

# Evolve European Banks Enhanced Yield ETF

June 30, 2023

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 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

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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, 2023, the Unhedged ETF Units returned 10.5% versus the Solactive European Bank Top 20 Equal Weight Index return of 13.3%. The Hedged ETF Units returned 12.5% versus Solactive European Bank Top 20 Equal Weight Index return of 13.3%. The US Dollar Unhedged ETF Units returned 12.9% versus the Solactive European Bank Top 20 Equal Weight Index return of 13.3%. 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 and to portfolio trading. 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 \$8.3MM as at June 30, 2023.

## Portfolio Manager Commentary

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In the first half of 2023, the European banking sector faced significant turbulence, with geopolitical conflicts and industry-specific challenges having a considerable impact on sector performance. The Russia-Ukraine conflict led to a schism between Russian and European banking systems. Western banks considerably reduced their exposure to Russia, with many withdrawing from the Russian market altogether. Those banks which still have a presence in Russia have faced increased regulatory scrutiny and criticism.<sup>1</sup>

Another significant development in the European banking space was the rescue of Credit Suisse by UBS for 3 billion Swiss francs. The deal followed a series of heavy losses and negative headlines for Credit Suisse that raised concerns about the systemic risk the bank may pose to global markets. In the wake of the collapse of Silicon Valley Bank among others and the forced sale of Credit Suisse, there was a global sell-off of bank stocks, which was further compounded by the impact of rising interest rates. To illustrate, the S&P Europe BMI Banks index incurred significant losses during the period but has since recovered about two-thirds of those losses.<sup>2</sup>

European banks have initiated measures to stabilize the sector, such as share buybacks and ECB loan repayments.<sup>2</sup> As an example, Deutsche Bank AG's unexpected redemption of a \$1.5 billion tier 2 subordinated bond shortly after UBS' takeover of Credit Suisse. This move seemed to have reassured investors of the stability of European banks, as evidenced by a sharp rebound in the German lender's stock.<sup>3</sup>

Furthermore, as the final implementation of the Basel III reforms approaches, European banks face rising capital requirements from 2025. The introduction of the output floor, as part of these reforms, is expected to hit European banks harder than their global peers due to limiting the use of internal models to assess credit risk.<sup>4</sup>

## Performance Attribution

For the six month period ending June 30, 2023, Unicredit made the biggest contribution to the Fund, followed by Banco Bilbao Vizcaya Argentaria. By weight, the Fund's largest holdings were Danske Bank S/A, Standard Chartered PLC, and CaixaBank SA.

(1) <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/russia-ukraine-war-splinters-europe-s-banking-industry-74075106>

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(2) <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/european-banks-to-keep-calm-carry-on-with-billions-in-buybacks-ecb-repayments-75221799>

(3) <https://www.cnbc.com/2023/03/20/what-ubs-rescue-of-credit-suisse-cs-means-for-markets-and-banks.html>

(4) <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/european-banks-show-ample-capital-buffers-as-basel-iii-reforms-near-conclusion-76336198>

## 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 generally paid monthly. For the six-month period ended June 30, 2023, the Fund incurred \$48,327 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, 2023, the Fund incurred \$13,607 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, 2023 (\$)	December 31, 2022 (\$)
For the periods ended:		
<b>Unhedged ETF Units - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period <sup>2</sup>	8.44	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.37	0.53
Total expenses	(0.13)	(0.21)
Realized gains (losses)	0.23	(1.00)
Unrealized gains (losses)	0.31	0.02
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>0.78</b>	<b>(0.66)</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.36)	-
From dividends	-	(0.49)
Return of capital	-	(0.17)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.36)</b>	<b>(0.66)</b>
<b>Net Assets per Unit, end of period</b>	<b>8.96</b>	<b>8.44</b>
<b>Hedged ETF Units - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period <sup>2</sup>	8.73	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.33	0.56
Total expenses	(0.12)	(0.22)
Realized gains (losses)	0.25	(0.78)
Unrealized gains (losses)	0.14	0.03
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>0.60</b>	<b>(0.41)</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.36)	-
From dividends	-	(0.29)
Return of capital	-	(0.37)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.36)</b>	<b>(0.66)</b>
<b>Net Assets per Unit, end of period</b>	<b>9.44</b>	<b>8.73</b>

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

	June 30, 2023	December 31, 2022
	(\$)	(\$)
For the periods ended:		
<b>US Dollar Unhedged ETF Units - Net Assets per Unit<sup>5</sup></b>		
Net Assets per Unit, beginning of period <sup>2</sup>	10.71	12.73
<b>Increase (decrease) from operations:</b>		
Total revenue	0.48	0.64
Total expenses	(0.16)	(0.26)
Realized gains (losses)	0.28	(1.22)
Unrealized gains (losses)	0.16	(0.36)
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>0.76</b>	<b>(1.20)</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.49)	-
From dividends	-	(0.61)
Return of capital	-	(0.33)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.49)</b>	<b>(0.94)</b>
<b>Net Assets per Unit, end of period</b>	<b>11.34</b>	<b>10.71</b>

- 1 This information is derived from the Fund's unaudited interim financial statements as at June 30, 2023 and the audited annual financial statements as at December 31, 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.

## The Fund's Ratios/Supplemental Data

	June 30, 2023	December 31, 2022
For the periods ended:		
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>6</sup>	4,480,202	7,592,142
Number of units outstanding <sup>6</sup>	500,000	900,000
Management expense ratio <sup>7</sup>	0.88%	0.85%
Trading expense ratio <sup>8</sup>	0.81%	0.99%
Portfolio turnover rate <sup>9</sup>	45.87%	96.36%
Net Asset Value per unit (\$)	8.96	8.44
Closing market price (\$)	9.05	8.42
<b>Hedged ETF Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>6</sup>	2,870,806	10,068,781
Number of units outstanding <sup>6</sup>	304,000	1,154,000
Management expense ratio <sup>7</sup>	0.88%	0.85%
Trading expense ratio <sup>8</sup>	0.81%	0.99%
Portfolio turnover rate <sup>9</sup>	45.87%	96.36%
Net Asset Value per unit (\$)	9.44	8.73
Closing market price (\$)	9.44	8.71

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

For the periods ended:	June 30, 2023	December 31, 2022
<b>US Dollar Unhedged ETF Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>6</sup>	964,251	1,981,682
Number of units outstanding <sup>6</sup>	85,000	185,000
Management expense ratio <sup>7</sup>	0.95%	0.84%
Trading expense ratio <sup>8</sup>	0.81%	0.99%
Portfolio turnover rate <sup>9</sup>	45.87%	96.36%
Net Asset Value per unit (\$)	11.34	10.71
Closing market price (\$)	11.39	10.63

6 This information is provided as at June 30, 2023 and December 31, 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.

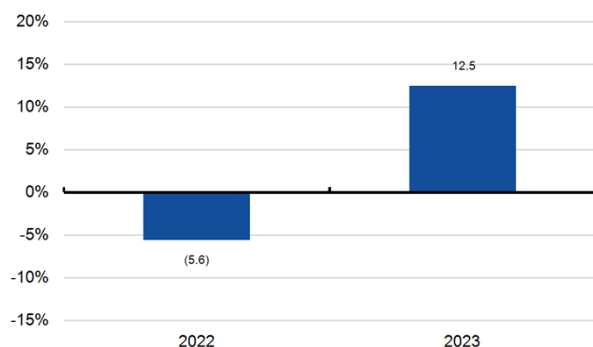
## Past Performance

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.

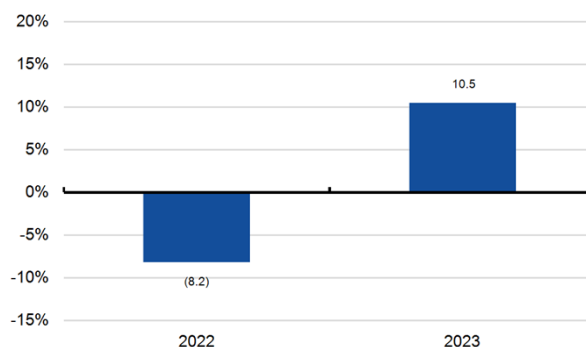
## Year-by-Year Returns

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, 2023. The chart shows, in percentage terms, how much an investment made in the Fund on the first day of each financial period would have grown or decreased by the last day of that financial period.

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



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



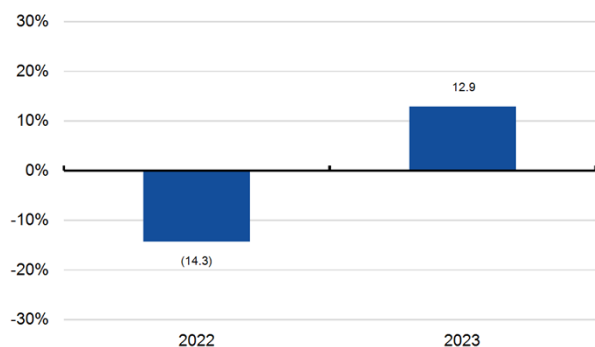
1 The Hedged ETF Units of the Fund effectively began operations on January 7, 2022

2 The Unhedged ETF Units of the Fund effectively began operations on January 7, 2022.

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## EBNK/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 January 7, 2022. Returns presented based on NAV equivalent in USD.

## Summary of Investment Portfolio

### All Positions

Security	Percentage of Net Asset Value (%)
Danske Bank A/S	5.6
Standard Chartered PLC	5.4
CaixaBank SA	5.3
Banco Bilbao Vizcaya Argentaria SA	5.3
UniCredit SpA	5.2
ING Groep NV	5.2
Societe Generale SA	5.1
DNB Bank ASA	5.0
Banco Santander SA	5.0
HSBC Holdings PLC	4.9
Nordea Bank Abp	4.9
KBC Group NV	4.9
Swedbank AB	4.9
Svenska Handelsbanken AB, Class 'A'	4.7
BNP Paribas SA	4.7
Skandinaviska Enskilda Banken AB, Class 'A'	4.7
Credit Agricole SA	4.6
Intesa Sanpaolo SpA	4.6
Lloyds Banking Group PLC	4.5
NatWest Group PLC	4.4
<b>Total</b>	<b>98.9</b>

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## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Financials	98.9
Derivative Assets	0.0
Derivative Liabilities	(0.9)
Cash and Cash Equivalents	1.6
Other Assets, less Liabilities	0.4
<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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