

Evolve European Banks Enhanced Yield ETF

December 31, 2023

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

For the year ended December 31, 2023, the Unhedged ETF Units returned 22.2% versus the Solactive European Bank Top 20 Equal Weight Index return of 28.3%. The Hedged ETF Units returned 21.9% versus Solactive European Bank Top 20 Equal Weight Index return of 28.3%. The US Dollar Unhedged ETF Units returned 24.8% versus the Solactive European Bank Top 20 Equal Weight Index return of 28.3%. The difference in performance of the hedged units relative to its benchmark can be attributed primarily to management and administration fees plus applicable sales taxes, to portfolio trading and hedging strategies and to the assumption that all distributions made by the investment fund were reinvested in additional securities whereas the index performance is of price return only. The difference in performance of the unhedged units relative to its benchmark can be attributed primarily to management and administration fees plus applicable sales taxes and to portfolio trading. Furthermore, the difference can also be attributed to the implementation of the call writing strategy where the Fund tends to outperform in flat or down markets and underperform during sharp market advances. This performance difference can be seen over the period the calls are written, typically with one to two months to expiry, and then resets when new option positions are established. The Fund's net assets were \$8.9MM as at December 31, 2023.

Portfolio Manager Commentary

Throughout 2023, the European banking sector showcased resilience and agility amidst a climate of substantial economic and geopolitical tumult. The first half of the year was particularly challenging, with the schism induced by the Russia-Ukraine conflict leading to a retrenchment of European banks from Russian markets.¹ Concurrently, the sector grappled with systemic risks following the high-profile rescue of Credit Suisse by UBS following the Silicon Valley Bank collapse and resulting US banking crisis. Despite these hurdles, Deutsche Bank's unexpected bond redemption signaled confidence to the market, helping the S&P Europe BMI Banks index to recoup some of its losses.²

Moving into the second half of the year, the European banking landscape continued to face hurdles, including tight financial and credit conditions, rising interest rates, and a real estate market undergoing correction. Nevertheless, European banks demonstrated resilience, with profitability levels reaching a decade high due to wider interest margins, particularly in countries with variable-rate lending. However, this period also saw growing concerns over asset quality and loan losses as economic pressures mounted.

Despite improved profitability, bank valuations remained subdued, reflecting persistent structural issues within the sector and concerns over the sustainability of profit margins in the face of potential economic headwinds. These apprehensions were underpinned by the prospect of worsening asset quality, higher funding costs, and the implementation of Basel III reforms that could increase capital requirements starting in 2025.³

In conclusion, European banking sector's performance over the year paints a picture of a sector that has adeptly navigated a host of challenges. The sector's resilience in the face of geopolitical conflicts, economic headwinds, and regulatory changes underscores the strength of its constituent banks. While the road ahead remains uncertain with regulatory reforms on the horizon, the European banking sector's fundamentals suggest a capacity for enduring stability and gradual growth.

Performance Attribution

For the twelve-month period ending December 31, 2023, UniCredit SpA made the biggest contribution to the Fund, followed by Banco Bilbao Vizcaya Argentaria SA. By weight, the Fund's largest holdings were Natwest Group PLC, Svenska Handelsbanken AB, and Skandinaviska Enskilda Banken AB.

(1) <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/russia-ukraine-war-splinters-europe-s-banking-industry-74075106>

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(2) <https://www.cnn.com/2023/03/20/what-ubs-rescue-of-credit-suisse-cs-means-for-markets-and-banks.html>

(3) <https://www.ecb.europa.eu/pub/financial-stability/fsr/html/ecb.fsr202311~bfe9d7c565.en.html>

Recent Developments

There are no known changes at this time to the investment strategy of the Fund or the Manager.

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, 2023, the Fund incurred \$76,075 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, 2023, the Fund incurred \$20,544 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, 2023 (\$)	December 31, 2022 (\$)
For the periods ended:		
Unhedged ETF Units - Net Assets per Unit		
Net Assets per Unit, beginning of period	8.44	10.00
Increase (decrease) from operations:		
Total revenue	0.54	0.53
Total expenses	(0.21)	(0.21)
Realized gains (losses)	0.39	(1.00)
Unrealized gains (losses)	1.06	0.02
Total increase (decrease) from operations²	1.78	(0.66)
Distributions:		
From dividends	(0.48)	(0.49)
Return of capital	(0.24)	(0.17)
Total annual distributions³	(0.72)	(0.66)
Net Assets per Unit, end of period	9.53	8.44
Hedged ETF Units - Net Assets per Unit		
Net Assets per Unit, beginning of period	8.73	10.00
Increase (decrease) from operations:		
Total revenue	0.57	0.56
Total expenses	(0.22)	(0.22)
Realized gains (losses)	0.33	(0.78)
Unrealized gains (losses)	0.62	0.03
Total increase (decrease) from operations²	1.30	(0.41)
Distributions:		
From dividends	(0.14)	(0.29)
Return of capital	(0.58)	(0.37)
Total annual distributions³	(0.72)	(0.66)
Net Assets per Unit, end of period	9.86	8.73

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

	December 31, 2023	December 31, 2022
	(\$)	(\$)
For the periods ended:		
US Dollar Unhedged ETF Units - Net Assets per Unit⁴		
Net Assets per Unit, beginning of period	10.71	12.73
Increase (decrease) from operations:		
Total revenue	0.66	0.64
Total expenses	(0.27)	(0.26)
Realized gains (losses)	0.45	(1.22)
Unrealized gains (losses)	1.35	(0.36)
Total increase (decrease) from operations²	2.19	(1.20)
Distributions:		
From dividends	(0.85)	(0.61)
Return of capital	(0.12)	(0.33)
Total annual distributions³	(0.97)	(0.94)
Net Assets per Unit, end of period	12.03	10.71

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2023 and 2022. The Hedged, Unhedged, and US Dollar Unhedged ETF Units effectively began operations on January 7, 2022.
- 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.
- 4 Per unit figures are stated in CAD equivalent.

The Fund's Ratios/Supplemental Data

	December 31, 2023	December 31, 2022
For the periods ended:		
Unhedged ETF Units - Ratios/Supplemental Data		
Total Net Asset Value (\$) ⁵	5,240,393	7,592,142
Number of units outstanding ⁵	550,000	900,000
Management expense ratio ⁶	0.87%	0.85%
Trading expense ratio ⁷	0.67%	0.99%
Portfolio turnover rate ⁸	75.84%	96.36%
Net Asset Value per unit (\$)	9.53	8.44
Closing market price (\$)	9.57	8.42
Hedged ETF Units - Ratios/Supplemental Data		
Total Net Asset Value (\$) ⁵	2,011,714	10,068,781
Number of units outstanding ⁵	204,000	1,154,000
Management expense ratio ⁶	0.87%	0.85%
Trading expense ratio ⁷	0.67%	0.99%
Portfolio turnover rate ⁸	75.84%	96.36%
Net Asset Value per unit (\$)	9.86	8.73
Closing market price (\$)	9.88	8.71

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

For the periods ended:	December 31, 2023	December 31, 2022
US Dollar Unhedged ETF Units - Ratios/Supplemental Data		
Total Net Asset Value (\$) ⁵	1,624,268	1,981,682
Number of units outstanding ⁵	135,000	185,000
Management expense ratio ⁶	0.90%	0.84%
Trading expense ratio ⁷	0.67%	0.99%
Portfolio turnover rate ⁸	75.84%	96.36%
Net Asset Value per unit (\$)	12.03	10.71
Closing market price (\$)	12.10	10.63

5 This information is provided as at December 31, 2023 and 2022.

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.

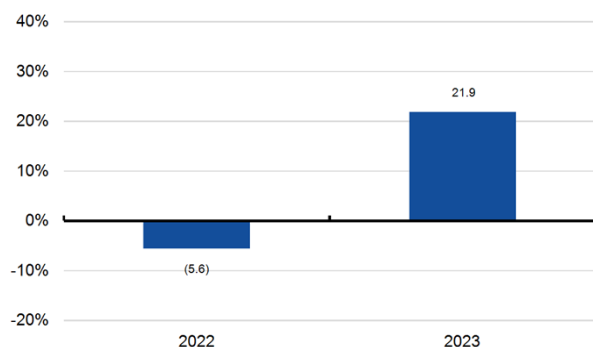
Past Performance

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.

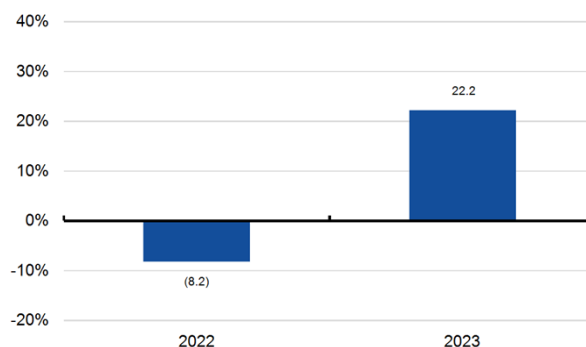
Year-by-Year Returns

The bar chart below shows the Hedged, 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 period would have grown or decreased by the last day of that financial period.

EBNK Hedged ETF Units¹



EBNK/B Unhedged ETF Units²



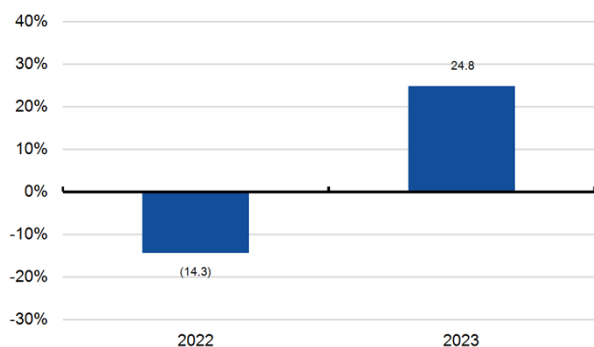
1 The Hedged ETF Units of the Fund effectively began operations on January 7, 2022.

2 The Unhedged ETF Units of the Fund effectively began operations on January 7, 2022.

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EBNK/U US Dollar Unhedged ETF Units³



³ The US Dollar Unhedged ETF Units of the Fund effectively began operations on January 7, 2022. Returns presented based on NAV equivalent in USD.

Annual Compound Return

The table below shows the historical annual compound total return of the Hedged, Unhedged, and US Dollar Unhedged ETF Units. The returns are for period ended December 31, 2023. 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 ¹ (%)	1 Year (%)
Hedged ETF Units	7.4	21.9
Solactive European Bank Top 20 Equal Weight Index	10.1	28.3
Unhedged ETF Units	6.0	22.2
Solactive European Bank Top 20 Equal Weight Index	10.1	28.3
US Dollar Unhedged ETF Units	3.5	24.8
Solactive European Bank Top 20 Equal Weight Index	10.1	28.3

¹ From inception date of May 4, 2021 for the Hedged, Unhedged, and US Dollar Unhedged ETF Units.

Summary of Investment Portfolio

All Positions

	Percentage of Net Asset Value (%)
Security	
NatWest Group PLC	5.5
Svenska Handelsbanken AB, Class 'A'	5.4
Skandinaviska Enskilda Banken AB, Class 'A'	5.3
Swedbank AB, Class 'A'	5.2
Lloyds Banking Group PLC	5.2
BNP Paribas SA	5.0
DnB Bank ASA	5.0
KBC Group NV	5.0
Nordea Bank Abp	5.0
Societe Generale SA	5.0
ING Groep NV	4.9

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All Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
Credit Agricole SA	4.9
Standard Chartered PLC	4.8
Banco Bilbao Vizcaya Argentaria SA	4.8
Danske Bank A/S	4.8
Banco Santander SA	4.8
HSBC Holdings PLC	4.7
Intesa Sanpaolo SpA	4.7
UniCredit SpA	4.5
CaixaBank SA	4.3
Total	98.8

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Financials	98.8
Derivative Assets	0.0
Derivative Liabilities	(0.1)
Cash and Cash Equivalents	0.9
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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