

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

## 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, the Unhedged ETF Units returned 35.1% versus the Solactive Equal Weight US Bank Index PR return of 40.1%. The Hedged ETF Units returned 34.9% versus the Solactive Equal Weight US Bank Index PR Canadian Dollar Hedged return of 40.4%. The US Dollar Unhedged ETF Units returned 35.9% versus the Solactive Equal Weight US Bank Index PR (USD) return of 41.4%. 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, to portfolio trading 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. 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 \$33MM as at December 31, 2021.

## Portfolio Manager Commentary

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U.S. banks posted strong profits in 2021, albeit declining by 1.2% at the end of the third quarter, as they were slower to shrink their credit loss provisions and grappled with low interest rates, according to the Federal Deposit Insurance Corporation. While 96% of all banks were profitable, two-thirds of them reported annual profit growth.(i)

According to S&P Global Market Intelligence 2022 Banking Industry Outlook Report, the U.S. government's efforts to flood the markets with cash in the aftermath of the COVID-19 pandemic propped up borrowers but also left institutions flooded with excess liquidity.(ii)

Heading into fourth quarter earnings season, investors were optimistic about strong results to add fuel to what has been "one of the hottest sectors of the year."(iii)

The performance of US banks was buoyed by strong capital markets and easy monetary conditions. The four largest U.S. consumer banks, JPMorgan Chase & Co, Citigroup, Well Fargo & Co, and Bank of America Corp – all owned by this Fund – reported a combined profit of \$28.7 billion for the third quarter, beating analysts' estimates.(iv)

Signature Bank and SVB Financial Group, also owned by this Fund, made impressive gains for the third quarter, reporting gains of 11.3% and 10.0%, respectively.(v)

On the back of an increasingly competitive landscape banks have been working to modernize their offerings through mergers and acquisitions. M&A allows institutions to right-size their costly branch networks, while making necessary technology investments that enable more effective competition with fintechs, according to S&P Global Market Intelligence.(vi)

According to S&P, heightened digital adoption and cost-cutting efforts prompted net branch closures totaling 3,609 over the 12-month period ending August 31, 2021.(vii)

The report states that major fintech players have attracted massive capital and added new financial services product lines and features aimed at further entrenching customers to grow market share and improve profitability. Fintech companies in the U.S. attracted nearly \$7.5 billion in venture capital funding in the second quarter of 2021 across 194 transactions, up nearly 70% year over year.(viii)

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On the M&A front, SVB Financial Group, a holding of this Fund, acquired Boston Private Financial Holdings, Inc. the parent company of Boston Private Bank & Trust Company, a leading provider of integrated wealth management, trust and banking services to individuals, families, businesses and nonprofits.(ix)

In September, Goldman Sachs announced the acquisition of digital lender GreenSky Inc., which contributed \$1.41 billion to its pro forma balance sheet.(x)

In February, M&T Bank Corporation announced its merger with People's United Financial, Inc., in a manner which saw M&T acquire People's United in an all-stock transaction. Both companies are held by this Fund.(xi)

Huntington Bancshares Incorporated also merged with TCF Financial Corporation ("TCF") in June to create a Top 25 U.S. bank holding company. Both companies are held by this Fund.(xii)

In another transaction by companies held by this Fund, PNC Financial Services Group, Inc. acquired BBVA USA Bancshares, Inc., including its U.S. banking subsidiary BBVA USA. Through this transaction, PNC is now the fifth largest U.S. commercial banking organization with over \$560 billion in assets with a coast-to-coast national franchise.(xiii)

On the regulatory compliance front, Federal Reserve officials questioned several big U.S. banks in September about their exposure to the China Evergrande Group, joining other global regulators in examining the potential fallout from the property developer's debt crisis. Troubles at Evergrande, with more than \$300 billion of liabilities, spurred the Fed to seek information to head off any risks to financial stability.(xiv)

## Performance Attribution

For the twelve month period ending December 31, 2021, SVB Financial Group made the biggest contribution to the Fund, followed by Fifth Third Bancorp and Wells Fargo & Co. By weight, the Fund's largest exposure at the end of the year was to Signature Bank/New York NY, followed by Key Corp. and M&T Bank Corp.

(i) <https://www.reuters.com/business/finance/us-bank-profits-dip-slightly-banks-slow-shrinking-credit-loss-provisions-2021-11-30/>

(ii) <https://markets.businessinsider.com/news/stocks/s-p-global-market-intelligence-2022-banking-industry-outlook-says-pandemic-response-proves-double-edged-sword-for-u-s-banks-1030948565>

(iii) <https://www.reuters.com/business/finance/us-bank-profits-dip-slightly-banks-slow-shrinking-credit-loss-provisions-2021-11-30/>

(iv) <https://www.reuters.com/world/us/us-banks-beat-profit-estimates-economic-rebound-red-hot-markets-2021-10-14/>

(v) <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/top-50-us-banks-in-q3-21-67833802>

(vi) <https://markets.businessinsider.com/news/stocks/s-p-global-market-intelligence-2022-banking-industry-outlook-says-pandemic-response-proves-double-edged-sword-for-u-s-banks-1030948565>

(vii) <https://markets.businessinsider.com/news/stocks/s-p-global-market-intelligence-2022-banking-industry-outlook-says-pandemic-response-proves-double-edged-sword-for-u-s-banks-1030948565>

(viii) <https://markets.businessinsider.com/news/stocks/s-p-global-market-intelligence-2022-banking-industry-outlook-says-pandemic-response-proves-double-edged-sword-for-u-s-banks-1030948565>

(ix) <https://www.svb.com/news/company-news/svb-financial-group-completes-acquisition-of-boston-private2>

(x) <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/top-50-us-banks-in-q3-21-67833802>

(xi) <https://www.peoples.com/press/2021/mt-bank-corporation-announces-agreement-to-acquire-peoples-united-financial-inc>

(xii) [https://finance.yahoo.com/news/huntington-completes-merger-tcf-adds-120000056.html?fr=yhssrp\\_catchall](https://finance.yahoo.com/news/huntington-completes-merger-tcf-adds-120000056.html?fr=yhssrp_catchall)

(xiii) <https://pnc.mediaroom.com/2021-06-01-PNC-Completes-Acquisition-of-BBVA-USA>

(xiv) <https://www.bloomberg.com/markets/fixed-income>

# Evolve US Banks Enhanced Yield Fund

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## Recent Developments

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

Evolve Funds Group Inc.(the "Manager") complies with its current policy and procedures regarding investments in related issuers and reports periodically to the Independent Review Committee.

## Management Fees

The Manager is entitled to an annual management fee of 0.45% of the net asset value of the Fund, accrued daily and generally paid monthly. For the year ended December 31, 2021, the Fund incurred \$115,704 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, 2021, the Fund incurred \$38,568 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; fees payable to the index provider, 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.

## 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, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
For the periods ended:					
<b>Unhedged ETF Units - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	17.70	21.46	18.10	21.25	19.79
<b>Increase (decrease) from operations:</b>					
Total revenue	0.48	0.56	0.59	0.51	0.10
Total expenses	(0.25)	(0.30)	(0.31)	(0.34)	(0.05)
Realized gains (losses)	2.16	(4.01)	(0.47)	(10.55)	(0.14)
Unrealized gains (losses)	3.36	1.80	5.21	5.07	1.49
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>5.75</b>	<b>(1.95)</b>	<b>5.02</b>	<b>(5.31)</b>	<b>1.40</b>
<b>Distributions:</b>					
From dividends	(0.24)	(0.30)	(0.32)	(0.24)	(0.03)
Return of capital	(1.17)	(1.08)	(0.94)	(0.66)	(0.12)
<b>Total annual distributions<sup>3</sup></b>	<b>(1.41)</b>	<b>(1.38)</b>	<b>(1.26)</b>	<b>(0.90)</b>	<b>(0.15)</b>
<b>Net Assets per Unit, end of period</b>	<b>22.38</b>	<b>17.70</b>	<b>21.46</b>	<b>18.10</b>	<b>21.25</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>Hedged ETF Units - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	16.27	20.21	16.45	21.08	19.76
<b>Increase (decrease) from operations:</b>					
Total revenue	0.45	0.49	0.54	0.48	0.09
Total expenses	(0.25)	(0.26)	(0.28)	(0.32)	(0.05)
Realized gains (losses)	1.16	(1.83)	(2.13)	(1.36)	(0.80)
Unrealized gains (losses)	2.70	3.75	5.31	(5.41)	1.99
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>4.06</b>	<b>2.15</b>	<b>3.44</b>	<b>(6.61)</b>	<b>1.23</b>
<b>Distributions:</b>					
From dividends	(0.18)	(0.23)	(0.30)	(0.15)	(0.03)
Return of capital	(1.23)	(1.15)	(0.96)	(0.75)	(0.12)
<b>Total annual distributions<sup>3</sup></b>	<b>(1.41)</b>	<b>(1.38)</b>	<b>(1.26)</b>	<b>(0.90)</b>	<b>(0.15)</b>
<b>Net Assets per Unit, end of period</b>	<b>20.44</b>	<b>16.27</b>	<b>20.21</b>	<b>16.45</b>	<b>21.08</b>
<b>US Dollar Unhedged ETF Units - Net Assets per Unit<sup>4</sup></b>					
Net Assets per Unit, beginning of period	21.82	26.68	26.40	N/A	N/A
<b>Increase (decrease) from operations:</b>					
Total revenue	0.57	0.71	0.09	N/A	N/A
Total expenses	(0.31)	(0.38)	(0.05)	N/A	N/A
Realized gains (losses)	2.43	(5.82)	0.40	N/A	N/A
Unrealized gains (losses)	2.81	3.17	(0.21)	N/A	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>5.50</b>	<b>(2.32)</b>	<b>0.23</b>	<b>N/A</b>	<b>N/A</b>
<b>Distributions:</b>					
From dividends	(0.26)	(0.35)	(0.01)	N/A	N/A
Return of capital	(1.51)	(1.50)	(0.14)	N/A	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(1.77)</b>	<b>(1.85)</b>	<b>(0.15)</b>	<b>N/A</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>27.56</b>	<b>21.82</b>	<b>26.68</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 and Hedged ETF Units effectively began operations on October 12, 2017 and the US Dollar Unhedged ETF Units began operations on November 26, 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.

4 Per unit figures are stated in CAD equivalent.

## 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>5</sup>	5,035,885	3,097,714	3,219,518	2,262,348	1,062,375
Number of units outstanding <sup>5</sup>	225,000	175,000	150,000	125,000	50,000
Management expense ratio <sup>6</sup>	0.64%	0.70%	0.70%	0.68%	0.70%
Trading expense ratio <sup>7</sup>	0.19%	0.67%	0.43%	0.52%	0.19%
Portfolio turnover rate <sup>8</sup>	78.93%	203.76%	103.77%	100.98%	2.61%
Net Asset Value per unit (\$)	22.38	17.70	21.46	18.10	21.25
Closing market price (\$)	22.38	17.70	21.46	18.10	21.36

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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>Hedged ETF Units - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>5</sup>	<b>24,525,649</b>	4,881,866	1,515,581	822,343	1,054,094
Number of units outstanding <sup>5</sup>	<b>1,200,000</b>	300,000	75,000	50,000	50,000
Management expense ratio <sup>6</sup>	<b>0.68%</b>	0.69%	0.70%	0.68%	0.70%
Trading expense ratio <sup>7</sup>	<b>0.19%</b>	0.67%	0.43%	0.52%	0.19%
Portfolio turnover rate <sup>8</sup>	<b>78.93%</b>	203.76%	103.77%	100.98%	2.61%
Net Asset Value per unit (\$)	<b>20.44</b>	16.27	20.21	16.45	21.08
Closing market price (\$)	<b>20.51</b>	16.25	20.21	16.45	21.16
<b>US Dollar Unhedged ETF Units - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>5</sup>	<b>3,445,043</b>	1,636,700	1,334,148	N/A	N/A
Number of units outstanding <sup>5</sup>	<b>125,000</b>	75,000	50,000	N/A	N/A
Management expense ratio <sup>6</sup>	<b>0.65%</b>	0.77%	0.09%	N/A	N/A
Trading expense ratio <sup>7</sup>	<b>0.19%</b>	0.67%	0.43%	N/A	N/A
Portfolio turnover rate <sup>8</sup>	<b>78.93%</b>	203.76%	103.77%	N/A	N/A
Net Asset Value per unit (\$)	<b>27.56</b>	21.82	26.68	N/A	N/A
Closing market price (\$)	<b>27.58</b>	21.85	26.70	N/A	N/A

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

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.

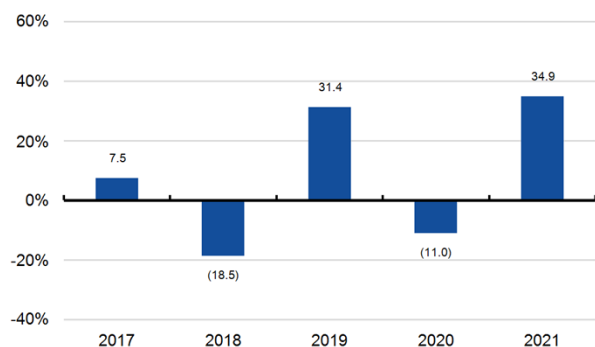
## Year-by-Year Returns

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 year would have grown or decreased by the last day of each financial year.

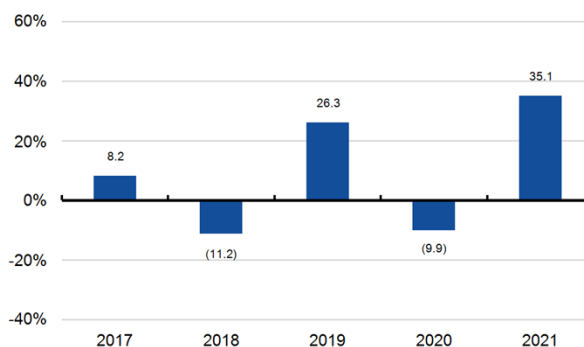
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## CALL Hedged ETF Units<sup>1</sup>



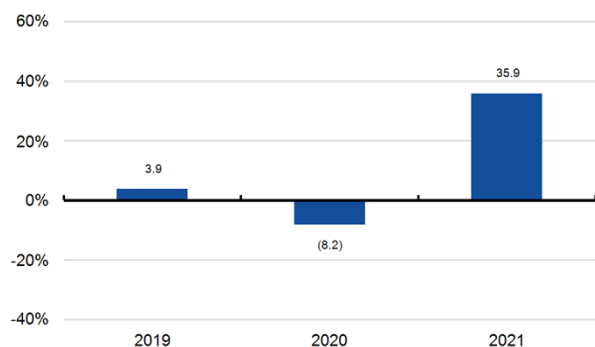
## CALL/B Unhedged ETF Units<sup>2</sup>



1 The Hedged ETF Units of the Fund effectively began operations on October 12, 2017.

2 The Unhedged ETF Units of the Fund effectively began operations on October 12, 2017.

## CALL/U US Dollar Unhedged ETF Units<sup>3</sup>



3 The US Dollar Unhedged ETF Units of the Fund effectively began operations on November 26, 2019. 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, 2021. 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 <sup>1</sup> (%)	1 Year (%)	3 Year (%)
Hedged ETF Units	7.9	34.9	16.4
Solactive Equal Weight US Bank Index PR Canadian Dollar Hedged	9.7	40.4	18.6
Unhedged ETF Units	9.6	35.1	15.4
Solactive Equal Weight US Bank Index PR	12.9	40.1	19.4
US Dollar Unhedged ETF Units	13.2	35.9	N/A
Solactive Equal Weight US Bank Index PR (USD)	17.3	41.4	N/A

1 From inception date of October 12, 2017 for the Hedged and Unhedged ETF Units, and from inception date of November 26, 2019 for the US Dollar Unhedged ETF Units.

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## Summary of Investment Portfolio

### All Positions

	Percentage of Net Asset Value (%)
Security	
Signature Bank	5.6
KeyCorp	5.3
SVB Financial Group	5.2
M&T Bank Corporation	5.2
Fifth Third Bancorp	5.2
Regions Financial Corporation	5.2
Western Alliance Bancorporation	5.2
Ameriprise Financial Inc.	5.2
Citizens Financial Group Inc.	5.1
Bank of America Corporation	5.1
East West Bancorp Inc.	5.1
Wells Fargo & Company	5.0
Truist Financial Corporation	4.9
The PNC Financial Services Group Inc.	4.8
Huntington Bancshares Inc.	4.7
U.S. Bancorp	4.6
First Republic Bank	4.6
JPMorgan Chase & Company	4.6
The Goldman Sachs Group Inc.	4.3
Citigroup Inc.	3.9
<b>Total</b>	<b>98.8</b>

### Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Financials	98.8
Derivative Assets	1.7
Derivative Liabilities	(0.1)
Cash and Cash Equivalents	0.1
Other Assets, less Liabilities	(0.5)
<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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