chart below shows the Unhedged and US Dollar Unhedged ETF Units' performance for each of the financial years shown. The chart shows, in percentage terms, how much an investment made in the Fund on the first day of each financial year would have grown or decreased by the last day of each financial year.

ETC Unhedged ETF Units<sup>1</sup>



ETC/U US Dollar Unhedged ETF Units<sup>2</sup>



1 The Unhedged ETF Units of the Fund effectively began operations on September 24, 2021.

2 The US Dollar Unhedged ETF Units of the Fund effectively began operations on September 24, 2021. Returns presented based on NAV equivalent in USD.

## Annual Compound Return

The table below shows the historical annual compound total return of the Unhedged and US Dollar Unhedged ETF Units'. The returns are for period ended December 31, 2022. As a basis of comparison, we have provided the performance of an equally weighted monthly rebalanced portfolio of the CME CF Bitcoin Reference Rate and the CME CF Ether-Dollar Reference Rate ("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> (%)	1 Year (%)
Unhedged ETF Units	(50.9)	(63.5)
50%: BRR, 50%: ETHUSD_RR	(58.9)	(66.3)
US Dollar Unhedged ETF Units	(53.6)	(65.9)
50%: BRR, 50%: ETHUSD_RR	(58.9)	(66.3)

1 From inception date of September 24, 2021 for the Unhedged and US Dollar Unhedged ETF Units.

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## Summary of Investment Portfolio

### All Positions

	Percentage of Net Asset Value (%)
Security	
Bitcoin ETF	68.8
Ether ETF	31.1
<b>Total</b>	<b>99.9</b>

### Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
ETFs - Digital Assets	99.9
Cash and Cash Equivalents	0.1
Other Assets, less Liabilities	(0.0)
<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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