

# Evolve Global Materials & Mining Enhanced Yield Index ETF

December 31, 2022

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 Global Materials & Mining Enhanced Yield Index ETF (the “Fund”) seeks to replicate, to the extent reasonably possible and before fees and expenses, the performance of the Solactive Global Materials & Mining Index (the “Benchmark”), or any successor thereto, while mitigating downside risk. The Fund invests directly or indirectly in equity securities of global issuers engaged in the manufacturing, mining and/or integration of metals and materials, while writing covered call options on up to 33% of the portfolio securities, at the direction 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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Effective April 26, 2022, the risk rating of the Unhedged ETF Units was changed from “Medium to High” to “High”. 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, 2022, the Hedged ETF Units returned -3.9% versus the Solactive Materials & Mining Index PR CAD Hedge return of -9.3%. The Unhedged ETF Units returned 2.4% versus the Solactive Materials & Mining Index PR return of -3.0%. 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 \$57.4MM as at December 31, 2022.

## Portfolio Manager Commentary

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In March of 2022, commodity prices surged on supply fears related to sanctions on Russia as a direct result of the Russia-Ukraine war. In fact, before restrictive measures were imposed on Russia, 4.6% of net assets of this Fund were exposed to a Russian security (MMC Norilsk Nickel PJSC, ADR). The Portfolio Management team made the active decision to dispose of this position before sanctions were implemented in order to avoid any resulting liquidity issues related to the freezing of Russian assets. With Russia being a key exporter of precious metals such as aluminum, nickel, copper, steel, and coal; the prices of these basic materials surged as countries around the world sanctioned Russian exports in an attempt to stifle the country’s economy.<sup>1</sup> However, the Russia-Ukraine war is not the only factor putting pressure on the commodity market, or more specifically, basic materials and metal prices. Record high metals prices during the year, and more specifically battery metal prices, were also driven by supply chain pressures, inflation, and sharp demand growth. All of these factors have had a direct impact on materials and mining companies such as the ones within this Fund, as the index climbed steadily until mid-2022.<sup>2</sup>

Additionally, China’s COVID-Zero policy caused further uncertainty in commodity market demand during the year, as strict lockdowns and business closures have stifled the country’s production.<sup>3</sup> China saw additional challenges in August, when surging summer temperatures led to a power crisis which resulted in curtailed power supply to the industrial sector in Sichuan province, reducing the demand for metals. Similarly, in Europe, the EU faced an unprecedented energy crisis ignited by the Russia-Ukraine war. With supplies of Russian gas critical for heating, industrial process, and power, cut by more than 80% during 2022, wholesale prices of electricity and gas have surged by as much as 15 times since early 2021. These escalating power costs undermined the profitability of several aluminum producers and prompted them to either lower output or suspend operations altogether.<sup>4</sup>

Earnings reports released in 2022 reflected the headwinds that materials and mining companies faced during the year. For example, Alcoa Corporation, another holding in this Fund, reported a net loss of \$746 million or \$4.17 per share in the third quarter of 2022. Management explained the loss is primarily due to the decline in aluminum and alumina prices, higher energy and raw material costs, and restructuring related charges recorded in the third quarter.<sup>5</sup> Furthermore, Cleveland-Cliffs Inc. reported third quarter net income of \$165 million, or \$0.29 per diluted share, compared to \$1.3 billion, or \$2.33 per diluted share during the same period in 2021.<sup>6</sup> Some companies proved to be an exception to this, as DuPont de Nemours beat earnings estimates when they released third quarter earnings of \$0.82 per share.<sup>7</sup> They also announced net sales growth of 4% over the quarter and an increase in organic sales of 11% as compared to the same quarter in 2021.<sup>8</sup> RBC Bearings Inc. also reported strong earnings when they released fiscal second quarter results in November, announcing adjusted diluted earnings per share of \$1.93 as compared to \$1.16 in the same quarter in the prior year. Furthermore, the company reported net sales of \$369.2 million, an increase of 129.4% over 2021.<sup>9</sup> Other notable headlines during the year included the announcement made by Rio Tinto, a holding in this Fund, announcing the acquisition of Canadian copper mining company Turquoise Hill Resources for \$3.3 billion on September 5, 2022.<sup>10</sup>

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## Performance Attribution

For the twelve month period ending December 31, 2022, Steel Dynamics Inc. made the biggest contribution to the Fund, followed by Vale S.A. and Reliance Steel & Aluminum Co. By weight, the Fund's largest holdings were Alcoa Corporation, ArcelorMittal, and BHP Group Limited.

(1) <https://www.spglobal.com/commodityinsights/en/market-insights/videos/market-movers-europe/102422-oil-q3-results-iaa-power-edf-nuclear-france-eu-ministers-gas-intervention-1meweek-global-metals-awards-london>

(2) <https://www.bnef.com/insights/29319>

(3) <https://www.fitchratings.com/research/corporate-finance/chinas-zero-covid-policy-uncertainty-will-drive-commodities-markets-16-12-2022>

(4) <https://www.bnef.com/insights/29939>

(5) <https://investors.alcoa.com/news-releases/news-release-details/2022/Alcoa-Corporation-Reports-Third-Quarter-2022-Results/default.aspx>

(6) <https://www.clevelandcliffs.com/investors/news-events/press-releases/detail/560/cleveland-cliffs-reports-third-quarter-2022-results-and#:~:text=For%20the%20nine%20months%20ended,or%20%243.69%20per%20diluted%20share.>

(7) [https://ca.style.yahoo.com/duPont-nemours-dd-beats-q3-121512273.html?guccounter=1&guce\\_referrer=aHR0cHM6Ly93d3cuZ29vZ2xLmNvbS&guce\\_referrer\\_sig=AQAAAErHu0Vhe\\_JGc-7xBwpxQemdMS-\\_XGa01r6jjRHdy9TPVWa3exITvumNF42y4lgrLluYgmjo8CYWY8KhPk4rYh3sUa4TT8La49XUsdfit8\\_iT\\_Lk-sUZXEEnEXBlj3nprKXDALQAqIbDLXxs1F6JXK9zYCuLzjGJNfg5FKDSm7dh](https://ca.style.yahoo.com/duPont-nemours-dd-beats-q3-121512273.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xLmNvbS&guce_referrer_sig=AQAAAErHu0Vhe_JGc-7xBwpxQemdMS-_XGa01r6jjRHdy9TPVWa3exITvumNF42y4lgrLluYgmjo8CYWY8KhPk4rYh3sUa4TT8La49XUsdfit8_iT_Lk-sUZXEEnEXBlj3nprKXDALQAqIbDLXxs1F6JXK9zYCuLzjGJNfg5FKDSm7dh)

(8) <https://www.investors.dupont.com/news-and-media/press-release-details/2022/DuPont-Reports-Third-Quarter-2022-Results/default.aspx>

(9) <https://investor.rbcbearings.com/news-releases/news-release-details/rbc-bearings-incorporated-announces-fiscal-2023-second-quarter>

(10) <https://www.reuters.com/markets/deals/rio-tinto-agrees-buy-remaining-stake-turquoise-hill-33-bln-2022-09-01/>

## Recent Developments

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In the year ended December 31, 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 are 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 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 are generally paid monthly. For the year ended December 31, 2022, the Fund incurred \$415,732 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.

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## 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, 2022, the Fund incurred \$103,933 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.

## 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, 2022	December 31, 2021	December 31, 2020	December 31, 2019
For the periods ended:	(\$)	(\$)	(\$)	(\$)
<b>Unhedged ETF Units - Net Assets per Unit</b>				
Net Assets per Unit, beginning of period	27.73	24.91	21.33	20.00
<b>Increase (decrease) from operations:</b>				
Total revenue	1.34	1.24	0.58	0.41
Total expenses	(0.40)	(0.40)	(0.33)	(0.20)
Realized gains (losses)	0.13	1.95	0.81	(0.42)
Unrealized gains (losses)	(0.60)	1.26	5.48	3.46
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.47</b>	<b>4.05</b>	<b>6.54</b>	<b>3.25</b>
<b>Distributions:</b>				
From dividends	(0.97)	(0.96)	(0.30)	(0.15)
From capital gains	(0.23)	(0.61)	(0.78)	-
Return of capital	(1.08)	(0.16)	(0.12)	(0.45)
<b>Total annual distributions<sup>3</sup></b>	<b>(2.28)</b>	<b>(1.73)</b>	<b>(1.20)</b>	<b>(0.60)</b>
<b>Net Assets per Unit, end of period</b>	<b>26.01</b>	<b>27.73</b>	<b>24.91</b>	<b>21.33</b>

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

For the periods ended:	December 31, 2022 (\$)	December 31, 2021 (\$)	December 31, 2020 (\$)	December 31, 2019 (\$)
<b>Hedged ETF Units - Net Assets per Unit</b>				
Net Assets per Unit, beginning of period	29.01	25.71	21.50	20.00
<b>Increase (decrease) from operations:</b>				
Total revenue	1.39	1.27	0.58	0.44
Total expenses	(0.41)	(0.42)	(0.33)	(0.21)
Realized gains (losses)	(1.18)	(0.03)	1.08	(0.09)
Unrealized gains (losses)	(3.13)	1.18	5.02	2.01
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>(3.33)</b>	<b>2.00</b>	<b>6.35</b>	<b>2.15</b>
<b>Distributions:</b>				
From dividends	(0.97)	(0.77)	(0.25)	(0.11)
From capital gains	(0.23)	(0.70)	(0.65)	-
Return of capital	(1.08)	(0.26)	(0.30)	(0.49)
<b>Total annual distributions<sup>3</sup></b>	<b>(2.28)</b>	<b>(1.73)</b>	<b>(1.20)</b>	<b>(0.60)</b>
<b>Net Assets per Unit, end of period</b>	<b>25.60</b>	<b>29.01</b>	<b>25.71</b>	<b>21.50</b>

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2022, 2021, 2020, and 2019. The Hedged and Unhedged ETF Units effectively began operations on June 11, 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:	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>				
Total Net Asset Value (\$) <sup>4</sup>	26,665,302	30,501,225	24,286,886	10,663,210
Number of units outstanding <sup>4</sup>	1,025,000	1,100,000	975,000	500,000
Management expense ratio <sup>5</sup>	0.82%	0.82%	0.85%	0.84%
Trading expense ratio <sup>6</sup>	0.20%	0.25%	0.43%	0.61%
Portfolio turnover rate <sup>7</sup>	94.32%	69.36%	82.01%	61.38%
Net Asset Value per unit (\$)	26.01	27.73	24.91	21.33
Closing market price (\$)	25.87	27.70	24.97	21.29
<b>Hedged ETF Units - Ratios/Supplemental Data</b>				
Total Net Asset Value (\$) <sup>4</sup>	30,714,926	29,012,779	2,571,290	1,612,226
Number of units outstanding <sup>4</sup>	1,200,000	1,000,000	100,000	75,000
Management expense ratio <sup>5</sup>	0.84%	0.85%	0.85%	0.85%
Trading expense ratio <sup>6</sup>	0.20%	0.25%	0.43%	0.61%
Portfolio turnover rate <sup>7</sup>	94.32%	69.36%	82.01%	61.38%
Net Asset Value per unit (\$)	25.60	29.01	25.71	21.50
Closing market price (\$)	25.54	29.08	25.70	21.50

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

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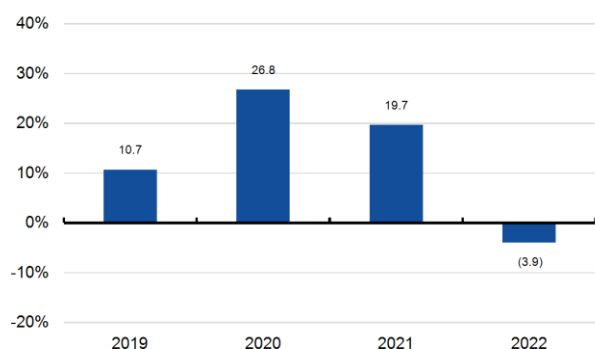
## Past Performance

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.

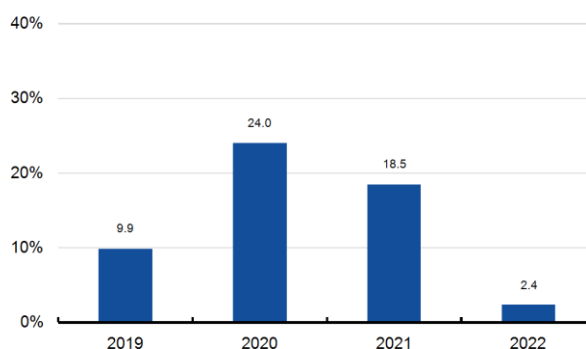
## Year-by-Year Returns

The bar chart below shows the Hedged and 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.

**BASE Hedged ETF Units<sup>1</sup>**



**BASE/B Unhedged ETF Units<sup>2</sup>**



1 The Hedged ETF Units of the Fund effectively began operations on June 11, 2019.

2 The Unhedged ETF Units of the Fund effectively began operations on June 11, 2019.

## Annual Compound Return

The table below shows the historical annual compound total return of the Hedged and Unhedged ETF Units. The returns are for period ended December 31, 2022. 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	14.4	(3.9)	13.4
Solactive Materials & Mining Index PR CAD Hedge	8.8	(9.3)	6.6
Unhedged ETF Units	15.2	2.4	14.6
Solactive Materials & Mining Index PR	12.8	(3.0)	11.8

1 From inception date of June 11, 2019.

## Summary of Investment Portfolio

### All Positions

	Percentage of Net Asset Value (%)
Security	
Freeport-McMoRan Inc.	5.6

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## All Positions (cont'd)

	Percentage of Net Asset Value (%)
Security	
Gold Fields Limited, ADR	5.6
Rio Tinto PLC, ADR	5.5
DuPont de Nemours Inc.	5.4
POSCO Holdings Inc., ADR	5.4
Vale SA, ADR	5.3
BHP Group Limited, ADR	5.3
Southern Copper Corporation	5.3
Steel Dynamics Inc.	5.2
ArcelorMittal SA	5.2
Alcoa Corporation	4.9
Sibanye Stillwater Limited	4.9
Eastman Chemical Company	4.6
Cleveland-Cliffs Inc.	4.6
Nucor Corporation	4.6
Dow Inc.	4.6
Reliance Steel & Aluminum Company	4.6
Newmont Corporation	4.4
RBC Bearings Inc.	4.1
Sociedad Quimica y Minera de Chile SA, ADR	3.9
<b>Total</b>	<b>99.0</b>

## Industry Allocation

	Percentage of Net Asset Value (%)
Portfolio by Category	
<b>Equities</b>	
Industrials	4.1
Materials	94.9
Derivative Assets	0.3
Derivative Liabilities	(0.6)
Cash and Cash Equivalents	2.1
Other Assets, less Liabilities	(0.8)
<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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