

Evolve S&P/TSX 60 Enhanced Yield Fund

December 31, 2023

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 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 S&P/TSX 60 Enhanced Yield Fund (the "Fund") seeks to provide long-term capital growth by replicating, net of fees and expenses, the performance of the S&P/TSX 60 Index, or any successor thereto, while mitigating downside risk. The Fund invests primarily in the equity constituents of the S&P/TSX 60 Index, or any successor thereto, while writing covered call options on up to 33% of the portfolio, 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 9, 2023, no performance data can be shown. The Fund's net assets were \$26.1MM as at December 31, 2023.

Portfolio Manager Commentary

In 2023, the performance of the S&P/TSX 60 was marked by significant resilience and adaptability in a year rife with economic challenges and sectorial shifts. The technology sector in Canada, in particular, stood out as a strong performer, staging an impressive rebound after a difficult year in 2022. Companies like Celestica Inc. and Shopify Inc. led the charge with triple-digit gains during the year, underscoring Canada's growing significance in the global technology industry. Canadian technology stocks soared, outperforming their U.S. counterparts and other global technology benchmarks, with CIBC World Markets hailing it as "the best performance globally among technology peers". Despite this, the technology sector's overall impact on the S&P/TSX 60 was moderated by its smaller weighting as compared to U.S. indices such as the S&P 500 and Nasdaq 100.¹

The Canadian financial sector started the year in the shadow of aggressive rate hikes by the Bank of Canada, causing Canadian banks to face the threat of increased borrower defaults and tightened economic conditions. Yet, the sector showed remarkable resilience, with banks largely avoiding the fallout from the international banking crisis following the collapse of Silicon Valley Bank in March.² Despite a contraction in loan growth and overall heightened risk awareness, Canadian Banks reported varied but strong earnings results during the year. By the end of the year, the sector had begun to respond positively to the anticipated easing of interest rates into 2024, bolstered by the stability of Lifecos, which thrived despite broader market challenges.^{3,4}

The healthcare sector in Canada also saw an impressive year, with stocks surging over 20% and the S&P/TSX Capped Health Care Index recording its first annual gain in six years. Canadian energy companies also had a positive year, although underperforming the broader index, they returned just over 6% during 2023. In contrast, the materials sector, which includes precious, base metal miners and fertilizer companies, was among the worst performing sectors within the index, dropping about 2.9% during the year.^{5,6}

The broader macroeconomic environment played a pivotal role in shaping the S&P/TSX 60's trajectory over the year. As the year progressed, easing inflation rates, which by November had dropped closer to the Bank of Canada's target at 3.1%, suggested a potential end to the rate hiking cycle. This shift buoyed investor sentiment and brought a wave of optimism, particularly as it relates to the Canadian financial sector. Although battling inflationary winds, Canadian stocks rebounded from last year's declines to climb 8% in the year, entering 2024 with fresh hopes of an interest rate cut by the Bank of Canada.^{7,8}

Performance Attribution

For the twelve-month period ending December 31, 2023, Shopify Inc. made the biggest contribution to the Fund, followed by Brookfield Asset Management Inc. By weight, the Fund's largest holdings were iShares S&P/TSX 60 Index ETF, Royal Bank of Canada, and Toronto-Dominion Bank.

(1) <https://www.bloomberg.com/news/articles/2023-12-28/canadian-tech-stocks-powered-by-shopify-zoom-past-nasdaq-100>

(2) <https://www.theglobeandmail.com/business/article-canada-banks-second-quarter-earnings/>

(3) <https://evolveetfs.com/2023/12/behind-the-numbers-unpacking-the-q4-earnings-report-of-major-canadian-banks/>

(4) <https://www.theglobeandmail.com/business/article-how-home-and-auto-insurers-trounced-the-big-six-banks-and-became/>

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(5) <https://www.reuters.com/markets/tsx-eyes-higher-open-last-trading-day-year-2023-12-29/>

(6) <https://www.spglobal.com/spdji/en/indices/equity/sp-tsx-composite-energy-sector-index/#overview>

(7) <https://www.statista.com/statistics/1312251/canada-inflation-rate-bank-rate-monthly/>

(8) <https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/>

Recent Developments

There are no known changes at this time to the investment strategy of the Fund or the Manager.

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 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 of the Fund, accrued daily and generally paid monthly in arrears. The Manager is entitled to an annual management fee of 1.45% of the net asset value of the Unhedged Class A Mutual Fund Units of the Fund, accrued daily and generally paid monthly in arrears. The Manager is entitled to an annual management fee of 0.30% of the net asset value of the Unhedged Class H Mutual Fund Units of the Fund, accrued daily and generally paid monthly in arrears. For the year ended December 31, 2023, the Fund incurred \$72,399 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, 2023, the Fund incurred \$22,757 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

	December 31, 2023 (\$)
For the period ended:	
Unhedged ETF Units - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	20.00
Increase (decrease) from operations:	
Total revenue	0.64
Total expenses	(0.21)
Realized gains (losses)	(0.04)
Unrealized gains (losses)	1.35
Total increase (decrease) from operations³	1.74
Distributions:	
From dividends	(0.26)
From capital gains	(0.18)
Return of capital	(1.48)
Total annual distributions⁴	(1.92)
Net Assets per Unit, end of period	19.41
Unhedged Class A - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	20.00
Increase (decrease) from operations:	
Total revenue	0.62
Total expenses	(0.41)
Realized gains (losses)	(0.18)
Unrealized gains (losses)	2.48
Total increase (decrease) from operations³	2.51
Distributions:	
From dividends	(0.35)
From capital gains	(0.14)
Return of capital	(1.43)
Total annual distributions⁴	(1.92)
Net Assets per Unit, end of period	19.22
Unhedged Class F - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	20.00
Increase (decrease) from operations:	
Total revenue	0.64
Total expenses	(0.21)
Realized gains (losses)	(0.04)
Unrealized gains (losses)	1.14
Total increase (decrease) from operations³	1.53
Distributions:	
From dividends	(0.30)
From capital gains	(0.17)
Return of capital	(1.45)
Total annual distributions⁴	(1.92)
Net Assets per Unit, end of period	19.42

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The Fund's Net Assets Per Unit¹ (cont'd)

	December 31, 2023 (\$)
For the period ended:	
Unhedged Class H - Net Assets per Unit	
Net Assets per Unit, beginning of period ²	20.00
Increase (decrease) from operations:	
Total revenue	0.07
Total expenses	(0.02)
Realized gains (losses)	(0.02)
Unrealized gains (losses)	0.25
Total increase (decrease) from operations³	0.28
Distributions:	
From dividends	(0.49)
From capital gains	(0.09)
Return of capital	(1.02)
Total annual distributions⁴	(1.60)
Net Assets per Unit, end of period	19.76

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2023. The Unhedged ETF Units and the Unhedged Class A, F, and H Mutual Fund Units effectively began operations on January 9, 2023.

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.

The Fund's Ratios/Supplemental Data

	December 31, 2023
For the period ended:	
Unhedged ETF Units - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁵	13,100,941
Number of units outstanding ⁵	675,000
Management expense ratio excluding proportion of expenses from underlying investment funds ⁶	0.68%
Management expense ratio ^{7,10}	0.71%
Trading expense ratio ⁸	0.43%
Portfolio turnover rate ⁹	142.86%
Net Asset Value per unit (\$)	19.41
Closing market price (\$)	19.39
Unhedged Class A - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁵	1,707,992
Number of units outstanding ⁵	88,858
Management expense ratio excluding proportion of expenses from underlying investment funds ⁶	1.78%
Management expense ratio ^{7,10}	1.81%
Trading expense ratio ⁸	0.43%
Portfolio turnover rate ⁹	142.86%
Net Asset Value per unit (\$)	19.22

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

	December 31, 2023
For the period ended:	
Unhedged Class F - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁵	6,163,102
Number of units outstanding ⁵	317,335
Management expense ratio excluding proportion of expenses from underlying investment funds ⁶	0.68%
Management expense ratio ^{7,10}	0.71%
Trading expense ratio ⁸	0.43%
Portfolio turnover rate ⁹	142.86%
Net Asset Value per unit (\$)	19.42
Unhedged Class H - Ratios/Supplemental Data	
Total Net Asset Value (\$) ⁵	5,145,787
Number of units outstanding ⁵	260,393
Management expense ratio excluding proportion of expenses from underlying investment funds ⁶	0.50%
Management expense ratio ^{7,10}	0.53%
Trading expense ratio ⁸	0.43%
Portfolio turnover rate ⁹	142.86%
Net Asset Value per unit (\$)	19.76

5 This information is provided as at December 31, 2023.

6 Management expense ratio excluding proportion of expenses from underlying investment funds 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 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.

10 The Fund's MER includes an estimated proportion of the MER for any underlying investment funds held in the Fund's portfolio during the period.

Past Performance

Since the Fund is a reporting issuer for less than one year, with inception date January 9, 2023, providing performance data for the period is not permitted.

Summary of Investment Portfolio

Top 25 Positions

Security	Percentage of Net Asset Value (%)
iShares S&P/TSX 60 Index ETF	12.1
Royal Bank of Canada	6.8
The Toronto-Dominion Bank	5.7
Shopify Inc., Class 'A'	4.5
Enbridge Inc.	3.7
Canadian Pacific Kansas City Limited	3.5
Canadian National Railway Company	3.5
Bank of Montreal	3.4

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Top 25 Positions (cont'd)

Security	Percentage of Net Asset Value (%)
Canadian Natural Resources Limited	3.4
The Bank of Nova Scotia	2.8
Brookfield Corporation	2.8
Constellation Software Inc.	2.3
Canadian Imperial Bank of Commerce	2.1
Alimentation Couche-Tard Inc.	2.1
Suncor Energy Inc.	2.0
TC Energy Corporation	1.9
Manulife Financial Corporation	1.9
Waste Connections Inc.	1.8
BCE Inc.	1.7
Barrick Gold Corporation	1.5
Sun Life Financial Inc.	1.5
Nutrien Limited	1.3
Intact Financial Corporation	1.3
Agnico Eagle Mines Limited	1.3
TELUS Corporation	1.2
Total	76.1

Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
Equities	
Communication Services	3.8
Consumer Discretionary	3.4
Consumer Staples	3.9
Energy	14.7
ETFs - Canadian Equity	12.1
Financials	30.9
Industrials	11.1
Information Technology	8.4
Materials	8.1
Real Estate	0.6
Utilities	2.8
Derivative Liabilities	(0.2)
Cash and Cash Equivalents	0.8
Other Assets, less Liabilities	(0.4)
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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