

# Evolve Active Canadian Preferred Share Fund

December 31, 2021

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 Active Canadian Preferred Share 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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For the year ended December 31, 2021, Unhedged ETF Units returned 19.9%. The Unhedged Class A Mutual Fund Units returned 19.0% and the Unhedged Class F Mutual Fund Units returned 18.3%. The Fund's net assets were \$151MM as at December 31, 2021.

## Portfolio Manager Commentary

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In Q1, the Canadian preferred share market had a positive return with net positive inflows into the asset class. This resulted in the S&P/TSX Preferred Shares Index returning 8.84%, which outpaced the major equity and fixed income markets during the quarter. The lack of new preferred share supply (only \$450 million) and several redemptions (\$1.77 billion), coupled with the expectations of future redemptions because of Limited Recourse Capital Notes (LRCN), contributed to the positive returns for the market. In addition, rising yields and the expectation of higher inflation has made the preferred share market a sought-after asset class, which further has caused the market to rally. The Index's quarterly sector returns for Perpetuals, Fixed Resets, and Floating Rates were 2.9%, 12.5%, and 22.9%, respectively.

At the end of Q2, performance was positive for most asset classes, apart from short-term bonds. Members of the Federal Reserve moved forward their expectation for higher interest rates, which resulted in short-term bond yields moving higher while the rest of the yield curve moved lower. Equities initially reacted negatively, with the hint that the current liquid conditions fueling the markets could be a thing of the past, but quickly shrugged that notion off and continued their march to all-time highs by month-end.

The S&P TSX returned 8.54% during Q2, while the S&P 500 returned 6.95% (CAD). Within fixed income, long bonds performed the best during the quarter as yields moved slightly lower in that area of the market, as detailed above. As a result, Provincial bonds, which have the longest duration of the Universe outperformed Federal and Corporate bonds. The FTSE Russell Universe returned 1.66%, and the FTSE Corporate Index came in at 1.28%. Preferred Shares also continued their rally, returning 5.02% and bringing their YTD total to 14.30%. New issuance of preferred shares was zero during the quarter (YTD \$450 million), but there were several redemptions (\$3.9 billion). The price-performance has been a result of financial institutions switching their regulatory capital by issuing Limited Recourse Capital Notes (LRCN) and redeeming preferred shares.

The summer doldrums were quite apparent in the investment markets during the month of August, particularly the Canadian fixed income market. The yield curve remained effectively unchanged from the end of July to the end of August, and credit markets were similarly quiet with spreads only tightening by 1 basis point over the month. Further, new corporate bond issuance slowed down considerably during the last two weeks of the month. This relative inactivity was partly due the US Fed commenting that quantitative easing would continue (i.e. no tapering) as many felt that "substantial further progress" had not been achieved yet. A similar announcement was made from the ECB when they met in early September.

New issuance of preferred shares in the fourth quarter totaled \$800 million, and there were several redemptions (\$3.5 billion). Year to date there was just over \$9.0 billion in redemptions versus \$2.5 billion in new issuance and \$755 million in ETF inflows. Of note was an inaugural \$750 million over-the-counter (OTC) preferred share security issued by the Royal Bank of Canada which does not trade on any exchange like a typical preferred share security. This development was the result of financial institutions desire (via the regulator) to switch their regulatory capital from being held primarily by retail investors to institutional investors. In this environment we saw the S&P/TSX Preferred Share Index continue its positive performance, returning 1.62% during the fourth quarter, and a strong 19.35% for the full year. Fourth quarter performance for the market was largely driven by stable credit markets and higher rates, combined with the continued redemptions discussed earlier. The Index's quarterly sector returns for Perpetuals, Fixed Resets, and Floating Rates were -0.1%, 1.8%, and 10.8%, respectively.

The Evolve Active Canadian Preferred Shares Fund (DIVS) modestly trailed the benchmark during the fourth quarter but was still able to outperform the market. Relative performance during the most recent quarter was negatively impacted by security selection and structure allocations. Being overweight Perpetuals and underweight Fixed Resets with low rate reset spreads has contributed to the underperformance. We have been adding Fixed Resets with a high likelihood of being called and adding to Perpetual structures. We are slightly overweight in P-3, focusing on issuers with strong fundamentals.

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Looking forward, we expect interest rates to be range bound with the possibly of higher rates in the short term. We believe the low preferred share supply and higher inflation expectations is supportive for the asset class; however, the evolution of the LRCN and Hybrid fixed income market could potentially become a risk to the preferred share market. We expect the issuance of the new OTC preferred shares by financial institutions to continue but believe it will be relatively minimal. Going forward, we expect performance to be primarily driven by dividend income and less from price appreciation like we saw during the last 12 months.

## Recent Developments

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In the year 2021, 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 is unknown at this time and as such, the financial impact to investments cannot be estimated.

## Related Party Transactions

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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 Manager is entitled to an annual management fee of 0.65% of the net asset value of the Unhedged ETF Units and the Unhedged Class F Mutual Fund Units and 1.40% of the net asset value of the Unhedged Class A Mutual Fund Units of the Fund, accrued daily and generally paid monthly in arrears. For the year ended December 31, 2021, the Fund incurred \$1,120,037 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](http://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, 2021, the Fund incurred \$257,685 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 Unit<sup>1</sup>

For the periods ended:	December 31, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
<b>Unhedged ETF Units - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	15.68	16.86	17.87	20.64	20.04
<b>Increase (decrease) from operations:</b>					
Total revenue	0.83	0.85	0.94	0.96	0.26
Total expenses	(0.17)	(0.16)	(0.17)	(0.22)	(0.05)
Realized gains (losses)	0.82	(4.85)	(1.34)	(0.30)	0.01
Unrealized gains (losses)	1.61	2.55	0.22	(5.78)	0.39
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>3.09</b>	<b>(1.61)</b>	<b>(0.35)</b>	<b>(5.34)</b>	<b>0.61</b>
<b>Distributions:</b>					
From dividends	(0.62)	(0.74)	(0.77)	(0.44)	(0.06)
From capital gains	-	-	-	-	(0.01)
Return of capital	(0.22)	(0.10)	(0.14)	(0.40)	(0.14)
<b>Total annual distributions<sup>3</sup></b>	<b>(0.84)</b>	<b>(0.84)</b>	<b>(0.91)</b>	<b>(0.84)</b>	<b>(0.21)</b>
<b>Net Assets per Unit, end of period</b>	<b>17.93</b>	<b>15.68</b>	<b>16.86</b>	<b>17.87</b>	<b>20.64</b>
<b>Unhedged Class A - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	18.04	19.41	20.00	N/A	N/A
<b>Increase (decrease) from operations:</b>					
Total revenue	0.97	0.97	0.77	N/A	N/A
Total expenses	(0.36)	(0.32)	(0.25)	N/A	N/A
Realized gains (losses)	0.92	(5.15)	(2.30)	N/A	N/A
Unrealized gains (losses)	1.63	4.91	4.63	N/A	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>3.16</b>	<b>0.41</b>	<b>2.85</b>	<b>N/A</b>	<b>N/A</b>
<b>Distributions:</b>					
From dividends	(0.59)	(0.84)	(0.49)	N/A	N/A
Return of capital	(0.25)	-	(0.07)	N/A	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.84)</b>	<b>(0.84)</b>	<b>(0.56)</b>	<b>N/A</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>20.59</b>	<b>18.04</b>	<b>19.41</b>	<b>N/A</b>	<b>N/A</b>

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

For the periods ended:	December 31, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
<b>Unhedged Class F - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	20.06	20.22	19.99	N/A	N/A
<b>Increase (decrease) from operations:</b>					
Total revenue	1.02	1.01	0.76	N/A	N/A
Total expenses	(0.22)	(0.03)	(0.02)	N/A	N/A
Realized gains (losses)	0.99	(5.98)	(1.41)	N/A	N/A
Unrealized gains (losses)	0.64	4.90	0.89	N/A	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>2.43</b>	<b>(0.10)</b>	<b>0.22</b>	<b>N/A</b>	<b>N/A</b>
<b>Distributions:</b>					
From dividends	(0.62)	(0.07)	-	N/A	N/A
Return of capital	(0.08)	-	-	N/A	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.70)</b>	<b>(0.07)</b>	<b>-</b>	<b>N/A</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>23.01</b>	<b>20.06</b>	<b>20.22</b>	<b>N/A</b>	<b>N/A</b>

- 1 This information is derived from the Fund's audited annual financial statement as at December 31, 2021, 2020, 2019, 2018, and 2017. The Unhedged ETF Units effectively began operations on September 27, 2017 and the Unhedged Class A and F Mutual Fund Units effectively began operations on April 23, 2019.
- 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.

## The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	150,341,987	136,368,768	209,870,181	226,117,125	6,708,228
Number of units outstanding <sup>4</sup>	8,382,800	8,694,800	12,444,800	12,650,000	325,000
Management expense ratio <sup>5</sup>	0.89%	0.92%	0.90%	0.90%	0.89%
Trading expense ratio <sup>6</sup>	0.08%	0.18%	0.13%	0.21%	0.13%
Portfolio turnover rate <sup>7</sup>	44.91%	60.97%	81.45%	37.33%	12.01%
Net Asset Value per unit (\$)	17.93	15.68	16.86	17.87	20.64
Closing market price (\$)	17.86	15.63	16.82	17.82	20.68
<b>Unhedged Class A - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	637,369	615,781	375,544	N/A	N/A
Number of units outstanding <sup>4</sup>	30,960	34,136	19,345	N/A	N/A
Management expense ratio <sup>5</sup>	1.69%	1.78%	1.73%	N/A	N/A
Trading expense ratio <sup>6</sup>	0.08%	0.18%	0.13%	N/A	N/A
Portfolio turnover rate <sup>7</sup>	44.91%	60.97%	81.45%	N/A	N/A
Net Asset Value per unit (\$)	20.59	18.04	19.41	N/A	N/A

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

For the periods ended:	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
<b>Unhedged Class F - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	11,961	20	20	N/A	N/A
Number of units outstanding <sup>4</sup>	520	1	1	N/A	N/A
Management expense ratio <sup>5</sup>	0.88%	0.00%	0.00%	N/A	N/A
Trading expense ratio <sup>6</sup>	0.08%	0.18%	0.13%	N/A	N/A
Portfolio turnover rate <sup>7</sup>	44.91%	60.97%	81.45%	N/A	N/A
Net Asset Value per unit (\$)	23.01	20.06	20.22	N/A	N/A

4 This information is provided as at December 31, 2021, 2020, 2019, 2018, and 2017.

5 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.

6 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.

7 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.

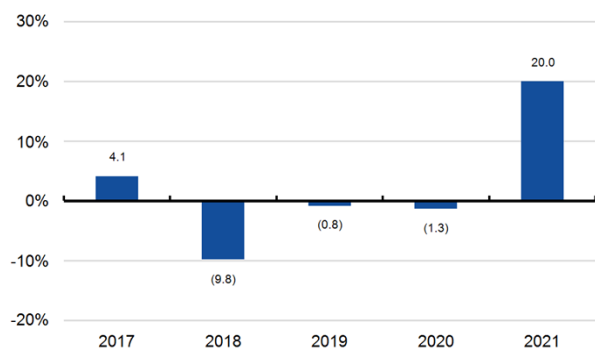
## Past Performance

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.

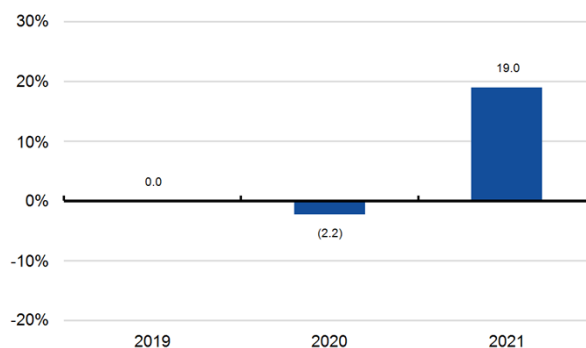
## Year-by-Year Returns

The bar chart below shows the Unhedged ETF Units' and the Unhedged Class A and F Mutual Fund 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.

**DIVS Unhedged ETF Units<sup>1</sup>**



**Unhedged Class A Mutual Fund Units<sup>2</sup>**



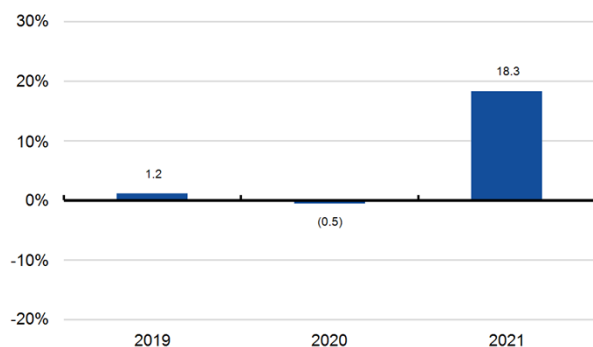
1 The Unhedged ETF Units effectively began operations on September 27, 2017.

2 The Unhedged Class A Mutual Fund Units of the Fund effectively began operations on April 23, 2019.

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## Unhedged Class F Mutual Fund Units<sup>3</sup>



<sup>3</sup> The Unhedged Class F Mutual Fund Units of the Fund effectively began operations on April 23, 2019.

## Annual Compound Return

The table below shows the historical annual compound total return of the Unhedged ETF Units and the Unhedged Class A and F Mutual Fund Units. The returns are for period ended December 31, 2021. As a basis of comparison, we have provided the performance of S&P/TSX Preferred Total Return Index ("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 (%)	3 Year (%)
Unhedged ETF Units	2.3	19.9	5.5
S&P/TSX Preferred Total Return Index	5.3	19.3	9.4
Unhedged Class A Mutual Fund Units	5.8	19.0	N/A
S&P/TSX Preferred Total Return Index	10.0	19.3	N/A
Unhedged Class F Mutual Fund Units	6.7	18.3	N/A
S&P/TSX Preferred Total Return Index	10.0	19.3	N/A

<sup>1</sup> From inception date of September 29, 2017 for the Unhedged ETF Units, and from inception date April 23, 2019 for the Hedged Class A and F Mutual Fund Units.

## Summary of Investment Portfolio

### Top 25 Positions

Security	Percentage of Net Asset Value (%)
Canadian Imperial Bank of Commerce, Preferred, Series '47'	4.3
Enbridge Inc., Preferred, Series '19'	4.1
Power Corporation of Canada, Preferred, Series 'G'	3.4
Enbridge Inc., Preferred, Series '17'	3.2
Pembina Pipeline Corporation, Preferred, Series '15'	3.1
AltaGas Limited, Preferred, Series 'E'	3.0
Power Financial Corporation, Preferred, Series 'V'	2.8
Brookfield Office Properties Inc., Preferred, Series 'II'	2.8
TC Energy Corporation, Preferred, Series '7'	2.5

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## Top 25 Positions (cont'd)

Security	Percentage of Net Asset Value (%)
Manulife Financial Corporation, Preferred, Series '11'	2.5
The Toronto-Dominion Bank, Preferred, Series '5'	2.5
Bank of Montreal, Preferred, Series '40'	2.4
The Toronto-Dominion Bank, Preferred, Series '3'	2.4
Enbridge Inc., Preferred, Series '7'	2.4
Canadian Imperial Bank of Commerce, Preferred, 4.400%, Series '45'	2.3
Great-West Lifeco Inc., Preferred, Series 'S'	2.3
Actions Privilegiees Energie Renouvelable Brookfield Inc., Preferred, Series '5'	2.2
Manulife Financial Corporation, Preferred, Series '9'	2.1
The Toronto-Dominion Bank, Preferred, Series '18'	2.1
Great-West Lifeco Inc., Preferred, 4.500%, Series 'I'	1.8
AltaGas Limited, Preferred, Series 'G'	1.8
Royal Bank of Canada, Series 'BT', Variable, Callable	1.8
Power Financial Corporation, Preferred, Series 'E'	1.7
Bank of Montreal, Preferred, Series '31'	1.7
Brookfield Office Properties Inc., Preferred, Series 'R'	1.6
<b>Total</b>	<b>62.8</b>

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Communication Services	1.9
Energy	22.1
Financials	56.7
Real Estate	4.4
Utilities	11.7
Cash and Cash Equivalents	3.3
Other Assets, less Liabilities	(0.1)
<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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