ANNUAL 2021 COMMENTARY

Evolve S&P/TSX 60 CleanBeta™ Fund

The Evolve S&P/TSX 60 CleanBeta™ Fund seeks to provide long-term capital growth by replicating, net of fees and expenses, the performance of the S&P/TSX 60 Index while striving to offset the carbon footprint of the constituent securities in the portfolio.

TSX SIXT

ETF TICKER: SIXT (UNHEDGED)

The Evolve S&P/TSX 60 CleanBeta™ Fund (SIXT) was established in May 2021 to provide investors with the world's first carbon-neutral ETF based on the performance of the S&P/TSX 60 Index. Carbon emissions make up the majority of global Greenhouse Gases. As countries strive to set net-zero emission goals, investors are looking to align these values with the investments in their portfolios and decarbonize their funds.

The S&P/TSX 60 Index returned 24.4% in 2021, with several companies owned by this Fund, including the Toronto Dominion Bank, Royal Bank, Brookfield Asset Management, Shopify, Canadian Natural Resources Resources, Bank of Montreal, Bank of Nova Scotia, and Enbridge, making the largest contributions to the performance of the Index.

In December, Canadian National Railway Co., a holding of this Fund, was recognized for leadership in corporate governance, ranking first in the Globe and Mail's Report on Business' annual comprehensive assessment of 220 S&P/TSX Composite Index Members. CN received a score of 98 out of 100 points. Companies were ranked on a range of subjects, including ESG, sustainability, board composition, shareholding and compensation, shareholder rights, and disclosure.

Earlier in the year, CN announced new ESG measures, including the creation of the CN Indigenous Advisory Council, an annual advisory vote on CN's climate change action plan, and a commitment to a Board of Directors that has at least 50% of the independent directors come from diverse groups, including gender parity, by 2022. The measures also encompass a revamping of governance policies to reduce the age limit and tenure of Directors, in an effort to further restrict the number of other boards on which Directors can serve, and to reduce the size of the Board. These governance changes took effect as of the April 2021 AGM.

Canadian Tire Corporation Limited (CTC), a holding of this Fund, was listed as one of Corporate Knights' Global 100 Most Sustainable Corporations for the third time. CTC ranked as the top general merchandiser in the country and placed first among its peers headquartered in Canada. This achievement reflects the company's progressive work in environmental, social, and governance practices and adds to a growing list of awards and accolades for the company's business sustainability strategy.

In its effort to combat climate change, Canadian Pacific Railway, owned by this Fund, increased its order of fuel cells to "significantly expand" its hydrogen locomotive program, according to Ballard Power, the railway's partner on its zero-emissions project.

Ballard announced that CP has requested eight additional 200 kW fuel cell modules, bringing its total to 14, in order to expand production from one to three locomotives expected to be delivered this year. CP plans to refine the conversion of diesel-electric powertrains to hydrogen-electric powertrains across three categories of locomotives, which collectively represent the majority of those used in North America.

Ballard estimates that by 2030 the total addressable market for hydrogen-electric trains will reach $4 billion. The company has already used its hydrogen power modules in the UK's first full-sized train refurbished with hydrogen power. It has also partnered with companies including German industrial conglomerate Siemens on hydrogen rail projects in Europe and Asia.

Canada's largest banks including RBC, TD, Scotiabank, BMO, and CIBC, joined the Net-Zero Banking Alliance, a voluntary initiative convened by former Bank of Canada Governor, Mark Carney. As part of the Alliance, the banks commit to net zero in their financed emissions by mid-century, consistent with no more than 1.5 degrees of warming by 2100. Banks also commit to setting a 2030 target that Carney says should represent their fair share of the halving of emissions needed by that date. None of those commitments are mandatory, but Canada's regulators have so far taken little action to decarbonize Canada's financial sector to combat the systemic risk that is building with the climate crisis.

Incidentally, Canada's five largest banks – all rank among the top 25 fossil fuel lenders in the world, collectively lending well over half a trillion dollars to fossil fuels since the Paris Agreement was signed, including hundreds of billions for fossil fuel expansion. This conflicts with the International Energy Agency's pathway for net zero.

In March 2021, Brookfield Asset Management signaled its increased commitment to ESG principles throughout its business when it signed the Net Zero Asset Managers initiative. As a signatory to this initiative, Brookfield is committed to reducing the carbon emissions of its investments over time, with the goal of reaching net-zero emissions by 2050 or sooner across all assets under management.

To help achieve this goal, Brookfield has brought on Mark Carney to head Brookfield's ESG and Impact Fund investing.

The Royal Bank of Canada released its 2020 Environmental, Social, and Governance (ESG) Performance Report in April 2021. Reporting on a year defined by the challenges of a global pandemic, RBC lauded its commitment to ESG goals despite the upheaval. Highlights from the RBC report include being the first Canadian bank to release a detailed action plan against systemic racism and publish a formal statement on respecting internationally recognized human rights, in line with the United Nations Guiding Principles on Business and Human Rights.

RCB also reported that its commitment to diversity and inclusion was paying dividends, with 42% and 17% of Directors identified as women and BIPOC (black, Indigenous and people of color), respectively. In a similar vein, 51% and 35% of new hires were identified as women and BIPOC, respectively.

RBC is also accelerating its enterprise climate change strategy for 2021. The bank will now strive to achieve net-zero emissions in lending by 2050 and remaining carbon-neutral in its operations.

In June, Telus Corp, held by this Fund, experienced huge demand for its innovative sale of $750 million in bonds that pay a low interest rate if the telecom company cuts greenhouse gas emissions, but a much higher rate should it miss those goals. While such sustainability-linked bonds, or SLBs, were first developed in Europe, Telus in the first company to pioneer them in Canada.

The Telus bonds pays 2.85% annually over the next 10 years, significantly lower than the rate the company would pay on a traditional bond. However, if Telus misses its greenhouse gas emissions—which call for a 46% reduction by 2030—interest rates will rise to 3.85% thereafter.

Telus' greenhouse gas emissions will be independently audited to ensure compliance. Telus's offering also received the endorsement of Sustainalytics, an Amsterdam-based independent ESG analytics firm which confirmed the company's approach aligned with international standards for sustainability-linked debt.

Also, in June Enbridge Inc (held by this Fund) filed for their first SLB offering, believed to be a North American first for a pipeline company. Enbridge's filing aims for a 35% reduction in greenhouse gas emissions in 2030. It also set targets for 28% representation from racial and ethnic groups in its workforce, 40% gender diversity across the organization, and a 40% female board of directors by 2025.

Performance Attribution

For the 12-month period ending December 31, 2021, Cenovus Energy Inc. made the largest contribution to the performance of this Fund, followed by Loblaw Companies Ltd. and Brookfield Asset Management. The largest holding in this Fund by weight was Shopify Inc., followed by Royal Bank and Toronto Dominion Bank.

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