

Evolve Automobile Innovation Index ETF

CARS invests primarily in equity securities of companies that are directly or indirectly involved in developing electric drivetrains, autonomous driving or network connected services for automobiles.



For the one month period ending May 31, 2018

TICKER: CARS (Hedged); CARS.B (Unhedged); CARS.U (USD)

MACROECONOMIC HIGHLIGHTS:

- The automotive industry is changing quickly, with electric vehicles proving that they are not a short-term trend.
 - According to the International Energy Agency (IEA), the global fleet of electric vehicles is likely to triple to 13 million by the end of the decade. Sales are expected to rise on average 24% each year, through to 2030.
 - With the rise of electric vehicles, the IEA report estimates that approximately 2.57 million barrels of oil per day will cease to be needed by 2030. Given this, there should be a corresponding rise in demand for batteries, by a factor of 15 by 2030. Demand for cobalt and lithium, key ingredients in the rechargeable batteries that power electric vehicles, is also expected to see a possibly tenfold rise.
 - The IEA report indicates that China will remain the biggest market for electric vehicles, as the Chinese government has put policies in place to encourage electric vehicles. They also predict that more public transportation buses will go electric, with 1.5 million to be in use worldwide by 2030. Almost 100,000 electrified buses were sold last year, 99% of them in China.¹
- Another indicator of the growth of electric vehicles is B.P. Ventures LLC's (the venture capital arm of oil giant BP PLC) investment of US\$20 million in StoreDot Ltd., a start-up that claims its batteries can charge electric cars in five minutes. The company's investment in StoreDot's batteries should help in its efforts to reduce greenhouse gas emissions in its operations.²
- According to Qualcomm Inc., wireless electric vehicle charging technology is expected to be commercially available in the next 18 months to two years. The company has been developing the technology with automakers over the past seven years.³

ATTRIBUTION:

- Holdings in Aptiv PLC contributed to the Fund's performance, rising 16.7%* during the month after it announced the launch of a fleet of 30 autonomous vehicles in Las Vegas on the Lyft network.⁴
- Advanced Micro Devices Inc. also contributed to performance, as its shares rose 27.5%* over the period. The company released a fresh batch of Adrenalin Editions drivers in May, bundling bug fixes and support for Microsoft PlayReady 3.0 (software required to stream Netflix in 4K). Customers with an Advanced Micro Devices computer can stream 4K content from Netflix, unlike some of its competitors.⁵ In addition, the company is going after a US\$10 billion market, currently dominated by Intel Corp., with its new chip.⁶

ESG IMPACT:

The Fund invests in several companies that have ESG mandates, including holdings in companies that develop electric vehicles and other clean-driving technologies.

*CAD Returns.

Evolve Cyber Security Index ETF

CYBR invests primarily in equity securities of companies located domestically or internationally that are involved in the cyber security industry through hardware and software development.

For the one month period ending May 31, 2018



TICKER: CYBR (Hedged); CYBR.B (Unhedged)

MACROECONOMIC HIGHLIGHTS:

- As the number and severity of cyber attacks rise, the costs associated with these attacks also rise, increasing the demand for cyber security. The biggest issue for hospitals with respect to cyber security is response and recovery from ransomware attacks, according to Fernando Martinez, chief digital officer at the Texas Hospital Association. Organizations are struggling with a rise in attacks, particularly in the last five years, and it has become a top concern for hospital leaders.⁷
- It is projected that by 2020, there will be more than 30 billion “Internet of things” (IoT) devices, putting the personal information of users at further risk of being compromised, as each of these data-sharing devices can be susceptible to a cyber attack. With the rise of these devices and the organizational trend towards employees bringing their own devices to work, the job of cyber security professionals is getting more complex. According to the 2018 AT&T Cybersecurity Report, 80% of surveyed organizations experienced a successful cyber attack or breach over the past 12 months.⁸
- In the annual Pwnie Express study, which polls approximately 500 security professionals about cyber security threats, 85% indicated that they believe cyber security threats will lead to an attack on major critical infrastructure over the next five years. The health care industry, waste and wastewater, and the energy sector were identified as those areas least prepared for an attack. Significantly, 59% of those polled were impacted by a malware attack, and 32% had been affected by ransomware. Unfortunately, many security professionals also indicated that they were not sufficiently prepared, nor did they have the monitoring tools to help keep their company systems safe. Overall, while 64% were more concerned about the security of connected devices than last year, the survey’s authors said there was no improvement in the frequency at which they’re checking them.⁹
- Kaspersky Lab’s annual Corporate IT Security Risks survey showed that global companies will spend up to 26% more for cyber security in 2018. The average cost of a data breach is now up to US\$1.23 million for large companies (up 24% from 2017) and US\$120,000 for small and medium businesses (up 36%).¹⁰

ATTRIBUTION:

- Holdings in VirnetX Holding Corp. rose 46.9%* during the period following some significant announcements in May. Early in the month IntegraNet Health, a leader in the population health management industry, adopted VirnetX’s Gabriel Secure Communications Suite and will be rolling it out to its Texas network. Later in May, VirnetX announced that it had entered into a reseller agreement with Germany-based TITAN Commerce Continental Services GmbH, which will sell VirnetX’s Gabriel Collaboration Suite and Secure Domain Name technology to its international customer base.
- The Fund’s position in Booz Allen Hamilton Holding Corp. saw its shares rise 14.9%* during the month after the announcement that it had received a five-year, US\$88.3 million contract to help the U.S. Navy research and develop new technologies, in an effort to get end products to operational use more quickly.

ESG IMPACT:

Cyber security has become an increasingly important component of ESG as significant breaches like the Equifax Inc. and Uber hacks appear to be just the beginning of cyber attacks on vulnerable institutions and businesses.

*CAD Returns.

Evolve North American Gender Diversity Index ETF

HERS invests in equity securities of North American companies that have demonstrated commitment to gender diversity as part of their corporate social responsibility strategy.

For the one month period ending May 31, 2018



TICKER: HERS (Hedged); HERS.B (Unhedged)

MACROECONOMIC HIGHLIGHTS:

- Speaking to TechRepublic about gender diversity, Deloitte consulting principal, Kavitha Prabhakar, indicated that diversity leads to greater innovation and creativity, which is particularly important for technology companies. Leadership qualities that may help women outperform their male counterparts include empathy, the power of persuasion, emotional intelligence and the ability to connect business and technology together – leading to more creative solutions.¹³
- According to a World Bank Group study, the gender pay gap could cost US\$160-trillion in lost earnings globally. Calculated based on the earning potential of the current labour force in 141 countries, this number represents the difference between the combined lifetime income of everyone of working age in the world today – and what it would be if women earned as much as men. The report showed that women account for only 38% of the global human capital wealth and face barriers in the workforce in practically every country.¹⁴
- More companies are coming to recognize the significance and benefits of gender diversity – and are pushing for it. A paper published by Equileap provided analysis of different approaches to advance gender pay parity at legal, corporate and investment levels. It helps to summarize the reasons behind inequalities and legislation or corporate practices in various regions that have been implemented to address it. Interestingly, a lack of transparency is the main obstacle to gender pay parity, with 86% of companies not communicating on pay inequalities.¹⁵
- Stacey Cunningham was recently named the head of the New York Stock Exchange, the first woman to have this role in the Exchange's 226-year history.¹⁶

ATTRIBUTION:

- Holdings in Tiffany & Co. rose 28.5%* over the month, contributing to the Fund's performance after its new contemporary jewelry collections, called Paper Flowers, helped to drive increased sales.¹⁷
- General Motors Co. also contributed to performance, as its shares rose 17.4%* in May. Its autonomous vehicle unit obtained US\$2.25 billion in funding from SoftBank Group Corp. SoftBank's Vision Fund is one of the highest profile, largest investments to date in self-driving technology.¹⁸ General Motors also announced that, in an effort to add alternative fuel vehicles to its product offerings, it will be using 3D-printed parts to achieve its goal. The company is hoping to design and develop components on 3D printers to make them lighter and more efficient.¹⁹

ESG IMPACT:

The Fund's holdings are focused on U.S. and Canadian companies that have demonstrated commitment to gender diversity as part of their corporate social responsibility strategy, which satisfies ESG mandates. All companies held within the Solactive Equileap North American Gender Equality Index are ranked according to Equileap's 19-point gender diversity criteria.

*CAD Returns.

Evolve ESG ETFs

SOURCES:

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- ¹⁸ <https://www.theglobeandmail.com/business/article-gms-autonomous-vehicle-unit-gets-225-billion-funding-from-softbank/>
- ¹⁹ <https://www.fool.com/investing/2018/05/07/general-motors-autodesk-driverless-electric-vehicl.aspx>

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