

Evolve European Banks Enhanced Yield 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 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.

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Investment Objective and Strategies

The Evolve European Banks Enhanced Yield ETF (the "Fund") seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the Solactive European Bank Top 20 Equal Weight Index Canadian Dollar Hedged, or any successor thereto, while mitigating downside risk. The Fund invests primarily in the equity constituents of the Solactive European Bank Top 20 Equal Weight Index Canadian Dollar Hedged, or any successor thereto, while writing covered call options on up to 33% of the portfolio securities, at the discretion of the Manager. The level of covered call option writing may vary based on market volatility and other factors.

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

Since the Fund effectively began operations on January 7, 2022, no performance data can be shown. The Fund's net assets were \$19.6MM as at December 31, 2022.

Portfolio Manager Commentary

After nearly a decade of negative interest rates, the European Central Bank (ECB) raised rates by 0.50% to 0.00% on July 27th, 2022. The ECB followed the rate announcement with a 0.75% rate hike in September, another 0.75% rate hike in November, and a 0.50% hike in December.¹ In fact, Europe ended 2022 with interest rates at 2.00%, their highest level since December 2008, marking the end a painful decade that Europe's lenders have endured waiting for interest rates to rise. Bank profits are usually positively correlated with higher interest rates because the net margins on their loan book increases. However, this has not necessarily been reflected in the share prices of European Banks. This is because just as central banks finally start to move interest rates into positive territory, the long-awaited earnings windfall is being threatened by a looming recession, high inflation rates, and fears that cash-strapped European governments might hit lenders with new taxes. The parallel dynamics of beneficial rate hikes and the challenging macroeconomic environment have split opinions on how Europe's banks will fare after a decade that has seen their earnings stagnate and their share prices dramatically underperform their U.S. peers.² In fact, European banks are currently trading at a discount relative to the broader European market, and to other banking sectors across the globe. It is also noteworthy that European banks are entering this year's potential economic downturn in much better health than 2008, 2012 or 2020.

European Banks faced another risk during the year, with the Russian-Ukraine conflict increasing financial stability risks in the Euro-zone. The conflict triggered elevation and volatility in prices for commodities and energy, which has caused some stress in the derivatives markets for these products. The ECB has warned that some assets remain at risk of further corrections should the growth outlook weaken further and/or inflation turn out to be significantly higher than expected.³ Of the European banks, UniCredit and Intesa Sanpaolo, both holdings in this Fund, were most exposed to Russia. However, European banks such as these are actively managing their exposure to Russia. More specifically, UniCredit has been working to cut its exposure to Russia by swapping assets to reduce its cross-border loan book, which totalled €3 billion at the end of March.⁴ While in November, Intesa Sanpaolo reported that they had reduced their Russian exposure by about 65% during the third quarter of 2022.⁵

Higher official interest rates have played a key role in helping major European banks post stronger than expected third quarter results.⁶ BNP Paribas, a holding in this Fund, reported third quarter 2022 earnings for the period ended September 30th, on November 3rd. The French bank reported net income of €2.76 billion up 10% as compared to the same period in the year previous, attributing the growth to their wealth and asset management units.⁷ BNP Paribas also reported earnings per share (EPS) of €2.24 per share, up from €2.01 in the third quarter of 2021. Both revenue and EPS surpassed analyst estimates by 2.3% and 9.8%, respectively.⁸ Italy's biggest bank, Intesa Sanpaolo, reported strong third quarter earnings in November when they announced that profit in the full year would be at the upper end of the range it had previously provided. Net interest income for the period totalled €930 million, down 5% from a year earlier, but beating analyst estimates of €829 million.⁹ UBS Group, another holding in this fund, reported third quarter results in late October citing net income of \$1.7 billion for the quarter. Although net income was lower compared with \$2.3 billion in the same quarter of 2021, it was slightly above analyst expectations driven by lower costs and rising interest income helping to mitigate the impact of turbulent financial markets. The Swiss lender also stuck a confident tone on October 25th, when it announced more share buybacks during the year, saying that they are aiming for \$5.5 billion in buybacks in 2022.¹⁰

Performance Attribution

For the twelve month period ending December 31, 2022, CaixaBank S.A. made the biggest contribution to the Fund, followed by Svenska Handelsbanken AB and UniCredit Bank AG. By weight, the Fund's largest holdings were KBC Group, ING Group, and Standard Chartered PLC.

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- (1) https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html
- (2) <https://www.ft.com/content/9264d705-178a-4f01-99b6-2777c1cea281>
- (3) <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220525~fa1be4764d.en.html>
- (4) <https://www.reuters.com/business/finance/unicredit-executive-chances-cut-russia-exposure-limited-2022-06-08/>
- (5) <https://www.reuters.com/business/finance/intesa-sees-2022-profit-high-end-range-after-strong-q3-2022-11-04/>
- (6) <https://www.reuters.com/business/finance/intesa-sees-2022-profit-high-end-range-after-strong-q3-2022-11-04/>
- (7) <https://www.privatebankerinternational.com/news/bnp-paribas-wealth-revenue/>
- (8) <https://simplywall.st/stocks/fr/banks/epa-bnp/bnp-paribas-shares/news/bnp-paribas-third-quarter-2022-earnings-beats-expectations>
- (9) <https://www.marketscreener.com/quote/stock/INTESA-SANPAOLO-S-P-A-68944/news/Intesa-sees-2022-profit-at-high-end-of-range-after-strong-Q3-42207448/>
- (10) <https://www.reuters.com/business/finance/ubs-third-quarter-profit-slides-beat-expectations-2022-10-25/#:~:text=The%20bank%2C%20which%20reaffirmed%20its,around%20%245.5%20billion%20this%20year.>

Recent Developments

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.

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 0.60% 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, 2022, the Fund incurred \$155,388 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, 2022, the Fund incurred \$38,847 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 Unit¹

	December 31, 2022 (\$)
For the period ended:	
Unhedged ETF Units - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	10.00
Increase (decrease) from operations:	
Total revenue	0.53
Total expenses	(0.21)
Realized gains (losses)	(1.00)
Unrealized gains (losses)	0.02
Total increase (decrease) from operations³	(0.66)
Distributions:	
From dividends	(0.49)
Return of capital	(0.17)
Total annual distributions⁴	(0.66)
Net Assets per Unit, end of period	8.44
Hedged ETF Units - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	10.00
Increase (decrease) from operations:	
Total revenue	0.56
Total expenses	(0.22)
Realized gains (losses)	(0.78)
Unrealized gains (losses)	0.03
Total increase (decrease) from operations³	(0.41)
Distributions:	
From dividends	(0.29)
Return of capital	(0.37)
Total annual distributions⁴	(0.66)
Net Assets per Unit, end of period	8.73

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The Fund's Net Assets Per Unit¹ (cont'd)

	December 31, 2022 (\$)
For the period ended:	
US Dollar Unhedged ETF Units - Net Assets per Unit⁵	
Net Assets per Unit, beginning of period ²	12.73
Increase (decrease) from operations:	
Total revenue	0.64
Total expenses	(0.26)
Realized gains (losses)	(1.22)
Unrealized gains (losses)	(0.36)
Total increase (decrease) from operations³	(1.20)
Distributions:	
From dividends	(0.61)
Return of capital	(0.33)
Total annual distributions⁴	(0.94)
Net Assets per Unit, end of period	10.71

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2022. The Hedged, Unhedged, and US Dollar Unhedged ETF Units effectively began operations on January 7, 2022.

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 Distributions were paid in cash or reinvested in additional units of the Fund, or both. Actual distributions may vary slightly owing to rounding.

5 Per unit figures are stated in CAD equivalent.

The Fund's Ratios/Supplemental Data

	December 31, 2022
For the period ended:	
Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁶	7,592,142
Number of units outstanding ⁶	900,000
Management expense ratio ⁷	0.85%
Trading expense ratio ⁸	0.99%
Portfolio turnover rate ⁹	96.36%
Net Asset Value per unit (\$)	8.44
Closing market price (\$)	8.42
Hedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁶	10,068,781
Number of units outstanding ⁶	1,154,000
Management expense ratio ⁷	0.85%
Trading expense ratio ⁸	0.99%
Portfolio turnover rate ⁹	96.36%
Net Asset Value per unit (\$)	8.73
Closing market price (\$)	8.71

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

	December 31, 2022
For the period ended:	
US Dollar Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁶	1,981,682
Number of units outstanding ⁶	185,000
Management expense ratio ⁷	0.84%
Trading expense ratio ⁸	0.99%
Portfolio turnover rate ⁹	96.36%
Net Asset Value per unit (\$)	10.71
Closing market price (\$)	10.63

6 This information is provided as at December 31, 2022.

7 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.

8 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.

9 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 January 7, 2022, providing performance data for the period is not permitted.

Summary of Investment Portfolio

All Positions

Security	Percentage of Net Asset Value (%)
KBC Group NV	5.6
ING Groep NV	5.3
Standard Chartered PLC	5.3
BNP Paribas SA	5.2
NatWest Group PLC	5.2
HSBC Holdings PLC	5.1
CaixaBank SA	5.1
UBS Group AG	5.1
Intesa Sanpaolo SpA	5.0
Credit Agricole SA	5.0
Banco Bilbao Vizcaya Argentaria SA	5.0
Banco Santander SA	5.0
DNB Bank ASA	4.9
Lloyds Banking Group PLC	4.9
Nordea Bank Abp	4.8
UniCredit SpA	4.7
Societe Generale SA	4.7
Barclays PLC	4.7

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All Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
Skandinaviska Enskilda Banken AB, Class 'A'	4.7
Svenska Handelsbanken AB, Class 'A'	4.7
Total	100.0

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Financials	100.0
Derivative Assets	0.3
Derivative Liabilities	(0.6)
Cash and Cash Equivalents	0.7
Other Assets, less Liabilities	(0.4)
Total	100.0

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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