

# Evolve Active Core Fixed Income 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 Active Core Fixed Income Fund (the "Fund") seeks to provide a stable rate of return, primarily through income, and to a lesser extent, capital appreciation. The Fund invests primarily in domestic and international high quality fixed income securities, and to a lesser extent, adding yield or enhancing returns on the portfolio by opportunistically investing in international fixed income securities, emerging market debt, preferred shares, convertible bonds and non-investment grade bonds.

## 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, Unhedged ETF Units returned -13.3%. The Unhedged Class A Mutual Fund Units returned -13.6% and the Unhedged Class F Mutual Fund Units returned -13.3%. The Fund's net assets were \$18.9MM as at June 30, 2022.

## Portfolio Manager Commentary

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During the first half of the year, Central banks across the U.S., U.K., Europe, Canada, and Australia began intensifying the pace of interest rate hikes to combat price pressures.

Interest rates rose across the curve as the bond market moved to price in higher expectations for a tightening of monetary policy this year. Equity market negative price volatility continued in the second quarter as interest rates continued to rise, driven by aggressive Central Bank monetary policy tightening and inflation concerns.

The S&P/TSX Composite Index reported a loss of -13.2% during the second quarter, while the MSCI World Index (CAD) also made a similar loss of 13.4%. The FTSE Canada Universe Bond Index continued its downward trend by falling 5.7%, while the BarCap Global Credit Index (USD) declined 3.5% as interest rates rose. The Canadian Dollar depreciated versus its US counterpart during the second quarter of 2022 by 2.8%, which helped offset the decline in foreign bond returns.(i)

Yield on bellwether U.S. 10-year Treasuries climbed to 3.5% in mid-June, the highest level since 2011, before ending the quarter at a level of 2.9%. At its lowest point in mid-June 2022, the Bloomberg U.S. Aggregate Bond Index returned -12% for the year, far exceeding its next worst performance of -2.9% recorded in 1984.

The S&P 500 slumped 21% for the first half of 2022 as a result of aggressive tightening, sending the market in bear territory. The tech-heavy Nasdaq fell harder, plummeting 30% over the six months ending June 2022. Similar falls characterized both international developed and emerging market equities, with the MSCI EAFE index falling 21% and the MSCI Emerging Markets index tumbling 19%.

Beneath the dismal market performance is the U.S. Federal Reserve's desire to rapidly raise interest rates to suppress record inflation. After hiking rates by 25bps in March 2022, the Fed followed up with rate hikes of 50bps and 75bps in May and June of 2022, respectively. In the meantime, the Bank of Canada hiked the overnight target rate twice by 50bps during the second quarter (for a total of 100bps). Both Central Banks signalled that more interest rate hikes are on the horizon.

In the fixed income market, the yield on 10-year U.S. treasuries spiked to 3.5% in mid-June, the highest level since April 2011, imposing substantial losses on fixed income investors. However, the yield on 10-year treasuries slid to 2.9% at the end of the second quarter, offering some respite to bruised bondholders.

Further, the constant push and pull between inflation expectations and recession fears with an aggressive Fed in the background meant that 2-Year Treasuries continue to catch up with 10-Year Treasury notes. The spread between these two maturities ended the quarter flat, indicating another sign of slowing growth in the U.S.

Frantic action in bond markets drove significant fixed income volatility. The MOVE gauge of volatility sprang to its highest level since March 2020, as bond market participants struggled for direction. Other bond market indicators such as rising spreads for junk bonds and the cost of protecting corporate bonds against defaults point to further difficulties.(ii)

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The Fund declined alongside the broader bond market during the second quarter of 2022. Underperformance during the month was attributable to the off-benchmark allocation to Preferred Shares which declined more than Canadian bonds; although this was partially offset by the allocation to Global bonds which outperformed the broader bond market in Canadian dollar terms.

The underlying Core Bonds component of the Fund also had a negative impact on relative performance due the portfolio's longer than benchmark duration; however, overall the Fund's duration is shorter than its' benchmark's.

2022 will be a transition year as central banks raise administered monetary policy rates and start to reverse bond purchase programs. Given that global monetary policy evolves at different speeds, some central banks will move to tighten while others will maintain extraordinarily easy policy.

(i) <https://www.sunlifeglobalinvestments.com/en/insights/commentary/market-updates/q2-2022-market-update/>

(ii) <https://www.sunlifeglobalinvestments.com/en/insights/commentary/market-updates/q2-2022-market-update/>

## 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 Investment Review Committee.

## Management Fees

The Manager is entitled to an annual management fee of 0.45% of the net asset value of the Unhedged ETF Units and the Unhedged Class F Mutual Fund Units and 1.20% 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 six-month period ended June 30, 2022, the Fund incurred \$65,170 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 \$32,607 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>

	June 30, 2022 (\$)	December 31, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)	December 31, 2018 (\$)
For the periods ended:					
<b>Unhedged ETF Units - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	20.45	20.91	19.75	19.37	20.01
<b>Increase (decrease) from operations:</b>					
Total revenue	0.33	0.64	0.71	0.66	0.48
Total expenses	(0.05)	(0.11)	(0.11)	(0.11)	(0.12)
Realized gains (losses)	(0.75)	(0.37)	0.56	0.12	(0.03)
Unrealized gains (losses)	(2.30)	(0.06)	0.22	0.34	(0.40)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(2.77)</b>	<b>0.10</b>	<b>1.38</b>	<b>1.01</b>	<b>(0.07)</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.33)	(0.38)	(0.47)	(0.47)	(0.32)
From dividends	-	(0.15)	(0.15)	(0.06)	(0.01)
From capital gains	-	-	-	(0.07)	(0.01)
Return of capital	-	(0.13)	(0.04)	(0.06)	(0.16)
<b>Total annual distributions<sup>3</sup></b>	<b>(0.33)</b>	<b>(0.66)</b>	<b>(0.66)</b>	<b>(0.66)</b>	<b>(0.50)</b>
<b>Net Assets per Unit, end of period</b>	<b>17.42</b>	<b>20.45</b>	<b>20.91</b>	<b>19.75</b>	<b>19.37</b>
<b>Unhedged Class A - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	20.64	21.27	20.09	20.17	N/A
<b>Increase (decrease) from operations:</b>					
Total revenue	0.33	0.65	0.63	0.05	N/A
Total expenses	(0.13)	(0.28)	(0.28)	0.01	N/A
Realized gains (losses)	(0.64)	(0.36)	0.08	0.12	N/A
Unrealized gains (losses)	(2.50)	(0.13)	1.85	(0.09)	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(2.94)</b>	<b>(0.12)</b>	<b>2.28</b>	<b>0.09</b>	<b>N/A</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.33)	(0.33)	(0.30)	-	N/A
From dividends	-	(0.13)	(0.09)	-	N/A
Return of capital	-	(0.20)	-	-	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.33)</b>	<b>(0.66)</b>	<b>(0.39)</b>	<b>-</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>17.51</b>	<b>20.64</b>	<b>21.27</b>	<b>20.09</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:	June 30, 2022 (\$)	December 31, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)	December 31, 2018 (\$)
<b>Unhedged Class F - Net Assets per Unit</b>					
Net Assets per Unit, beginning of period	21.07	21.54	20.26	20.19	N/A
<b>Increase (decrease) from operations:</b>					
Total revenue	0.34	0.64	0.70	0.04	N/A
Total expenses	(0.05)	(0.11)	(0.13)	0.01	N/A
Realized gains (losses)	(0.80)	(0.18)	0.23	0.13	N/A
Unrealized gains (losses)	(2.28)	(0.08)	1.14	0.08	N/A
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(2.79)</b>	<b>0.27</b>	<b>1.94</b>	<b>0.26</b>	<b>N/A</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.33)	(0.35)	(0.30)	-	N/A
From dividends	-	(0.13)	(0.09)	-	N/A
Return of capital	-	(0.18)	-	-	N/A
<b>Total annual distributions<sup>3</sup></b>	<b>(0.33)</b>	<b>(0.66)</b>	<b>(0.39)</b>	<b>-</b>	<b>N/A</b>
<b>Net Assets per Unit, end of period</b>	<b>17.96</b>	<b>21.07</b>	<b>21.54</b>	<b>20.26</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 statements as at December 31, 2021, 2020, 2019, and 2018. The Unhedged ETF Units effectively began operations on March 28, 2018 and the Unhedged Class A and F Mutual Fund Units effectively began operations on June 4, 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:	June 30, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	15,678,961	22,492,306	16,207,407	30,612,500	24,693,049
Number of units outstanding <sup>4</sup>	900,000	1,100,000	775,000	1,550,000	1,275,000
Management expense ratio <sup>5</sup>	0.51%	0.50%	0.55%	0.58%	0.60%
Trading expense ratio <sup>6</sup>	0.03%	0.03%	0.02%	0.00%	0.18%
Portfolio turnover rate <sup>7</sup>	70.75%	134.05%	86.86%	30.80%	52.41%
Net Asset Value per unit (\$)	17.42	20.45	20.91	19.75	19.37
Closing market price (\$)	17.41	20.43	20.81	19.80	19.33
<b>Unhedged Class A - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	35,158	97,975	77,699	20	N/A
Number of units outstanding <sup>4</sup>	2,008	4,748	3,653	1	N/A
Management expense ratio <sup>5</sup>	1.35%	1.30%	1.34%	0.00%	N/A
Trading expense ratio <sup>6</sup>	0.03%	0.03%	0.02%	0.00%	N/A
Portfolio turnover rate <sup>7</sup>	70.75%	134.05%	86.86%	30.80%	N/A
Net Asset Value per unit (\$)	17.51	20.64	21.27	20.09	N/A

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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
<b>Unhedged Class F - Ratios/Supplemental Data</b>					
Total Net Asset Value (\$) <sup>4</sup>	3,186,912	3,964,783	304,424	20	N/A
Number of units outstanding <sup>4</sup>	177,399	188,134	14,131	1	N/A
Management expense ratio <sup>5</sup>	0.51%	0.51%	0.60%	0.00%	N/A
Trading expense ratio <sup>6</sup>	0.03%	0.03%	0.02%	0.00%	N/A
Portfolio turnover rate <sup>7</sup>	70.75%	134.05%	86.86%	30.80%	N/A
Net Asset Value per unit (\$)	17.96	21.07	21.54	20.26	N/A

4 This information is provided as at June 30, 2022 and December 31, 2021, 2020, 2019, and 2018.

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.

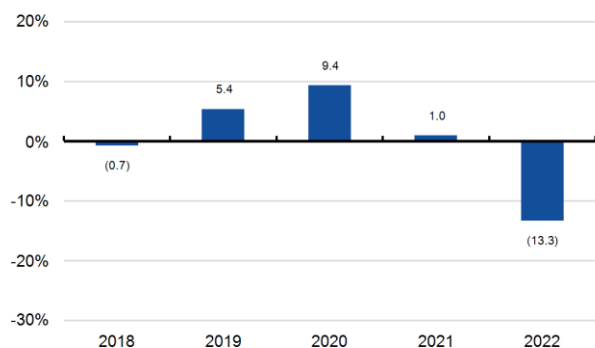
## Past Performance

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.

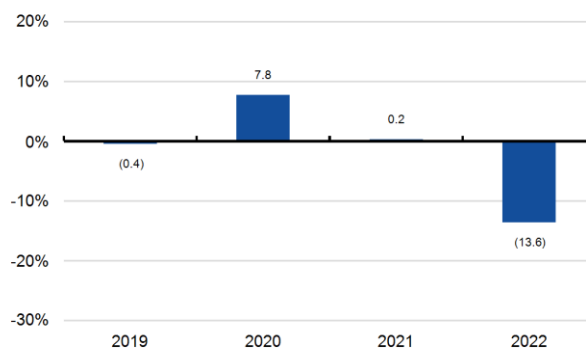
## Year-by-Year Returns

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 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 would have grown or decreased by the last day of the period.

### FIXD Unhedged ETF Units<sup>1</sup>



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



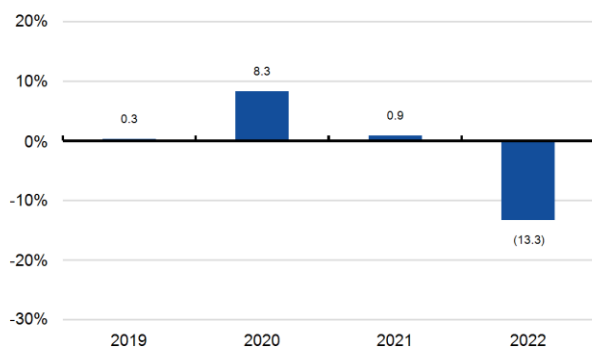
1 The Unhedged ETF Units of the Fund effectively began operations on March 28, 2018.

2 The Unhedged Class A Mutual Fund Units of the Fund effectively began operations on June 4, 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 June 4, 2019.

## Summary of Investment Portfolio

### Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
Evolve Active Global Fixed Income Fund	18.6
Government of Canada	4.8
Province of Ontario	4.2
Hydro-Quebec	3.9
Evolve Active Canadian Preferred Share ETF	3.5
Province of Ontario	2.6
Province of Ontario	2.3
Royal Office Finance Limited Partnership, Serie	2.0
Fair Hydro Trust, Callable	1.9
Original Wempi Inc., Series 'B2'	1.8
Manulife Financial Corporation, Variable, Callable, Callable	1.8
Royal Bank of Canada, Variable, Callable	1.7
Government of Canada	1.7
Government of Canada	1.6
The Hospital for Sick Children, Series 'A'	1.4
Sun Life Financial Inc., Variable, Callable.	1.4
Federation des caisses Desjardins du Quebec, Variable, Callable	1.4
Canada Post Corporation	1.4
Brookfield Asset Management Inc.	1.2
Keyera Corporation, Callable.	1.2
Enbridge Inc., Variable, Callable	1.2
Enbridge Southern Lights L.P.	1.1
TransCanada Trust, Variable, Callable	1.1
Province of British Columbia	1.0
International Bank for Reconstruction and Development	1.0
<b>Total</b>	<b>65.8</b>

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## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Debt Instruments</b>	
Asset-Backed Securities	1.1
Communication Services	2.3
Consumer Discretionary	2.1
Consumer Staples	0.6
Energy	11.5
Financials	21.4
Government	30.7
Health Care	1.6
Industrials	1.5
Real Estate	2.2
Utilities	1.7
<b>Equities</b>	
ETFs - Domestic Equity	3.5
ETFs - International Fixed Income	18.6
Cash and Cash Equivalents	0.9
Other Assets, less Liabilities	0.3
<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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