

# Evolve Enhanced Yield Bond 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](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 Enhanced Yield Bond Fund (the "Fund") seeks to provide Unitholders with attractive monthly income and long-term capital appreciation by investing primarily in fixed income ETFs or fixed income securities issued in either the United States or Canada. To enhance yield, as well as to mitigate risk and reduce volatility, the Fund will employ a covered call option writing program 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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Since the Hedged ETF Units effectively began operations on October 3, 2023, and the Hedged Class A and F Mutual Fund Units of the Fund effectively began operations on October 14, 2023, no performance data can be shown. The Fund's net assets were \$30.0MM as at December 31, 2023.

## Portfolio Manager Commentary

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In early 2023, markets rallied with optimism as signs of slowing inflation emerged, only to be tempered by persistent inflationary pressures during the year. This led to market repricing and increased volatility, with inflation remaining a key concern as it stayed above target levels, driven by service sector persistence and labor market dislocations impacting wages. Due to persistent inflationary pressures, the Federal Reserve raised the Federal Funds Rate by 0.25% four times in 2023 and then proceeded to hold steady at 5.50% in the September, November, and December meetings.<sup>1</sup> The Fed's pause in rate hikes indicates a shift towards a more accommodative policy stance amid cooling inflation and steady economic indicators.<sup>2</sup>

As the Fed seems to be nearing the end of its rate hiking cycle, investor anticipation for rate cuts has led to a rally in long-duration bonds, as yields move inversely to bond prices. If the market continues to adjust to the new expectations of lower future interest rates, long-duration bonds may see a further appreciation in their value.<sup>2</sup>

(1) <https://www.forbes.com/advisor/investing/fed-funds-rate-history/>

(2) <https://www.cnbc.com/2023/12/13/fed-interest-rate-decision-december-2023.html>

## Recent Developments

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

## 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 Hedged ETF Units and the Hedged 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 1.20% of the net asset value of the Hedged Class A Mutual Fund Units of the Fund, accrued daily and generally paid monthly in arrears. Since the Fund's inception, the Manager has waived the management fee on the Hedged ETF Units and the Hedged Class F Mutual Fund Units of the Fund until March 31, 2024. The Manager has reduced the management fee on the Hedged Class A Mutual Fund Units of the Fund to the amount of the trailing commission payable to a Unitholder's dealer until March 31, 2024. The effective annual management fee for the Hedged Class A Mutual Fund Units is 0.75%. For the year ended December 31, 2023, the Fund incurred \$433 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, 2023, the Fund incurred \$5,228 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 Unhedged and US Dollar Unhedged ETF Units of the Fund were qualified for distribution by a prospectus dated September 27, 2023. As of the date of this management report of fund performance (MRFP), the Fund has not offered any units to the public. Since the date of the Fund's initial statement of financial position dated September 27, 2023, no transactions or other activities have been undertaken by the Fund. As such, no financial highlights or management discussion are included in this MRFP. The statement of financial position of the Fund is available upon request, at no cost, by calling 1-844-370-4884, by writing to us at Evolve Funds Group Inc., 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.sedarplus.com](http://www.sedarplus.com).

## The Fund's Net Assets Per Unit<sup>1</sup>

	December 31, 2023 (\$)
For the period ended:	
<b>Unhedged ETF Units - Net Assets per Unit</b>	
Net Assets per Unit, beginning of period <sup>2</sup>	20.00
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	-
Realized gains (losses)	-
Unrealized gains (losses)	-
<b>Total increase (decrease) from operations<sup>3</sup></b>	-
<b>Distributions:</b>	
Return of capital	-
<b>Total annual distributions<sup>4</sup></b>	-
<b>Net Assets per Unit, end of period</b>	<b>20.00</b>

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

	December 31, 2023 (\$)
For the period ended:	
<b>Hedged ETF Units - Net Assets per Unit</b>	
Net Assets per Unit, beginning of period <sup>2</sup>	20.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.21
Total expenses	(0.06)
Realized gains (losses)	1.00
Unrealized gains (losses)	1.94
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>3.09</b>
<b>Distributions:</b>	
From dividends	(0.12)
From capital gains	(0.25)
Return of capital	(0.18)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.55)</b>
<b>Net Assets per Unit, end of period</b>	<b>22.27</b>
<b>US Dollar Unhedged ETF Units - Net Assets per Unit<sup>5</sup></b>	
Net Assets per Unit, beginning of period <sup>2</sup>	27.00
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	-
Realized gains (losses)	-
Unrealized gains (losses)	-
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>-</b>
<b>Distributions:</b>	
Return of capital	-
<b>Total annual distributions<sup>4</sup></b>	<b>-</b>
<b>Net Assets per Unit, end of period</b>	<b>27.00</b>
<b>Hedged Class A - Net Assets per Unit</b>	
Net Assets per Unit, beginning of period <sup>2</sup>	20.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.22
Total expenses	(0.10)
Realized gains (losses)	0.87
Unrealized gains (losses)	1.69
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>2.68</b>
<b>Distributions:</b>	
From dividends	(0.12)
Return of capital	(0.25)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.37)</b>
<b>Net Assets per Unit, end of period</b>	<b>21.95</b>

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

	December 31, 2023 (\$)
For the period ended:	
<b>Hedged Class F - Net Assets per Unit</b>	
Net Assets per Unit, beginning of period <sup>2</sup>	20.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.20
Total expenses	(0.05)
Realized gains (losses)	1.10
Unrealized gains (losses)	1.70
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>2.95</b>
<b>Distributions:</b>	
From dividends	(0.10)
From capital gains	(0.27)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.37)</b>
<b>Net Assets per Unit, end of period</b>	<b>21.97</b>

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2023. The Hedged ETF Units effectively began operations on October 3, 2023. The Hedged Class A and F Mutual Fund Units effectively began operations on October 14, 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.

5 Per unit figures are stated in CAD equivalent.

## The Fund's Ratios/Supplemental Data

	December 31, 2023
For the period ended:	
<b>Unhedged ETF Units - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>5</sup>	20
Number of units outstanding <sup>6</sup>	1
Management expense ratio excluding proportion of expenses from underlying investment funds <sup>7</sup>	N/A
Management expense ratio <sup>8,11,12</sup>	N/A
Trading expense ratio <sup>9</sup>	N/A
Portfolio turnover rate <sup>10</sup>	N/A
Net Asset Value per unit (\$)	20.00
Closing market price (\$)	N/A
<b>Hedged ETF Units - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>5</sup>	17,257,507
Number of units outstanding <sup>6</sup>	775,000
Management expense ratio excluding proportion of expenses from underlying investment funds <sup>7</sup>	0.17%
Management expense ratio <sup>8,11,12</sup>	0.27%
Trading expense ratio <sup>9</sup>	0.35%
Portfolio turnover rate <sup>10</sup>	53.45%
Net Asset Value per unit (\$)	22.27
Closing market price (\$)	22.31

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

	December 31, 2023
For the period ended:	
<b>US Dollar Unhedged ETF Units - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>6</sup>	27
Number of units outstanding <sup>6</sup>	1
Management expense ratio excluding proportion of expenses from underlying investment funds <sup>7</sup>	N/A
Management expense ratio <sup>8,11,12</sup>	N/A
Trading expense ratio <sup>9</sup>	N/A
Portfolio turnover rate <sup>10</sup>	N/A
Net Asset Value per unit (\$)	27.00
Closing market price (\$)	N/A
<b>Hedged Class A - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>6</sup>	790,468
Number of units outstanding <sup>6</sup>	36,009
Management expense ratio excluding proportion of expenses from underlying investment funds <sup>7</sup>	0.97%
Management expense ratio <sup>8,11,12</sup>	1.08%
Trading expense ratio <sup>9</sup>	0.35%
Portfolio turnover rate <sup>10</sup>	53.45%
Net Asset Value per unit (\$)	21.95
<b>Hedged Class F - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>6</sup>	11,978,628
Number of units outstanding <sup>6</sup>	545,304
Management expense ratio excluding proportion of expenses from underlying investment funds <sup>7</sup>	0.16%
Management expense ratio <sup>8,11,12</sup>	0.27%
Trading expense ratio <sup>9</sup>	0.35%
Portfolio turnover rate <sup>10</sup>	53.45%
Net Asset Value per unit (\$)	21.97

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

7 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.

8 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.

9 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.

10 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.

11 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.

12 Since the Fund's inception, the Manager has waived the management fee on the Hedged ETF Units and the Hedged Class F Units of the Fund until March 31, 2024. The Manager has reduced the management fee on the Hedged Class A Units of the Fund to the amount of the trailing commission payable to a Unitholder's dealer until March 31, 2024. The effective annual management fee for the Hedged Class A Units is 0.75%.

## Past Performance

Since the Fund is a reporting issuer for less than one year, with inception date October 3, 2023, for the Hedged ETF Units, and inception date October 14, 2023, for the Hedged Class A and F Mutual Fund Units, providing performance data for the period is not permitted.

# Evolve Enhanced Yield Bond Fund

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## Summary of Investment Portfolio

### All Positions

	Percentage of Net Asset Value (%)
Security	
iShares 20+ Year Treasury Bond ETF	59.9
Vanguard Long-Term Treasury ETF	40.0
<b>Total</b>	<b>99.9</b>

### Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
ETFs - United States Fixed Income	99.9
Derivative Assets	0.9
Derivative Liabilities	(0.7)
Cash and Cash Equivalents	0.9
Other Assets, less Liabilities	(1.0)
<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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