

# Evolve US Banks Enhanced Yield Fund

June 30, 2022

Interim Management Report of Fund Performance

This interim management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the investment fund. You can get a copy of the interim 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 six-month period ended June 30, 2022, the Unhedged ETF Units returned -19.1% versus the Solactive Equal Weight US Bank Index PR return of -20.0%. The Hedged ETF Units returned -20.9% versus the Solactive Equal Weight US Bank Index PR Canadian Dollar Hedged return of -21.3%. The US Dollar Unhedged ETF Units returned -20.5% versus the Solactive Equal Weight US Bank Index PR (USD) return of -20.0%. 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 \$35.4MM as at June 30, 2022.

## Portfolio Manager Commentary

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In late June, the Federal Reserve provided a vote of confidence to the largest U.S. banks following its annual health check. The results of the Fed's stress test indicated that the banks have sufficient capital to weather a potential severe economic downturn.

According to the Fed, the 34 lenders with more than \$100 billion in assets that it oversees would suffer a combined \$612 billion in losses under a hypothetical severe downturn. However, that would still leave them with roughly twice the amount of capital required under its rules. As a result, large banks such as JPMorgan Chase, Bank of America, Wells Fargo, Citigroup, Morgan Stanley, and Goldman Sachs (all holdings in the fund) can use their excess capital to issue dividends and buybacks to shareholders.(i)

A major macroeconomic event this year is the Russia-Ukraine war, which has exposed U.S. banks to some increased financial risk. Citigroup said its potential losses could amount to as much as \$3 billion and has put aside \$1 billion in loan-loss reserves, while JPMorgan said it had provisioned roughly \$300 million to cover markdowns on its Russian loans. Goldman Sachs, disclosed that its Russian exposure was \$650 million and that it had suffered a net loss of about \$300 million on investments in Russia and Ukraine.(ii)

Several large U.S. banks have recently started offering cryptocurrency services. BNY Mellon announced that it would hold, transfer and issue bitcoin for its asset management clients, while U.S. Bancorp commenced providing bitcoin custody services for its institutional clients. State Street also announced that it intends to offer cryptocurrency custody services in partnership with Deutsche Bank. Meanwhile, Morgan Stanley, JPMorgan Chase Wells Fargo & Co are also offering their clients access to cryptocurrency.(iii)

On the M&A front, 16 U.S. bank deals were announced in March, pushing total first-quarter announcements to 46, according to S&P Global Market Intelligence data. Total deal value in the first quarter was \$15.15 billion, down from \$25.63 billion in the fourth quarter of 2021, but up from \$11.22 billion in the first quarter of 2021. The largest of the M&A transactions announced was that of Toronto-Dominion Bank's \$13.67 billion deal for First Horizon Corp., which was announced on February 28, 2022.

On the earnings front, Bank of America posted a first-quarter profit of \$8.1 billion, or 86 cents a share, exceeding the 66 cents a share expected by analysts surveyed by Refinitiv. The company made \$22.9 billion in revenue, higher than the \$22.1 billion estimate. Bank of America also announced a \$25 billion stock repurchase program.(iv)

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JP Morgan announced first quarter 2022 adjusted earnings of \$2.76 a share vs. \$2.69 estimate on revenue of \$31.59 billion versus \$30.86 billion estimate. The company said that first-quarter profit fell sharply from a year earlier, driven by increased costs for bad loans and market upheaval caused by the Ukraine war.(v)

Regions Financial Corporation, one of the largest holdings in the fund, reported first-quarter 2022 earnings of 55 cents per share, beating the Zacks Consensus Estimate of 48 cents. However, the results compare unfavorably with the prior-year figure of 63 cents. Total revenues were \$1.6 billion in the reported quarter, marginally missing consensus estimate of \$1.61 billion.(vi)

## Performance Attribution

For the six-month period ended June 30, 2022, M&T Bank Corp, followed by Ameriprise Financial Inc. were the largest contributors to the Fund's performance. The largest holdings by weight were M&T Bank Corp, followed by East West Bancorp Inc.

(i) <https://www.reuters.com/markets/us/us-fed-says-banks-can-weather-severe-downturn-comfortably-2022-06-23/>

(ii) <https://www.thomsonreuters.com/en-us/posts/investigation-fraud-and-risk/managing-geopolitical-risk/>

(iii) <https://www.ndtv.com/business/list-of-top-us-banks-capitalizing-on-crypto-potential-reuters-report-2863935>

(iv) <https://www.cnbc.com/2021/04/15/bank-of-america-bac-earnings-q1-2021.html>

(v) <https://www.cnbc.com/2022/04/13/jpm-earnings-1q-2022.html>

(vi) <https://ca.finance.yahoo.com/news/regions-financial-rf-q1-earnings-121512539.html>

## Recent Developments

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In the six-month period ended June 30, 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 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 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 six-month period ended June 30, 2022, the Fund incurred \$88,428 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 six-month period ended June 30, 2022, the Fund incurred \$29,475 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.

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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>

	June 30, 2022	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	22.38	17.70	21.46	18.10	21.25	19.79
<b>Increase (decrease) from operations:</b>						
Total revenue	0.26	0.48	0.56	0.59	0.51	0.10
Total expenses	(0.12)	(0.25)	(0.30)	(0.31)	(0.34)	(0.05)
Realized gains (losses)	0.88	2.16	(4.01)	(0.47)	(10.55)	(0.14)
Unrealized gains (losses)	(5.68)	3.36	1.80	5.21	5.07	1.49
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(4.66)</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 income (excluding dividends)	(0.75)	-	-	-	-	-
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>(0.75)</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>17.44</b>	<b>22.38</b>	<b>17.70</b>	<b>21.46</b>	<b>18.10</b>	<b>21.25</b>
<b>Hedged ETF Units - Net Assets per Unit</b>						
Net Assets per Unit, beginning of period	20.44	16.27	20.21	16.45	21.08	19.76
<b>Increase (decrease) from operations:</b>						
Total revenue	0.23	0.45	0.49	0.54	0.48	0.09
Total expenses	(0.11)	(0.25)	(0.26)	(0.28)	(0.32)	(0.05)
Realized gains (losses)	0.81	1.16	(1.83)	(2.13)	(1.36)	(0.80)
Unrealized gains (losses)	(5.36)	2.70	3.75	5.31	(5.41)	1.99
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(4.43)</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 income (excluding dividends)	(0.75)	-	-	-	-	-
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>(0.75)</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>15.51</b>	<b>20.44</b>	<b>16.27</b>	<b>20.21</b>	<b>16.45</b>	<b>21.08</b>

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

For the periods ended:	June 30, 2022 (\$)	December 31, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
<b>US Dollar Unhedged ETF Units - Net Assets per Unit<sup>4</sup></b>						
Net Assets per Unit, beginning of period	27.56	21.82	26.68	26.40	N/A	N/A
<b>Increase (decrease) from operations:</b>						
Total revenue	0.32	0.57	0.71	0.09	N/A	N/A
Total expenses	(0.15)	(0.31)	(0.38)	(0.05)	N/A	N/A
Realized gains (losses)	1.11	2.43	(5.82)	0.40	N/A	N/A
Unrealized gains (losses)	(6.30)	2.81	3.17	(0.21)	N/A	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(5.02)</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 income (excluding dividends)	(0.95)	-	-	-	N/A	N/A
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>(0.95)</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>21.45</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 unaudited interim financial statements as at June 30, 2022 and the 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:	June 30, 2022	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>	5,667,878	5,035,885	3,097,714	3,219,518	2,262,348	1,062,375
Number of units outstanding <sup>5</sup>	325,000	225,000	175,000	150,000	125,000	50,000
Management expense ratio <sup>6</sup>	0.68%	0.64%	0.70%	0.70%	0.68%	0.70%
Trading expense ratio <sup>7</sup>	0.16%	0.19%	0.67%	0.43%	0.52%	0.19%
Portfolio turnover rate <sup>8</sup>	40.66%	78.93%	203.76%	103.77%	100.98%	2.61%
Net Asset Value per unit (\$)	17.44	22.38	17.70	21.46	18.10	21.25
Closing market price (\$)	17.47	22.38	17.70	21.46	18.10	21.36
<b>Hedged ETF Units - Ratios/Supplemental Data</b>						
Total Net Asset Value (\$) <sup>5</sup>	25,979,557	24,525,649	4,881,866	1,515,581	822,343	1,054,094
Number of units outstanding <sup>5</sup>	1,675,000	1,200,000	300,000	75,000	50,000	50,000
Management expense ratio <sup>6</sup>	0.68%	0.68%	0.69%	0.70%	0.68%	0.70%
Trading expense ratio <sup>7</sup>	0.16%	0.19%	0.67%	0.43%	0.52%	0.19%
Portfolio turnover rate <sup>8</sup>	40.66%	78.93%	203.76%	103.77%	100.98%	2.61%
Net Asset Value per unit (\$)	15.51	20.44	16.27	20.21	16.45	21.08
Closing market price (\$)	15.57	20.51	16.25	20.21	16.45	21.16

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

For the periods ended:	June 30, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
<b>US Dollar Unhedged ETF Units - Ratios/Supplemental Data</b>						
Total Net Asset Value (\$) <sup>5</sup>	3,753,348	3,445,043	1,636,700	1,334,148	N/A	N/A
Number of units outstanding <sup>5</sup>	175,000	125,000	75,000	50,000	N/A	N/A
Management expense ratio <sup>6</sup>	0.68%	0.65%	0.77%	0.09%	N/A	N/A
Trading expense ratio <sup>7</sup>	0.16%	0.19%	0.67%	0.43%	N/A	N/A
Portfolio turnover rate <sup>8</sup>	40.66%	78.93%	203.76%	103.77%	N/A	N/A
Net Asset Value per unit (\$)	21.45	27.56	21.82	26.68	N/A	N/A
Closing market price (\$)	21.30	27.58	21.85	26.70	N/A	N/A

5 This information is provided as at June 30, 2022 and 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.

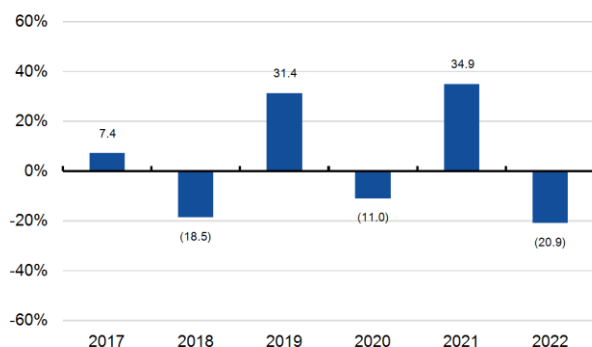
## Past Performance

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.

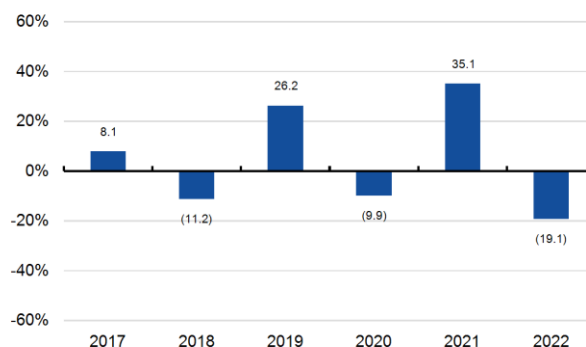
## Year-by-Year Returns

The bar chart below shows the Hedged, Unhedged, and US Dollar Unhedged ETF Units' performance for each of the financial years shown and for the six-month period ended June 30, 2022. 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.

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



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



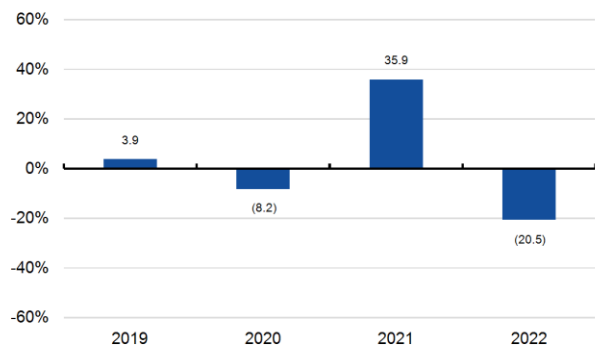
1 The Hedged ETF Units of the Fund effectively began operations on October 12, 2017.

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

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



<sup>3</sup> The US Dollar Unhedged ETF Units of the Fund effectively began operations on November 26, 2019. Returns presented based on NAV equivalent in USD.

## Summary of Investment Portfolio

### All Positions

	Percentage of Net Asset Value (%)
Security	
First Horizon Corporation	5.1
M&T Bank Corporation	5.0
The Goldman Sachs Group Inc.	4.9
First Republic Bank	4.9
First Citizens BancShares Inc., Class 'A'	4.9
U.S. Bancorp	4.7
JPMorgan Chase & Company	4.7
The PNC Financial Services Group Inc.	4.7
Regions Financial Corporation	4.7
Western Alliance Bancorporation	4.6
Citigroup Inc.	4.6
East West Bancorp Inc.	4.6
Comerica Inc.	4.5
Truist Financial Corporation	4.5
Huntington Bancshares Inc.	4.4
Wells Fargo & Company	4.4
Bank of America Corporation	4.2
Fifth Third Bancorp	4.1
Citizens Financial Group Inc.	4.1
KeyCorp	4.1
SVB Financial Group	4.0
Signature Bank	3.4
<b>Total</b>	<b>99.1</b>

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## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Financials	99.1
Derivative Assets	0.2
Derivative Liabilities	(0.5)
Cash and Cash Equivalents	1.4
Other Assets, less Liabilities	(0.2)
<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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