

## Q4 2023 COMMENTARY

# Evolve Future Leadership Fund

LEAD seeks to provide investors with long-term capital appreciation by investing primarily in a diversified mix of equity securities of companies located domestically or internationally that are determined to be leaders in sectors that stand to benefit from medium and long term economic trends.

TSX

LEAD

ETF TICKERS: LEAD (HEDGED); LEAD.B (UNHEDGED); LEAD.U (USD)

LEAD had strong performance this quarter returning +16.5% (LEAD/U +17.9%) and outperforming the S&P 500 (+11.7%), and the Nasdaq-100 (+14.6%). All sectors were positive contributors to performance, with Finance being the largest contributor, followed by Technology.

### Finance

The finance sector had extremely strong performance this quarter, significantly outperforming the S&P 500 Financials Sector Index. The outperformance was driven by our strategic allocation to bitcoin sensitive equities including Coinbase and MicroStrategy, returning 132% and 92%, respectively. MicroStrategy started buying bitcoin in 2020 and currently about 90% of its value is directly tied to its bitcoin holdings. MicroStrategy's Bitcoin strategy has resulted in a performance of +346% in 2023, outperforming Bitcoin's performance of +158% in the same period. Similarly, Coinbase's stock price has appreciated on the back of the rally in crypto prices this year. In addition, they are a key player in the Spot Bitcoin ETFs in the US that were approved early 2024. These approvals, combined with CFTC granting futures trading for crypto products are likely to increase crypto trading revenue for Coinbase.

### Technology

The technology sector also had another quarter of strong performance. Inflation again showed signs of cooling leading to an earlier end in sight of the Fed's rate-hiking cycle. This was positive for the interest rate sensitive technology sector. The magnificent 7 continued to drive market returns at the beginning of the quarter on the back of pivotal advancements in artificial intelligence and strong earnings. However, we saw the rally start to broaden out during the month of December. LEAD's technology sector outperformed the S&P 500 Information Technology Sector Index this quarter, driven by our strategic allocation to the cybersecurity and semi-conductor sub categories. Cybersecurity firms notably excelled this quarter, with industry leaders like CrowdStrike and Zscaler showing impressive returns of around 53%, and 42%, respectively. CrowdStrike Holdings's significant growth in its share prices can be in part attributed to its use of generative artificial intelligence (AI) applications and its AI-powered cybersecurity platform, Falcon. In addition, CrowdStrike exceeded earnings and revenue estimates and raised its full-year guidance, with subscription revenue seeing a significant increase and setting a record for net new annual recurring revenue. Zscaler reported earnings and revenue that topped expectations, with strong federal

government sales. On December 15, 2023 the U.S. Securities and Exchange Commission (SEC)'s new cybersecurity disclose rules took effect, requiring companies to report any significant cybersecurity incidents within 4 days. We expect this to be a tail wind for the industry moving into next year.

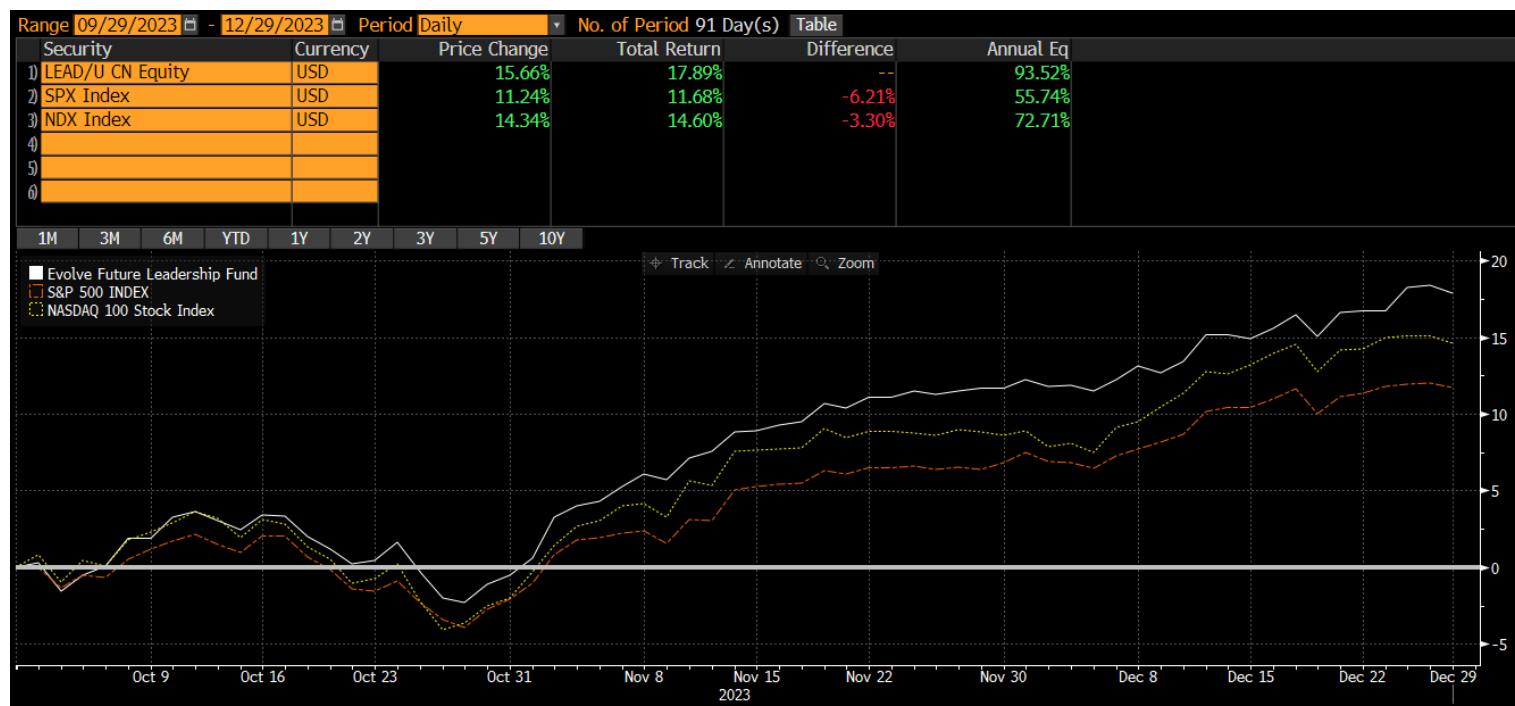
### Healthcare

Novo Nordisk and Eli Lilly continued to see the extreme success of weight loss drugs resonate in their earnings results. Novo Nordisk, up over 50% in 2023, beat expectations when it announced earnings on November 2nd as sales surged in the third quarter and they announced double-digit growth should carry into 2024, driven by burgeoning demand for its obesity and diabetes blockbusters Wegovy and Ozempic. On November 2nd, Eli Lilly reported third-quarter revenue and earnings that topped expectations, lifted by \$1.41 billion in sales from its blockbuster diabetes drug Mounjaro. Excitingly, on November 8th, Eli Lilly's obesity treatment adaptation of Mounjaro dubbed Zepbound, was approved by the FDA for use in the US. With Zepbound hitting the shelves on December 5th, analysts expect sales of the obesity treatment which is nearly twice as effective as Wegovy to buoy the company's earnings results in Q4 2023 and Q1 2024. In other news, Eli Lilly expects the FDA to make a decision on the pending approval of its Alzheimer's treatment, Donanemab, in the first quarter of 2024. Donanemab significantly slowed cognitive decline by between 22% and 36% depending on the advancement of the disease. In addition, we recently added Novartis to the portfolio due to the drugmakers diverse revenue stream, a strong balance sheet, a highly reliable dividend, and ample free cash flows. Novartis also has top-shelf franchises in cancer, neuroscience, immunology, hematology, and rare diseases. Therefore, revenue growth isn't anchored to one therapeutic area. Looking forward to 2024, we remain focused on mitigating the impact of slowed COVID-19 sales on the portfolio and are continuing to actively search for trailblazing drugs in the industry.

### Entertainment

In entertainment, the eGaming subsector outperformed. The outperformance was driven Nintendo (+24%) and Take Two Interactive Software (+15%) due to highly anticipated new products releases next year and superior sales from flagship IPs. Take Two is set to release GTA6 later next year and Nintendo sold new titles well and is expected to release their successor to the Nintendo Switch early next year. The digital media subsector was also a positive contributor to

performance this quarter. Disney had a promising quarterly report, with Bob Iger slowly steering the behemoth back on course and promising profitability in their streaming strategy with Disney+ by the end of next year. Meta returned 18% this quarter, adding to its massive run this year (+194% in 2023). AI and the metaverse are key investment areas for Meta in 2024. The company has started rolling out Meta AI, a new assistant that can be accessed across all messaging experiences and smart glasses. The company also launched Quest 3, the first mainstream mixed reality device, and the next generation of Ray-Ban Meta smart glasses, which are the first smart glasses with Meta AI built in. In addition, Reels has driven more than a 40% increase in time spent on Instagram since its launch and has reached a monetization milestone earlier than expected.



Source: Bloomberg

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