

# HUM

HAMILTON U.S.  
MID/SMALL CAP  
FINANCIALS ETF

## Hamilton U.S. Mid/Small-Cap Financials ETF (HUM, HUM.U:TSX)



**HAMILTON ETFs**  
FINANCIAL SECTOR SPECIALISTS

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# Contents

## **MANAGEMENT REPORT OF FUND PERFORMANCE**

Management Discussion of Fund Performance .....	5
Financial Highlights .....	10
Past Performance.....	13
Summary of Investment Portfolio .....	15

## **MANAGER’S RESPONSIBILITY FOR FINANCIAL REPORTING..... 17**

## **INDEPENDENT AUDITOR’S REPORT..... 18**

## **FINANCIAL STATEMENTS**

Statements of Financial Position .....	21
Statements of Comprehensive Income .....	22
Statements of Changes in Financial Position.....	23
Statements of Cash Flows.....	24
Schedule of Investments.....	25
Notes to Financial Statements .....	27

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## MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Hamilton U.S. Mid/Small-Cap Financials ETF (“HUM” or the “ETF”) contains financial highlights and is included with the audited annual financial statements for the investment fund. You may request a copy of the investment fund’s audited annual financial statements, annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosures, at no cost, by calling (416) 941-9888, by writing to Hamilton Capital Partners Inc. (“Hamilton ETFs” or the “Manager”), at 70 York Street, Suite 1520, Toronto, Ontario, M5J 1S9, by visiting our website at [www.hamiltonetfs.com](http://www.hamiltonetfs.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance, or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements.

Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the ETF may invest and the risks detailed from time to time in the ETF’s prospectus. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors. We caution that the foregoing list of factors is not exhaustive, and that when relying on forward-looking statements to make decisions with respect to investing in the ETF, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Manager does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

## Management Discussion of Fund Performance

### Investment Objective and Strategy

The investment objective of HUM is to seek long-term returns from an actively managed equity portfolio of, primarily, United States-based mid and small-cap financial services companies. The ETF is offered for sale on a continuous basis by its prospectus in class E units (“Class E”) which trade on the Toronto Stock Exchange (“TSX”) in Canadian dollars (“Cdn\$ units”) and in U.S. dollars (“US\$ units”) under the symbols HUM and HUM.U, respectively.

HUM seeks to achieve its investment objective through the selection of equity investments in U.S. financial services companies that, in the view of Hamilton ETFs, as the ETF’s portfolio adviser (the “Portfolio Adviser”), represent an attractive investment opportunity, relative to other such companies. In determining which companies to include in the ETF’s portfolio, the Portfolio Adviser applies specialized analysis and expertise, reviewing a company’s individual attributes such as its valuation and growth prospects, as well as the macro environment, including, but not limited to, gross domestic product (GDP) growth, inflation and interest rate trends, fiscal and monetary policies, and regulatory and sector trends.



## Management Discussion of Fund Performance (continued)

The ETF's portfolio is anticipated to be comprised primarily of mid-cap (i.e., having a market capitalization of between US\$2 billion and US\$20 billion), and to a lesser extent, small-cap (i.e., having a market capitalization of between US\$300 million and US\$2 billion) companies based in the United States. However, the ETF's investments may be selected from any subsector, country, or capitalization level of the global financial services sector. Specifically, the portfolio may include, but is not limited to, commercial and investment banks, insurance companies, brokerages, asset managers, exchanges, financial technology companies, real estate investment trusts and other investment companies.

At any time, it is anticipated that the ETF's portfolio will be made up of between approximately 40 and 70 issuers. Such investments will be by sub-sector. The Portfolio Adviser may, at its discretion, hedge some or all of the ETF's non-Canadian dollar currency exposure.

### Risk

Investments in the units of the ETF can be speculative, involve a degree of risk and are suitable only for persons who are able to assume the risk of losing their entire investment. The Manager, as a summary for existing investors, is providing the list below of the risks to which an investment in the ETF may be subject. **Prospective investors should read the ETF's prospectus and consider the full description of the risks contained therein before purchasing units.**

The risks to which an investment in the ETF is subject are listed below and have not changed from the list of risks found in the ETF's prospectus. A full description of each risk listed below may also be found in the prospectus. The prospectus is available at [www.hamiltonetfs.com](http://www.hamiltonetfs.com) or from [www.sedar.com](http://www.sedar.com), or by contacting Hamilton Capital Partners Inc. directly via the contact information on the back page of this document.

- No assurances on achieving investment objective
- Market risk
- Specific issuer risk
- Equity risk
- Short selling risk
- Legal and regulatory risk
- Cyber security risk
- Foreign stock exchange risk
- Foreign markets risk
- Currency price fluctuations
- Currency exposure risk
- Derivatives risk
- Use of options risk
- Corresponding net asset value risk
- Distributions risk
- Designated broker/dealer risk
- Reliance on key personnel
- Potential conflicts of interest
- Counterparty risk
- Cease trading of securities risk
- No ownership interest
- Exchange risk
- Early closing risk
- Redemption price
- Concentration risk
- Reliance on historical data risk
- Liquidity risk
- Tax risk
- Securities lending, repurchase and reverse repurchase transaction risk
- Fund of funds investment risk
- Exchange-traded funds risk
- Absence of an active market
- No guaranteed return
- Volatile market risk
- State/region risk
- Changes in the regulatory and competitive environment in global financial services sector
- Performance of banks and financial institutions
- Trading volume of underlying investments
- Small capitalization risk
- Real estate income trust investment risk



## Management Discussion of Fund Performance (continued)

### Results of Operations

For the year ended December 31, 2022, the Canadian dollar (“Cdn\$ units”) Class E units of the ETF returned -10.62%, when including distributions paid to unitholders. The U.S. dollar (“US\$ units”) Class E units of the ETF returned -16.50%, including distributions paid to unitholders. Class E US\$ units are not a separate class of units of the ETF, but rather, represent the U.S. dollar value of the Class E Cdn\$ units at the current day’s Canada/U.S. exchange rate.

By comparison, the Russell 2000 Index Financials (the “Index”), which is comprised of over 500 companies in the small-cap, market-cap weighted Russell 2000 Index that are classified as members of the financial sector, returned -9.71% during the period in Canadian dollar terms on a total return basis (and -15.59% in U.S. dollars).

The S&P 500<sup>®</sup> Total Return Index, a broad market equity index of 500 large-cap U.S. companies, returned -12.41% during the period in Canadian dollar terms on a total return basis (and -18.11% in U.S. dollars).

### U.S. Market/Financial Services Sector Review

During 2022, measures of inflation have continued to push higher in developed markets, reaching levels not seen in over 40 years. Central banks, fearing that longer term inflation expectations may persist, have been taking measures to maintain price stability. The Federal Reserve (“Fed”) has done this by raising interest rates sharply (425 basis points over the course of the year), indicating the likelihood for further rate rises and beginning the reduction of the size of its balance sheet (the Fed had increased its balance sheet by \$4 trillion during COVID to ensure liquidity in markets). These measures have tightened financial conditions significantly and thereby increased the yields on fixed income securities as well as increasing the market’s expectations of a recession. The mix of higher bond rates, which serve as the benchmark for equity valuations, with increased recession risk has pressured equity valuations. In its last meeting of the year the Fed reduced the pace of its rate increases to 50 basis points but continued to raise the median forecast for rates in 2023 and 2024.

Many financial sector companies posted strong earnings in 2022 fueled by rising interest rates. More broadly however, the high level of uncertainty about the economic outlook for 2023 has overshadowed a solid 2022, hurting the sector’s performance, with investors placing low valuations on good results. During 2022, small/mid cap financials outperformed large cap financials in the U.S., which in turn were slightly stronger than broader markets.

### Portfolio Review

The ETF is primarily comprised of U.S.-based small and mid-cap financial services companies (i.e., those having a market capitalization of between US\$0.3 billion-US\$20 billion). With an emphasis on selecting companies that represent attractive investment opportunities, the ETF’s portfolio favours financials with superior earnings growth profiles (often operating in higher growth U.S. states/regions), favourable regulatory trends and/or involvement in mergers and acquisitions (“M&A”). At the end of the period, the ETF’s portfolio was 100% represented by U.S. financial services companies and 78% by small and mid-cap companies.

The ETF’s mix within the sub-sectors was relatively consistent throughout the period, with approximately 45-55% of net asset value (“NAV”) invested in deposit-taking institutions (i.e., banks), 10-15% in insurance, and 30-40% in other financials (including asset and wealth management, exchanges, broker-dealers, business development companies and/or real estate investment trusts, “REITs”). The Manager considers REITs a sub-sector of the financials.



## Management Discussion of Fund Performance (continued)

2022 saw consistently rising interest rates but gradually rising (investor) concerns regarding funding costs and declining levels of assets under management. Demonstrating the benefits of the ETF's broad financials exposure, the biggest positive contributors to its results over the year were a bank (Tennessee-based, First Horizon Corporation, a position which was ultimately exited following its announced merger with TD Bank Group early in the year), an insurer (Arch Capital Group Ltd., which demonstrated solid results, and also benefited from its addition to the S&P 500 late in the year) and a wealth manager/broker (LPL Financial Holdings, which was aided by its interest rate sensitivity and strong growth momentum).

In contrast, the biggest drags on the ETF's performance in 2022 were three mid-cap banks, SVB Financial, Signature Bank and Western Alliance Bank. While loan growth has returned to the banking sector and asset sensitivity has led to rising net interest margins, the uncertainty over the economic outlook as well as concerns on deposit costs have negatively impacted sentiment towards banks. Nonetheless, the Manager believes the market sentiment around these three holdings stands to improve from any recession clarity, as well as a slowdown in the pace of interest rate increases.

The Manager may, at its discretion, hedge some or all of the ETF's non-Canadian dollar currency exposure. The ETF's U.S. dollar exposure was largely unhedged over the year, as the Manager believes it helps reduce the volatility of the ETF's returns. However, the Manager did add a partial hedge (~50% of NAV) at the end of the third quarter, following the significant outperformance of the U.S. dollar year-to-date. For the year, the currency hedge was a modest positive to the ETF's performance.

### **Outlook**

The Manager believes that, while the changes in monetary policy are likely to slow the economy, banks are much better prepared for this than in historical cycles, owing to increased earnings capacity resulting from rising rates, increased capital levels required post global financial crisis and some residual credit loss reserves raised at the start of the pandemic. Any slowdown in the economy is a challenge for all companies across the market, but financials with tailwinds from rising rates, and valuations at multi-year lows appear well positioned to post strong relative performance over the coming years.

The Manager believes its strategy of selecting small and mid-cap financial stocks with strong growth outlooks, balanced sensitivity to interest rates, higher returns on capital, potential consolidation and attractive valuations provides the ETF with an attractive medium-term outlook.

For additional comments, please see the Insights section of the Manager's website: <http://hamiltonetfs.com/insights-commentary/>.

### **Other Operating Items and Changes in Net Assets Attributable to Holders of Redeemable Units**

For the year ended December 31, 2022, the ETF generated gross comprehensive income from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of (\$6,028,972). This compares to \$16,160,932 for year ended December 31, 2021. The ETF incurred management, operating and transaction expenses of \$687,298 (2021 – \$698,432) of which \$99,314 (2021 – \$90,267) was either paid or absorbed by the Manager on behalf of the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

The ETF distributed \$1,585,132 to unitholders during the year (2021 – \$1,259,625).





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**Management Discussion of Fund Performance** (continued)***Presentation***

The attached financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets in the financial statements and/or management report of fund performance is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

**Recent Developments**

There are no recent industry, management or ETF related developments that are pertinent to the present and future of the ETF.

**Related Party Transactions**

Certain services have been provided to the ETF by related parties and those relationships are described below.

***Manager, Trustee and Portfolio Adviser***

The manager, trustee and portfolio adviser of the ETF is Hamilton Capital Partners Inc., 70 York Street, Suite 1520, Toronto, Ontario, M5J 1S9, a corporation incorporated under the laws of the Province of Ontario. The Manager has retained Horizons ETFs Management (Canada) Inc. (the “Administrator”), 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7 to provide assistance to the Manager in respect of certain aspects of the day-to-day administration of the ETF.

Any management fees paid to the Manager (described in detail on page 12) are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at December 31, 2022 and 2021, are disclosed in the statements of financial position.

## Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since it effectively began operations on June 26, 2020. This information is derived from the ETF's audited annual financial statements. Please see the first page for information on how you may obtain the annual or interim financial statements.

### The ETF's Net Assets per Unit

<b>Year/Period</b> <sup>(1)</sup>	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Net assets, beginning of year/period</b>	\$ 28.35	20.56	16.00
<b>Increase (decrease) from operations:</b>			
Total revenue	0.53	0.54	0.25
Total expenses	(0.31)	(0.31)	(0.13)
Realized gains for the year/period	1.29	1.22	0.67
Unrealized gains (losses) for the year/period	(4.96)	6.54	3.86
<b>Total increase (decrease) from operations</b> <sup>(2)</sup>	(3.45)	7.99	4.65
<b>Distributions:</b>			
From net investment income (excluding dividends)	(0.24)	(0.23)	(0.10)
From net realized capital gains	(0.63)	(0.13)	–
From return of capital	–	(0.26)	(0.04)
<b>Total distributions</b> <sup>(3)</sup>	(0.87)	(0.62)	(0.14)
<b>Net assets, end of year/period (Cdn\$ units)</b> <sup>(4)</sup>	\$ 24.46	28.35	20.56
<b>Net assets, end of year/period (US\$ units)</b> <sup>(1)(4)</sup>	\$ 18.07	22.41	16.15

1. This information is derived from the ETF's audited annual financial statements.
2. Net assets per unit 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 financial period.
3. Income, dividend and/or return of capital distributions, if any, are paid in cash, reinvested in additional units of the ETF, or both. Capital gains distributions, if any, may or may not be paid in cash. Non-cash capital gains distributions are reinvested in additional units of the ETF and subsequently consolidated. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder, nor the net asset per unit of the ETF change as a result of any non-cash capital gains distributions. Distributions classified as return of capital, if any, decrease each unitholder's adjusted cost base for their units.
4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.



**Financial Highlights** (continued)

**Ratios and Supplemental Data**

<b>Year/Period</b> <sup>(1)</sup>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Total net asset value (000's)	\$ 42,631	57,187	34,794
Number of units outstanding (000's)	1,743	2,017	1,692
Management expense ratio <sup>(2)</sup>	0.91%	0.90%	0.90%
Management expense ratio before waivers and absorptions <sup>(3)</sup>	1.11%	1.08%	1.13%
Trading expense ratio <sup>(4)</sup>	0.02%	0.04%	0.09%
Portfolio turnover rate <sup>(5)</sup>	12.23%	25.74%	37.40%
Net asset value per unit, end of year (Cdn\$ units)	\$ 24.46	28.35	20.56
Closing market price (Cdn\$ units)	\$ 24.42	28.36	20.57
Net asset value per unit, end of year (US\$ units)	\$ 18.07	22.41	16.15
Closing market price (US\$ units)	\$ 18.08	22.44	16.16

1. This information is provided as at December 31 of the year/period shown.
2. Management expense ratio is based on total expenses, including sales tax, (excluding 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 year/period. Out of its management fees, and waivers and absorptions, as applicable, the Manager pays for such services to the ETF as portfolio manager compensation, service fees and marketing.
3. The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at its discretion.
4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year/period.
5. The ETF's portfolio turnover rate indicates how actively its portfolio investments are traded. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. Generally, the higher the portfolio turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year/period. There is not necessarily a relationship between a high turnover rate and the performance of the ETF.



**Financial Highlights** (continued)

**Management Fees**

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.75%, plus applicable sales taxes, of the net asset value of the ETF, calculated and accrued daily and payable monthly in arrears.

Any expenses of the ETF that are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

The table below details, in percentage terms, the services received by the ETF from the Manager in consideration of the management fees paid during the year.

<b>Marketing</b>	<b>Portfolio management fees, general administrative costs and profit</b>	<b>Waived/absorbed expenses of the ETF</b>
-	76%	24%

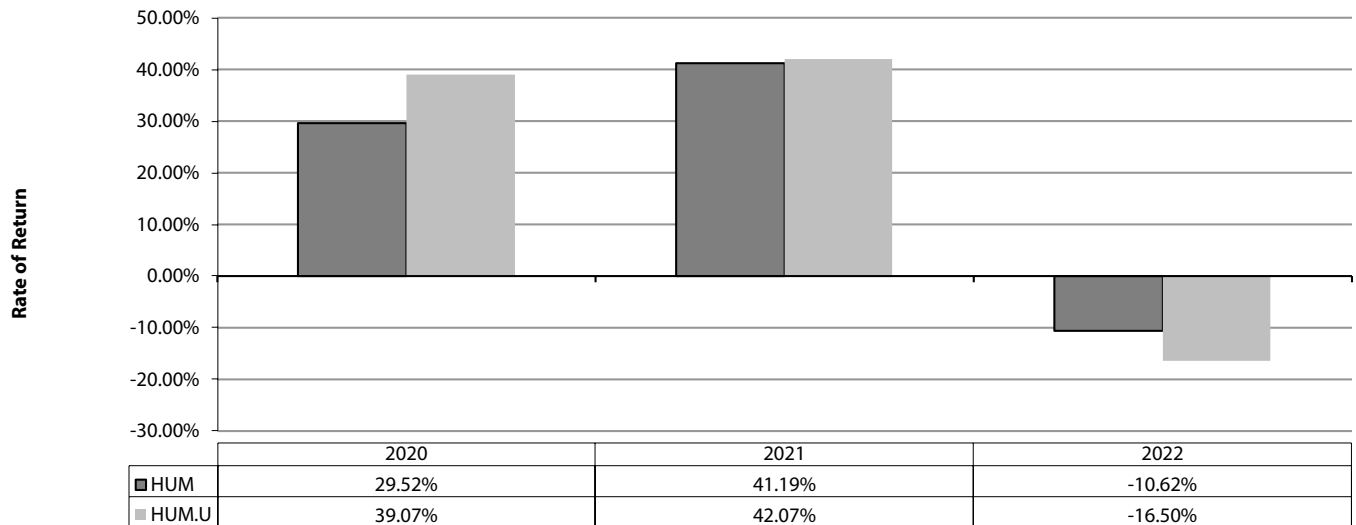


### Past Performance

Commissions, management fees, expenses and applicable sales taxes all may be associated with an investment in the ETF. Please read the prospectus before investing. The indicated rates of return are the historical total returns including changes in unit value and reinvestment of all distributions, and do not take into account sales, redemptions, distributions or optional charges or income taxes payable by any investor that would have reduced returns. An investment in the ETF is not guaranteed. Its value changes frequently and past performance may not be repeated. The ETF's performance numbers assume that all distributions, if any, are reinvested in additional units of the ETF. If you hold this ETF outside of a registered plan, income and capital gains distributions that are paid to you increase your income for tax purposes whether paid to you in cash or reinvested in additional units. The amount of the reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gain or increase your capital loss when you later redeem from the ETF, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation.

### Year-by-Year Returns

The following chart presents the ETF's performance for the years/period shown, and illustrates how the performance has changed from period to period. In percentage terms, the chart shows how much an investment made on the first day of the financial period would have grown or decreased by the last day of the financial period.



The ETF effectively began operations on June 26, 2020.



**Past Performance** (continued)

**Annual Compound Returns**

The following table presents the ETF's annual compound total return since inception to December 31, 2022, along with a comparable market index. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the ETF or future returns on investments in the ETF.

<b>In Canadian Dollars</b>	<b>1 Year</b>	<b>Since Inception</b>
Hamilton U.S. Mid/Small-Cap Financials ETF (Cdn\$ units)	-10.62%	21.59%
Russell 2000 Financial Services Index	-9.71%	17.96%
S&P 500 Total Return	-12.41%	11.47%
<b>In U.S. Dollars</b>	<b>1 Year</b>	<b>Since Inception</b>
Hamilton U.S. Mid/Small-Cap Financials ETF (US\$ units)	-16.50%	22.04%
Russell 2000 Financial Services Index	-15.59%	18.42%
S&P 500 Total Return	-18.11%	11.91%

The ETF effectively began operations on June 26, 2020.



**Summary of Investment Portfolio**

As at December 31, 2022

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
U.S. Equities	\$ 40,661,305	95.38%
Global Equities	2,816,744	6.61%
Currency Forward Hedge*	102,597	0.24%
Cash and Cash Equivalents	37,393	0.09%
Other Assets less Liabilities	(986,906)	-2.32%
	<b>\$ 42,631,133</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Financials	\$ 43,478,049	101.99%
Currency Forward Hedge*	102,597	0.24%
Cash and Cash Equivalents	37,393	0.09%
Other Assets less Liabilities	(986,906)	-2.32%
	<b>\$ 42,631,133</b>	<b>100.00%</b>

\* Positions in forward contracts are disclosed as the gain/(loss) that would be realized if the contracts were closed out on the date of this report.

**Summary of Investment Portfolio** (continued)

As at December 31, 2022

<b>Top 25 Holdings</b>	<b>% of ETF's Net Asset Value</b>
Arch Capital Group Ltd.	4.79%
Raymond James Financial Inc.	3.64%
Arthur J. Gallagher & Co.	3.37%
Cadence Bank	3.31%
LPL Financial Holdings Inc.	3.26%
Voya Financial Inc.	3.18%
Cboe Global Markets Inc.	2.99%
Pinnacle Financial Partners Inc.	2.98%
Synovus Financial Corp.	2.97%
Nasdaq Inc.	2.89%
Western Alliance Bancorp	2.72%
East West Bancorp Inc.	2.61%
Houlihan Lokey Inc.	2.50%
Prosperity Bancshares Inc.	2.46%
Ameriprise Financial Inc.	2.44%
Veritex Holdings Inc.	2.42%
Focus Financial Partners Inc.	2.40%
South State Corp.	2.40%
First Republic Bank	2.39%
Hanover Insurance Group Inc. (The)	2.34%
Ares Management Corp.	2.23%
MGIC Investment Corp.	2.22%
Hartford Financial Services Group Inc. (The)	2.16%
Apollo Global Management Inc.	2.12%
Camden Property Trust	2.10%

The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent financial statements are available at no cost by calling (416) 941-9888, by writing to us at 70 York Street, Suite 1520, Toronto, Ontario, M5J 1S9, by visiting our website at [www.hamiltonetfs.com](http://www.hamiltonetfs.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).





**MANAGER’S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying audited annual financial statements of Hamilton U.S. Mid/Small-Cap Financials ETF (the “ETF”) are the responsibility of the manager and trustee to the ETF, Hamilton Capital Partners Inc. (the “Manager”). They have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board using information available and include certain amounts that are based on the Manager’s best estimates and judgements.

The Manager has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

These financial statements have been approved by the Board of Directors of the Manager and have been audited by KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, on behalf of unitholders. The independent auditor’s report outlines the scope of their audit and their opinion on the financial statements.

Robert Wessel  
Director  
Hamilton Capital Partners Inc.

Jennifer Mersereau  
Director  
Hamilton Capital Partners Inc.



## INDEPENDENT AUDITOR'S REPORT

### To the Unitholders of Hamilton U.S. Mid/Small-Cap Financials ETF (the "ETF")

#### **Opinion**

We have audited the financial statements of the ETF, which comprise the statements of financial position as at December 31, 2022 and December 31, 2021, the statements of comprehensive income, changes in financial position and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ETF as at December 31, 2022 and December 31, 2021, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the ETF in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other Information**

Management is responsible for the other information. Other information comprises:

- the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.



***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ETF's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the ETF or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ETF's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.  
  
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ETF's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ETF's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the ETF to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants  
The engagement partner on the audit resulting in this auditor's report is Ziad Said.  
Toronto, Canada  
March 15, 2023



**Statements of Financial Position**

December 31, 2022 and 2021

	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 37,393	\$ 163,154
Investments	43,478,049	57,224,226
Amounts receivable relating to accrued income	47,765	45,348
Derivative assets (note 3)	102,597	–
<b>Total assets</b>	<b>43,665,804</b>	<b>57,432,728</b>
<b>Liabilities</b>		
Accrued management fees	32,231	40,327
Accrued operating expenses	2,529	3,465
Distribution payable	999,911	201,729
<b>Total liabilities</b>	<b>1,034,671</b>	<b>245,521</b>
<b>Total net assets</b>	<b>\$ 42,631,133</b>	<b>\$ 57,187,207</b>
Number of redeemable units outstanding (note 8)	1,742,552	2,017,290
Total net assets per unit (Cdn\$ units)	\$ 24.46	\$ 28.35
Total net assets per unit (US\$ units)	\$ 18.07	\$ 22.41

(See accompanying notes to financial statements)

Approved on behalf of the Board of Directors of the Manager:

Robert Wessel  
Director

Jennifer Mersereau  
Director

**Statements of Comprehensive Income**

For the Years Ended December 31, 2022 and 2021

	<b>2022</b>	<b>2021</b>
<b>Income</b>		
Dividend income	\$ 1,013,565	\$ 1,046,963
Securities lending income (note 7)	406	816
Net realized gain on sale of investments and derivatives	2,454,327	2,383,431
Net realized gain (loss) on foreign exchange	22,922	(11,787)
Net change in unrealized appreciation (depreciation) of investments and derivatives	(9,522,417)	12,742,913
Net change in unrealized appreciation (depreciation) of foreign exchange	2,225	(1,404)
	<b>(6,028,972)</b>	<b>16,160,932</b>
<b>Expenses (note 9)</b>		
Management fees	415,409	419,283
Audit fees	20,599	13,410
Independent Review Committee fees	5,239	5,945
Custodial and fund valuation fees	56,501	56,527
Legal fees	6,201	6,497
Securityholder reporting costs	19,451	20,352
Administration fees	23,918	23,567
Transaction costs	8,998	18,013
Withholding taxes	130,857	134,838
Other expenses	125	–
	<b>687,298</b>	<b>698,432</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(99,314)	(90,267)
	<b>587,984</b>	<b>608,165</b>
<b>Increase (decrease) in net assets for the year</b>	<b>\$ (6,616,956)</b>	<b>\$ 15,552,767</b>
Increase (decrease) in net assets per unit	\$ (3.45)	\$ 7.99

(See accompanying notes to financial statements)

**Statements of Changes in Financial Position**

For the Years Ended December 31, 2022 and 2021

	<b>2022</b>		<b>2021</b>	
<b>Total net assets at the beginning of the year</b>	\$	57,187,207	\$	34,794,435
<b>Increase (decrease) in net assets</b>		(6,616,956)		15,552,767
<b>Redeemable unit transactions</b>				
Proceeds from the issuance of securities of the investment fund		1,402,479		15,128,433
Aggregate amounts paid on redemption of securities of the investment fund		(7,763,235)		(7,035,688)
Securities issued on reinvestment of distributions		6,770		6,885
Distributions:				
From net investment income		(427,970)		(481,117)
From net realized capital gains		(1,156,647)		(258,372)
Return of capital		(515)		(520,136)
<b>Total net assets at the end of the year</b>	<b>\$</b>	<b>42,631,133</b>	<b>\$</b>	<b>57,187,207</b>

(See accompanying notes to financial statements)

**Statements of Cash Flows**

For the Years Ended December 31, 2022 and 2021

	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets for the year	\$ (6,616,956)	\$ 15,552,767
Adjustments for:		
Net realized gain on sale of investments and derivatives	(2,454,327)	(2,383,431)
Net realized gain (loss) on currency forward contracts	30,173	(813,693)
Net change in unrealized depreciation (appreciation) of investments and derivatives	9,522,417	(12,742,913)
Net change in unrealized depreciation (appreciation) of foreign exchange	(1,610)	996
Purchase of investments	(6,046,688)	(18,671,607)
Proceeds from the sale of investments	9,171,230	12,755,110
Amounts receivable relating to accrued income	(2,417)	(5,107)
Accrued expenses	(9,032)	17,647
<b>Net cash from (used in) operating activities</b>	<b>3,592,790</b>	<b>(6,290,231)</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	1,402,479	14,586,324
Amount paid on redemptions of units	(4,342,460)	(7,035,688)
Distributions paid to unitholders	(780,180)	(1,169,452)
<b>Net cash from (used in) financing activities</b>	<b>(3,720,161)</b>	<b>6,381,184</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>(127,371)</b>	<b>90,953</b>
Effect of exchange rate fluctuations on cash and cash equivalents	1,610	(996)
<b>Cash and cash equivalents at beginning of year</b>	<b>163,154</b>	<b>73,197</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 37,393</b>	<b>\$ 163,154</b>
Dividends received, net of withholding taxes	\$ 880,291	\$ 907,018

(See accompanying notes to financial statements)



**Schedule of Investments**

As at December 31, 2022

Security	Shares/ Contracts		Average Cost		Fair Value
<b>U.S. Equities (95.38%)</b>					
<b>Financials (95.38%)</b>					
Ally Financial Inc.	20,380	\$	631,625	\$	674,686
Ameriprise Financial Inc.	2,468		532,366		1,040,496
Ameris Bancorp	13,906		481,639		887,586
Apollo Global Management Inc.	10,445		399,594		902,152
Ares Management Corp., Class 'A'	10,256		637,254		950,401
Arthur J. Gallagher & Co.	5,637		833,753		1,439,031
Brown & Brown Inc.	11,424		796,281		881,217
Cadence Bank	42,210		1,271,347		1,409,377
Camden Property Trust	5,908		811,556		894,976
Carlyle Group Inc. (The)	20,088		876,880		811,623
Cboe Global Markets Inc.	7,506		994,846		1,275,167
East West Bancorp Inc.	12,496		915,765		1,115,001
Enterprise Financial Services Corp.	9,414		362,060		624,071
Evercore Inc., Class 'A'	4,207		610,527		621,350
First American Financial Corp.	10,867		722,660		770,126
First Republic Bank	6,166		1,174,759		1,017,631
Focus Financial Partners Inc., Class 'A'	20,239		1,258,643		1,021,332
Hancock Whitney Corp.	13,149		621,058		861,523
Hanover Insurance Group Inc. (The)	5,452		819,182		997,531
Hartford Financial Services Group Inc. (The)	8,965		621,386		920,471
Home Bancshares Inc.	24,279		522,787		749,193
Houlihan Lokey Inc.	9,036		756,421		1,066,380
Independent Bank Group Inc.	8,056		765,753		655,342
LPL Financial Holdings Inc.	4,748		576,532		1,389,712
MGIC Investment Corp.	53,726		724,844		945,685
Moelis & Co., Class 'A'	12,866		574,762		668,427
Nasdaq Inc.	14,838		816,683		1,232,561
Pacific Premier Bancorp Inc.	12,564		560,827		536,888
Pinnacle Financial Partners Inc.	12,803		881,453		1,272,408
Prosperity Bancshares Inc.	10,675		844,175		1,050,513
Raymond James Financial Inc.	10,715		701,748		1,550,192
Sandy Spring Bancorp Inc.	5,819		238,568		277,575
Seacoast Banking Corp. of Florida	12,526		356,659		528,989
Signature Bank	3,380		530,387		527,307
South State Corp.	9,878		765,327		1,021,301
Synovus Financial Corp.	24,898		1,033,460		1,265,882
Triumph Financial Inc.	6,393		531,374		423,025
Umpqua Holdings Corp.	34,124		519,415		824,740
Veritex Holdings Inc.	27,123		936,709		1,031,225

**Schedule of Investments** (continued)

As at December 31, 2022

Security	Shares/ Contracts	Average Cost	Fair Value
Virtu Financial Inc.	16,690	530,250	461,230
Voya Financial Inc.	16,290	1,120,719	1,356,264
Western Alliance Bancorp	14,364	968,724	1,158,374
WSFS Financial Corp.	11,382	507,239	698,745
Zions Bancorporation NA	12,824	660,578	853,599
		31,798,575	40,661,305
<b>TOTAL U.S. EQUITIES</b>		<b>31,798,575</b>	<b>40,661,305</b>
<b>Global Equities (6.61%)</b>			
<b>Bermuda (6.61%)</b>			
Arch Capital Group Ltd.	24,034	1,040,225	2,042,989
Essent Group Ltd.	14,698	750,783	773,755
		1,791,008	2,816,744
<b>TOTAL GLOBAL EQUITIES</b>		<b>1,791,008</b>	<b>2,816,744</b>
<b>DERIVATIVES (0.24%)</b>			
<b>Currency Forwards (0.24%)</b>			
Currency forward contract to buy C\$22,434,918 for US\$16,500,000 maturing February 28, 2023		–	102,597
<b>TOTAL DERIVATIVES</b>		–	<b>102,597</b>
Transaction Costs		(13,768)	
<b>TOTAL INVESTMENT PORTFOLIO (102.23%)</b>		<b>\$ 33,575,815</b>	<b>\$ 43,580,646</b>
<b>Cash and cash equivalents (0.09%)</b>			37,393
<b>Other assets less liabilities (-2.32%)</b>			(986,906)
<b>TOTAL NET ASSETS (100.00%)</b>			<b>\$ 42,631,133</b>

(See accompanying notes to financial statements)



## Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

### 1. REPORTING ENTITY

Hamilton U.S. Mid/Small-Cap Financials ETF (“HUM” or the “ETF”) is an investment trust established under the laws of the Province of Ontario by Declaration of Trust on May 11, 2020. The ETF effectively began operations on June 26, 2020. The address of the ETF’s registered office is: c/o Hamilton Capital Partners Inc., 70 York Street, Suite 1520, Toronto, Ontario, M5J 1S9.

The ETF is offered for sale on a continuous basis by its prospectus in class E units (“Class E”) which trade on the Toronto Stock Exchange (“TSX”) in Canadian dollars (“Cdn\$ units”) and in U.S. dollars (“US\$ units”) under the symbols HUM and HUM.U, respectively. US\$ units are not a separate class of units of the ETF, but rather, represent the U.S. dollar value of the Cdn\$ Class E units at the current day’s Canada/U.S. exchange rate. An investor may buy or sell units of the ETF on the TSX only through a registered broker or dealer in the province or territory where the investor resides. Investors are able to trade units of the ETF in the same way as other securities traded on the TSX, including by using market orders and limit orders and may incur customary brokerage commissions when buying or selling units.

The investment objective of HUM is to seek long-term returns from an actively managed equity portfolio of, primarily, United States-based mid and small-cap financial services companies.

Hamilton Capital Partners Inc. (“Hamilton ETFs” or the “Manager”) is the manager, trustee and portfolio adviser of the ETF. The Manager is responsible for implementing the ETF’s investment strategies.

### 2. BASIS OF PREPARATION

#### *(i) Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

These financial statements were authorized for issue on March 15, 2023, by the Board of Directors of the Manager.

#### *(ii) Basis of measurement*

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value though profit or loss, which are measured at fair value.

#### *(iii) Functional and presentation currency*

The financial statements are presented in Canadian dollars, which is the ETF’s functional currency.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

**(a) Financial instruments*****(i) Recognition, initial measurement and classification***

The ETF is subject to IFRS 9, Financial Instruments (“IFRS 9”) for the classification and measurement requirements for financial instruments, including impairment on financial assets and hedge accounting.

This standard requires assets to be classified based on the ETF’s business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit and loss (“FVTPL”). IFRS 9 requires classification of debt instruments, if any, based solely on payments of principal and interest and business model tests.

The ETF’s financial assets and financial liabilities are managed and its performance is evaluated on a fair value basis. The contractual cash flows of the ETF’s debt securities, if any, consist solely of principal and interest, however, these securities are neither held in held-to-collect, or held-to-collect-and-sell business models in IFRS 9.

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value (see below), with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

The ETF classifies financial assets and financial liabilities into the following categories:

- Financial assets mandatorily classified at fair value through profit or loss: debt securities, equity investments and derivative financial instruments
- Financial assets at amortized cost: all other financial assets
- Financial liabilities classified at fair value through profit or loss: derivative financial instruments and securities sold short, if any
- Financial liabilities at amortized cost: all other financial liabilities

***(ii) Fair value measurement***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the ETF has access at that date. The fair value of a liability reflects its non-performance risk.

Investments are valued at fair value as of the close of business on each day upon which a session of the TSX is held (“Valuation Date”) and based on external pricing sources to the extent possible. Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers, are valued at their closing sale price. However, such prices may be adjusted if a more accurate value can be obtained from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from external sources. Short-term investments, including notes and money market instruments, are valued at amortized cost which approximates fair value.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

Investments held that are not traded in an active market, including some derivative financial instruments, are valued using observable market inputs where possible, on such basis and in such manner as established by the Manager. Derivative financial instruments are recorded in the statements of financial position according to the gain or loss that would be realized if the contracts were closed out on the Valuation Date. Margin deposits, if any, are included in the schedule of investments as margin deposits. See also, the summary of fair value measurements in note 6.

Fair value policies used for financial reporting purposes are the same as those used to measure the net asset value (“NAV”) for transactions with unitholders.

The fair value of other financial assets and liabilities approximates their carrying values due to the short-term nature of these instruments.

***(iii) Offsetting***

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

***(iv) Specific instruments*****Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and short-term, interest bearing notes with a term to maturity of less than three months from the date of purchase.

**Forward foreign exchange contracts**

Forward foreign exchange contracts, if any, are valued at the current market value thereof on the Valuation Date. The value of these forward contracts is the gain or loss that would be realized if, on the Valuation Date, the positions were to be closed out and recorded as derivative assets and/or liabilities in the statements of financial position and as a net change in unrealized appreciation (depreciation) of investments and derivatives in the statements of comprehensive income. When the forward contracts are closed out or mature, realized gains or losses on forward contracts are recognized and are included in the statements of comprehensive income in net realized gain (loss) on sale of investments and derivatives. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider.

**Redeemable units**

The redeemable units are measured at the present value of the redemption amounts and are considered a residual amount of the net assets attributable to holders of redeemable units. They are classified as financial liabilities as a result of the ETF’s requirement to distribute net income and capital gains to unitholders.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

**(b) Investment income**

Investment transactions are accounted for as of the trade date. Realized gains and losses from investment transactions are calculated on a weighted average cost basis. The difference between fair value and average cost, as recorded in the financial statements, is included in the statements of comprehensive income as part of the net change in unrealized appreciation (depreciation) of investments and derivatives. Interest income for distribution purposes from investments in bonds and short-term investments, if any, represents the coupon interest received by the ETF accounted for on an accrual basis. Dividend income is recognized on the ex-dividend date. Distribution income from investments in other funds or ETFs is recognized when earned.

Income from derivatives is shown in the statements of comprehensive income as net realized gain (loss) on sale of investments and derivatives; net change in unrealized appreciation (depreciation) of investments and derivatives; and, interest income for distribution purposes, in accordance with its nature.

Income from securities lending, if any, is included in "Securities lending income" on the statements of comprehensive income and is recognized when earned. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (see note 7).

If the ETF incurs withholding taxes imposed by certain countries on investment income and capital gains, such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statements of comprehensive income.

**(c) Foreign currency**

Transactions in foreign currencies are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the year-end exchange rate. Foreign exchange gains and losses are presented as "Net realized gain (loss) on foreign exchange", except for those arising from financial instruments at fair value through profit or loss, which are recognized as a component within "Net realized gain (loss) on sale of investments and derivatives" and "Net change in unrealized appreciation (depreciation) of investments and derivatives" in the statements of comprehensive income.

**(d) Cost basis**

The cost of portfolio investments is determined on an average cost basis.

**(e) Increase (decrease) in net assets attributable to holders of redeemable units per unit**

The increase (decrease) in net assets per unit in the statements of comprehensive income represents the change in net assets attributable to holders of redeemable units from operations divided by the weighted average number of units of the ETF outstanding during the reporting year. For management fees please refer to note 9.

**(f) Unitholder transactions**

The value at which units are issued or redeemed is determined by dividing the net asset value of the class by the total number of units outstanding of that class on the Valuation Date. Amounts received on the issuance of units and amounts paid on the redemption of units are included in the statements of changes in financial position.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

**(g) Amounts receivable (payable) relating to portfolio assets sold (purchased)**

In accordance with the ETF's policy of trade date accounting for sale and purchase transactions, sales/purchase transactions awaiting settlement, if any, represent amounts receivable/payable for securities sold/purchased, but not yet settled as at the reporting date.

**(h) Net assets attributable to holders of redeemable units per unit**

Net assets attributable to holders of redeemable units per unit is calculated by dividing the ETF's net assets attributable to holders of redeemable units by the number of units of the ETF outstanding on the Valuation Date.

**(i) Transaction costs**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and any applicable transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

In preparing these financial statements, the Manager has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The ETF may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates that the ETF has made in preparing the financial statements. See note 6 for more information on the fair value measurement of the ETF's financial instruments.

**5. FINANCIAL INSTRUMENTS RISK**

In the normal course of business, the ETF's investment activities expose it to a variety of financial risks. The Manager seeks to minimize potential adverse effects of these risks for the ETF's performance by employing professional, experienced portfolio advisors, by daily monitoring of the ETF's positions and market events, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Manager maintains a governance structure that oversees the ETF's investment activities and monitors compliance with the ETF's stated investment strategies, internal guidelines and securities regulations.

Please refer to the most recent prospectus for a complete discussion of the risks attributed to an investment in the units of the ETF. Significant financial instrument risks that are relevant to the ETF, and analysis thereof, are presented below.

**(a) Market risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the ETF's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

**(i) Currency risk**

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. The following table indicates the foreign currencies to which the ETF had significant exposure as at December 31, 2022 and 2021, in Canadian dollar terms and the potential impact on the ETF's net assets (including the underlying principal amount of future or forward currency contracts, if any), as a result of a 1% change in these currencies relative to the Canadian dollar:

<b>December 31, 2022</b>	<b>Financial Instruments</b>	<b>Currency Forward and/ or Futures Contracts</b>	<b>Total</b>	<b>Impact on Net Asset Value</b>
<b>Currency</b>	(\$000's)	(\$000's)	(\$000's)	(\$000's)
U.S. Dollar	43,553	(22,332)	21,221	212
Total	43,553	(22,332)	21,221	212
As % of Net Asset Value	102.2%	-52.4%	49.8%	0.5%

<b>December 31, 2021</b>	<b>Financial Instruments</b>	<b>Currency Forward and/ or Futures Contracts</b>	<b>Total</b>	<b>Impact on Net Asset Value</b>
<b>Currency</b>	(\$000's)	(\$000's)	(\$000's)	(\$000's)
U.S. Dollar	57,400	–	57,400	574
Total	57,400	–	57,400	574
As % of Net Asset Value	100.4%	–	100.4%	1.0%

**(ii) Interest rate risk**

The ETF may be exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In general, the value of interest-bearing financial instruments will rise if interest rates fall, and conversely, will generally fall if interest rates rise. There is minimal sensitivity to interest rate fluctuation on cash and cash equivalents invested at short-term market rates since those securities are usually held to maturity and are short term in nature.

As at December 31, 2022 and 2021, the ETF did not hold any long-term debt instruments and did not have any material exposure to interest rate risk.

**(iii) Other market risk**

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The Manager has implemented internal risk management controls on the ETF which are intended to limit the loss on its trading activities.



**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

The table below shows the estimated impact on the ETF of a 1% increase or decrease in a broad-based market index, based on historical correlation, with all other factors remaining constant, as at the dates shown. In practice, actual results may differ from this sensitivity analysis and the difference could be material. The historical correlation may not be representative of future correlation.

<b>Comparative Index</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
S&P 500®	\$400,946	\$539,363

**(b) Credit risk**

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the ETF. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables. The ETF's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statements of financial position. The ETF's credit risk policy is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the ETF's prospectus and, when necessary, receiving acceptable collateral.

As at December 31, 2022 and 2021, due to the nature of its portfolio investments, the ETF did not have any material credit risk exposure.

**(c) Liquidity risk**

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF's policy and the Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of units, without incurring unacceptable losses or risking damage to the ETF's reputation. Generally, liabilities of the ETF are due within 90 days. Liquidity risk is managed by investing the majority of the ETF's assets in investments that are traded in an active market and can be readily disposed. The ETF aims to retain sufficient cash and cash equivalent positions to maintain liquidity; therefore, the liquidity risk for the ETF is considered minimal.

**6. FAIR VALUE MEASUREMENT**

Below is a classification of fair value measurements of the ETF's investments based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair valuation inputs is summarized as follows:

- Level 1: securities that are valued based on quoted prices in active markets.
- Level 2: securities that are valued based on inputs other than quoted prices that are observable, either directly as prices, or indirectly as derived from prices.
- Level 3: securities that are valued with significant unobservable market data.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as at December 31, 2022 and 2021, in valuing the ETF's investments and derivatives carried at fair values:

	December 31, 2022			December 31, 2021		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>						
Equities	43,478,049	–	–	57,224,226	–	–
Currency Forward Contracts	–	102,597	–	–	–	–
<b>Total Financial Assets</b>	<b>43,478,049</b>	<b>102,597</b>	<b>–</b>	<b>57,224,226</b>	<b>–</b>	<b>–</b>
<b>Net Financial Assets and Liabilities</b>	<b>43,478,049</b>	<b>102,597</b>	<b>–</b>	<b>57,224,226</b>	<b>–</b>	<b>–</b>

There were no significant transfers made between Levels 1 and 2 as a result of changes in the availability of quoted market prices or observable market inputs during the years shown. In addition, there were no investments or transactions classified in Level 3 for the years ended December 31, 2022 and 2021.

**7. SECURITIES LENDING**

In order to generate additional returns, the ETF is authorized to enter into securities lending agreements with borrowers deemed acceptable in accordance with National Instrument 81-102 – *Investment Funds* ("NI 81-102"). Under a securities lending agreement, the borrower must pay the ETF a negotiated securities lending fee, provide compensation to the ETF equal to any distributions received by the borrower on the securities borrowed, and the ETF must receive an acceptable form of collateral in excess of the value of the securities loaned. Although such collateral is marked to market, the ETF may be exposed to the risk of loss should a borrower default on its obligations to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities. Revenue, if any, earned on securities lending transactions during the period is disclosed in the ETF's statements of comprehensive income.

The aggregate closing market value of securities loaned and collateral received as at December 31, 2022 and 2021, was as follows:

As at	Securities Loaned	Collateral Received
December 31, 2022	–	–
December 31, 2021	\$1,119,605	\$1,175,814

Collateral may comprise, but is not limited to, cash and obligations of or guaranteed by the Government of Canada or a province thereof; by the United States government or its agencies; by some sovereign states; by permitted supranational agencies; and short-term debt of Canadian financial institutions, if, in each case, the evidence of indebtedness has a designated rating as defined by NI 81-102.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

The table below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the years ended December 31, 2022 and 2021. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the ETF, less any taxes withheld and amounts earned by parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

<b>For the years ended</b>	<b>December 31, 2022</b>	<b>% of Gross Income</b>	<b>December 31, 2021</b>	<b>% of Gross Income</b>
Gross securities lending income	\$625		\$1,294	
Withholding taxes	–	0.00%	(39)	3.01%
Lending Agents' fees:				
Bank of New York Mellon	(219)	35.04%	(439)	33.93%
<b>Net securities lending income paid to the ETF</b>	<b>\$406</b>	<b>64.96%</b>	<b>\$816</b>	<b>63.06%</b>

**8. REDEEMABLE UNITS**

The ETF is authorized to issue an unlimited number of redeemable, transferable Class E units each of which represents an equal, undivided interest in the net assets of the ETF. Each unit entitles the owner to one vote at meetings of unitholders. Each unit is entitled to participate equally with all other units with respect to all payments made to unitholders, other than management fee distributions, whether by way of income or capital distributions and, on liquidation, to participate equally in the net assets of the ETF remaining after satisfaction of any outstanding liabilities that are attributable to units of the ETF. All units will be fully paid and non-assessable, with no liability for future assessments, when issued and will not be transferable except by operation of law.

The redeemable units issued by the ETF provide an investor with the right to require redemption for cash at a value proportionate to the investor's share in the ETF's net assets at each redemption date and are classified as liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders. The ETF's objectives in managing the redeemable units are to meet the ETF's investment objective, and to manage liquidity risk arising from redemptions. The ETF's management of liquidity risk arising from redeemable units is discussed in note 5.

On any Valuation Date, unitholders of the ETF may (i) redeem units of the ETF for cash at a redemption price per unit equal to 95% of the closing price for units of the ETF on the TSX on the effective day of the redemption, where the units being redeemed are not equal to a prescribed number of units ("PNU") or a multiple PNU; or (ii) redeem, less any applicable redemption charge as determined by the Manager in its sole discretion from time to time, a PNU or a multiple PNU of the ETF for cash equal to the net asset value of that number of units.

Units of the ETF are issued or redeemed on a daily basis at the net asset value per security that is determined as at 4:00 p.m. (Eastern Time) each Valuation Date. Purchase and redemption orders are subject to a 2:00 p.m. (Eastern Time) cutoff time on the business day on Valuation Date.

The ETF is required to distribute all of its income (including net realized capital gains) that it has earned in the year to such an extent that the ETF will not be liable for ordinary income tax thereon. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and any such amount distributed by the ETF will be paid as a "reinvested distribution". Reinvested distributions on units of the ETF will be reinvested automatically in additional units of the ETF at a price equal to the net asset value per unit of the ETF on such day and the units of the ETF will be immediately consolidated such that the number of outstanding units of the ETF held by each unitholder on such day following the distribution will equal the number of units of the ETF held by the unitholder prior to the distribution. Reinvested distributions are reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units, if any, are recognized in the statements of changes in financial position.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

Please consult the ETF's most recent prospectus for a full description of the subscription and redemption features of the ETF's units.

For the years ended December 31, 2022 and 2021, the number of units issued by subscription, the number of units redeemed, the total and average number of units outstanding was as follows:

Year	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2022	2,017,290	50,262	(325,000)	1,742,552	1,915,849
2021	1,692,018	600,272	(275,000)	2,017,290	1,947,630

**9. EXPENSES AND OTHER RELATED PARTY TRANSACTIONS****Management fees**

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as portfolio managers, custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.75%, plus applicable sales taxes, of the net asset value of the ETF, calculated and accrued daily and payable monthly in arrears.

Any expenses of the ETF that are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

**Other expenses**

In addition to the management fees, unless otherwise waived or absorbed by the Manager, the ETF pays all of its operating expenses, including but not limited to: audit fees; trustee and custodial expenses; administration costs; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to unitholders; listing and annual stock exchange fees; CDS Clearing and Depository Services Inc. fees; bank related fees and interest charges; extraordinary expenses; unitholder reports and servicing costs; registrar and transfer agent fees; costs associated with the Independent Review Committee; income taxes; sales taxes; brokerage expenses and commissions; and withholding taxes.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

**10. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS**

Brokerage commissions paid on securities transactions may include amounts paid to related parties of the Manager for brokerage services provided to the ETF.

Research and system usage related services received in return for commissions generated with specific dealers are generally referred to as soft dollars.

Total brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager, if any, for the years ended December 31, 2022 and 2021, were as follows:

<b>Year Ended</b>	<b>Brokerage Commissions Paid</b>	<b>Soft Dollar Transactions</b>	<b>Amount Paid to Related Parties</b>
December 31, 2022	\$8,998	\$4,300	\$nil
December 31, 2021	\$18,013	\$6,500	\$nil

In addition to the information contained in the table above, the management fees paid to the Manager described in note 9 are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both fees are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at December 31, 2022 and 2021, are disclosed in the statements of financial position.

The ETF may invest in other ETFs managed by the Manager or its affiliates, in accordance with the ETF's investment objectives and strategies. Such investments, if any, are disclosed in the schedule of investments.

**11. INCOME TAX**

The ETF has qualified as a mutual fund trust under the *Income Tax Act* (Canada) (the "Tax Act") and accordingly, is not taxed on the portion of taxable income that is paid or allocated to unitholders. As well, tax refunds (based on redemptions and realized and unrealized gains during the year) may be available that would make it possible to retain some net capital gains in the ETF without incurring any income taxes.

**12. TAX LOSSES CARRIED FORWARD**

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forwards may be applied against future years' taxable income. Non-capital losses that are realized in the current taxation year may be carried forward for 20 years. As at December 31, 2022 and 2021, the ETF has no net capital or non-capital losses available.

**Notes to Financial Statements** (continued)

For the Years Ended December 31, 2022 and 2021

**13. OFFSETTING OF FINANCIAL INSTRUMENTS**

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2022. The “Net” column displays what the net impact would be on the ETF’s statements of financial position if all amounts were set-off. As at December 31, 2021, the ETF has no net capital or non-capital losses available.

Financial Assets and Liabilities as at December 31, 2022	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	102,597	–	102,597	–	–	102,597
Derivative liabilities	–	–	–	–	–	–

**14. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES**

The ETF may invest in units of other ETFs as part of its investment strategies (“Investee ETF(s)”). The nature and purpose of these Investee ETFs generally, is to manage assets on behalf of third party investors in accordance with their investment objectives, and are financed through the issue of units to investors.

In determining whether the ETF has control or significant influence over an Investee ETF, the ETF assesses voting rights, the exposure to variable returns, and its ability to use the voting rights to affect the amount of the returns. In instances where the ETF has control over an Investee ETF, the ETF qualifies as an investment entity under IFRS 10 – Consolidated Financial Statements, and therefore accounts for investments it controls at fair value through profit and loss. The ETF’s primary purpose is defined by its investment objectives and uses the investment strategies available to it as defined in the ETF’s prospectus to meet those objectives. The ETF also measures and evaluates the performance of any Investee ETFs on a fair value basis.

Investee ETFs over which the ETF has control or significant influence are categorized as subsidiaries and associates, respectively. All other Investee ETFs are categorized as unconsolidated structured entities. Investee ETFs may be managed by the Manager, its affiliates, or by third-party managers.

Investments in Investee ETFs are susceptible to market price risk arising from uncertainty about future values of those Investee ETFs. The maximum exposure to loss from interests in Investee ETFs is equal to the total fair value of the investment in those respective Investee ETFs at any given point in time. The fair value of Investee ETFs, if any, are disclosed in investments in the statements of financial position and listed in the schedule of investments. As at December 31, 2022 and 2021 the ETF did not have material exposure to subsidiaries, associates or unconsolidated structured entities.

**15. COMPARATIVE FINANCIAL STATEMENTS**

Certain information in the comparative notes to the financial statements for 2021 has been included to conform to the financial statement presentation adopted for 2022.

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