

Evolve European Banks Enhanced Yield ETF

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 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

Since the Fund effectively began operations on January 7, 2022, no performance data can be shown. The Fund's net assets were \$25.4MM as at June 30, 2022.

Portfolio Manager Commentary

At the end of June 2022, European Central Bank (ECB) President Christine Lagarde played down concerns about a recession in the euro zone, saying her team is ready to raise rates at a faster pace, if needed, if inflation continues to rise.(i)

The Eurozone is expected to see a headline inflation rate of 6.8% this year, well above the ECB's target of 2%.

Meanwhile, the region has seen growth levels deteriorate due to a number of factors; including an energy crisis, sanctions on Russia, and food insecurity.

According to the ECB President, "We have markedly revised down our forecasts for growth in the next two years. But we are still expecting positive growth rates due to the domestic buffers against the loss of growth momentum."(ii)

In June, the ECB forecast a GDP rate of 2.8% for the Eurozone this year, but economists are beginning to discuss the prospect of a recession toward year-end off the back of Russia's invasion of Ukraine and the impact that it is having on the global economy.

Investors are also wary of the high levels of debt in Europe, in particular in Italy, and how a return to tighter monetary policy could become a financial constraint for these economies. Nonetheless, the ECB confirmed in early June its intention to hike rates in July and then again after the summer. This would likely bring the ECB's deposit rate back out of negative territory and mark a massive moment for the central bank, which has kept rates below zero since 2014.(iii)

Currently, interest rates on the main refinancing operations, marginal lending facility, and deposit facility remain unchanged at 0.00%, 0.25%, and -0.50%, respectively.(iv)

At the end of the fiscal first quarter for banks, the index of European banks lost close to 30% in the aftermath of Russia's invasion of Ukraine, but the crisis has proven somewhat less disruptive than anticipated for financial markets.(v)

Italy's UniCredit, a holding in the Fund and one of Europe's banks with the most exposure to Russia, surprised the market by saying it would soon start a €1.6 billion share buyback even as Russia-related provisions drove first-quarter profit down by 70%.

In the meantime, France's Société Générale, a holding in the Fund, wrote off roughly €3.1 billion for the sale of its Russian arm Rosbank, but saw its shares rise by about 2.5% at the end of the first quarter, despite announcing additional costs due to the war impacting risks on loans. However, SocGen beat first quarter 2022 earnings expectations as its domestic retail arm prospered and trading improved.

BNP Paribas, a holding in the Fund, reported strong net income as trading boomed, regardless of the fact that it had to book a €159 million impairment on its 60% stake in Ukrainian lender Ukrsibbank.

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Arnaud Journois, credit analyst for DBRS Morningstar, commented, "Even if the Ukrainian crisis has had an impact, the rise in the cost of risk has been limited and well below other crises (like COVID-19)".

Performance Attribution

At the end of the six-month period ending June 30, 2022, CaixaBank SA was the largest contributor to the Fund's performance, followed by Standard Chartered PLC. The largest holding by weight in the Fund was HSBC Holdings PLC, followed by UBS Group AG.

(i) <https://www.cnn.com/2022/06/28/ecn-lagarde-plays-down-recession-risks-at-sintra-forum.html>

(ii) <https://www.cnn.com/2022/06/28/ecn-lagarde-plays-down-recession-risks-at-sintra-forum.html>

(iii) <https://www.cnn.com/2022/06/28/ecn-lagarde-plays-down-recession-risks-at-sintra-forum.html>

(iv) <https://www.cnn.com/2022/06/06/forex-markets-japanese-yen-dollar-euro.html>

(v) <https://www.reuters.com/world/europe/european-banks-weather-ukraine-war-q1-earnings-2022-05-05/>

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 six-month period ended June 30, 2022, the Fund incurred \$69,425 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 six-month period ended June 30, 2022, the Fund incurred \$17,356 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

	June 30, 2022 (\$)
For the period ended:	
Unhedged ETF Units - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	10.00
Increase (decrease) from operations:	
Total revenue	0.48
Total expenses	(0.16)
Realized gains (losses)	(0.28)
Unrealized gains (losses)	(2.53)
Total increase (decrease) from operations³	(2.49)
Distributions:	
From income (excluding dividends)	(0.30)
Total annual distributions⁴	(0.30)
Net Assets per Unit, end of period	7.29
Hedged ETF Units - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	10.00
Increase (decrease) from operations:	
Total revenue	0.50
Total expenses	(0.16)
Realized gains (losses)	0.31
Unrealized gains (losses)	(2.65)
Total increase (decrease) from operations³	(2.00)
Distributions:	
From income (excluding dividends)	(0.30)
Total annual distributions⁴	(0.30)
Net Assets per Unit, end of period	7.87
US Dollar Unhedged ETF Units - Net Assets per Unit⁵	
Net Assets per Unit, beginning of period ²	12.73
Increase (decrease) from operations:	
Total revenue	0.54
Total expenses	(0.20)
Realized gains (losses)	(0.33)
Unrealized gains (losses)	(3.29)
Total increase (decrease) from operations³	(3.28)
Distributions:	
From income (excluding dividends)	(0.38)
Total annual distributions⁴	(0.38)
Net Assets per Unit, end of period	9.28

- 1 This information is derived from the Fund's unaudited interim financial statements as at June 30, 2022. The Hedged, Unhedged, and US Dollar Unhedged ETF Units effectively began operations on January 7, 2022.
- 2 This amount represents the initial launch price.
- 3 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.
- 4 Distributions were paid in cash or reinvested in additional units of the Fund, or both. Actual distributions may vary slightly owing to rounding.
- 5 Per unit figures are stated in CAD equivalent.

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The Fund's Ratios/Supplemental Data

	June 30, 2022
For the period ended:	
Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁶	5,830,074
Number of units outstanding ⁶	800,000
Management expense ratio ⁷	0.84%
Trading expense ratio ⁸	1.57%
Portfolio turnover rate ⁹	27.59%
Net Asset Value per unit (\$)	7.29
Closing market price (\$)	7.33
Hedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁶	17,739,453
Number of units outstanding ⁶	2,254,000
Management expense ratio ⁷	0.84%
Trading expense ratio ⁸	1.57%
Portfolio turnover rate ⁹	27.59%
Net Asset Value per unit (\$)	7.87
Closing market price (\$)	7.94
US Dollar Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁶	1,855,310
Number of units outstanding ⁶	200,000
Management expense ratio ⁷	0.84%
Trading expense ratio ⁸	1.57%
Portfolio turnover rate ⁹	27.59%
Net Asset Value per unit (\$)	9.28
Closing market price (\$)	9.32

6 This information is provided as at June 30, 2022.

7 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.

8 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.

9 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

Since the Fund is a reporting issuer for less than one year, with inception date January 7, 2022, providing performance data for the period is not permitted.

Summary of Investment Portfolio

All Positions

	Percentage of Net Asset Value (%)
Security	
CaixaBank SA	5.7
ING Groep NV	5.7
Standard Chartered PLC	5.6

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All Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
UniCredit SpA	5.6
HSBC Holdings PLC	5.4
Natwest Group PLC	5.3
Barclays PLC	5.2
Banco Santander SA	5.1
Lloyds Banking Group PLC	4.9
UBS Group AG	4.8
Intesa Sanpaolo SpA	4.8
Banco Bilbao Vizcaya Argentaria SA	4.8
DNB Bank ASA	4.7
Societe GE EUR1.25	4.7
Skandinaviska Enskilda Banken AB, Class 'A'	4.6
Nordea Bank Abp	4.6
BNP Paribas SA	4.6
KBC Group NV	4.5
Credit Agricole SA	4.5
Credit Suisse Group AG	4.4
Total	99.5

Industry Allocation

	Percentage of Net Asset Value (%)
Portfolio by Category	
Equities	
Financials	99.5
Derivative Assets	0.7
Derivative Liabilities	(1.0)
Cash and Cash Equivalents	0.7
Other Assets, less Liabilities	0.1
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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