

Evolve Automobile Innovation Index Fund

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.

As at June 28, 2019



ETF TICKER: CARS (Hedged); CARS.B (Unhedged); CARS.U (USD)
MUTUAL FUND FUNDSEV CODE: EVF140 (Class F); EVF141 (Class A)

MACROECONOMIC HIGHLIGHTS:

- Developments in electric (EV) and autonomous vehicles (AV) dominated the automotive industry in the first half of 2019, fuelled by partnerships among carmakers to develop EV and AV technology and related ancillary products and services; mergers and acquisitions; an increasing number of companies venturing into the market; and strong infrastructure spending.
- Although the current EV market segment represent one to two percent of total vehicle sales worldwide, it is forecasted that EV sales will surpass those of traditional vehicles by 2038, with the global fleet of EVs expected to surpass one billion by 2047.ⁱ
- Incidentally, China has become the largest market for EVs. Last year, EV sales in China surged by 62% to 1.3 million, about 4% of total car purchases, compared to 2% of car purchases in the US. By 2022, 10.3 million new electric vehicles are projected to be sold globally, with the Chinese market expanding by 37% to 3.6 million and the US increasing 26% to nearly 2 million.ⁱ
- In February, Volkswagen announced plans to invest some \$1.7 billion in Ford's start-up AV unit, Argo AI; while BMW and Daimler established an approximately \$3.5 billion partnership to develop a suite of mobility services, driverless vehicles, ride-hailing and pay-per-use cars. In May, Daimler Trucks agreed to buy a majority stake in self-driving truck software maker Torc Robotics in May as part of its broader push to develop AVs.ⁱⁱ
- In March, Hyundai Motor Group and Russia's biggest technology company Yandex NV announced plans to jointly develop AVs and build an autonomous control system to be marketed to rival car manufacturers and car-sharing start-ups; while Volvo Cars and Baidu Inc. joined forces to develop robo-taxis in China.ⁱⁱⁱ
- Hyundai also plans to launch a platform dedicated to EVs next year and expects to introduce 44 electrified models by 2025. It also proposes to launch an autonomous robot taxi fleet in South Korea on a trial basis by 2021. In total, Hyundai estimates that it will invest roughly \$40 billion in research and development over the next five years.





- In April, Toyota announced plans to invest \$100 million in early-stage start-ups engaged in the development of disruptive technologies. In addition, Toyota, Denso, and the SoftBank Vision Fund announced that they have finalized a deal to invest a combined \$1 billion in Uber's AV spin-off, Uber's Advanced Technologies Group.
- Volkswagen plans to build a fully electric sports utility vehicle for China in 2021, taking on the Chinese market leader, Tesla. The VW Group said that it is converting 16 factories worldwide to enable mass production of EVs. Volkswagen also announced that it plans to start production of mobile charging stations which can be set up anywhere as required, with or without connection to the power supply.
- Apple's acquired autonomous vehicle start-up Drive.ai in June, indicating its renewed interest in the AV space. Earlier this year, Apple laid off 190 of its AV staff from Project Titan, giving the impression that it was abandoning its venture into the space. Apple has not publicly disclosed its plans.
- Coming under increasing competitive pressure from a growing number of EV makers, Tesla, made significant cuts to its workforce, with the aim of achieving profitability. After reporting a large first quarter loss, Tesla Inc. returned to growth mode in the second quarter, setting a record for deliveries, beating Wall Street's expectations and relieving some pressure on CEO Elon Musk to prove that demand remains strong for the EV maker's vehicles.^{iv}
- In June, a coalition of 11 companies — Aptiv, Audi, Baidu, BMW, Continental, Daimler, Fiat Chrysler Automobiles, Here, Infineon, Intel, and Volkswagen — published a whitepaper ("Safety First For Automated Driving") describing a framework for the development, testing, and validation of "safe" AVs. The report claims that there is "clear traceability" that AVs are "safer than the average driver." Alphabet's Waymo, GM's Cruise Automation, Zoox, Tesla, Amazon-backed Aurora, Beijing-based Pony.ai, Nvidia, and Yandex did not participate in the report. On the other hand, Ford, Lyft, Uber, Volvo, and Waymo have a coalition of their own.^v
- As of May 1, Canadians commenced getting an incentive worth up to \$5,000 towards the purchase of a zero-emission vehicle - plug-in hybrid, electric battery or hydrogen fuel - as long as the manufacturer's suggested retail price is less than \$45,000. The three-year, \$200 million incentive program was originally unveiled in the March federal budget.

PERFORMANCE ATTRIBUTION:

- At the end of the June, the ETF held 69% of its portfolio by weight in companies in the Auto Supply Chain; 16% in Auto Makers and 15% in Auto Parts and Equipment. Auto Parts and Equipment stocks were among the best performing, led by Visteon Corp. and followed by Aptiv PLC. The best performing Auto Supply Chain stock was Dialog Semiconductor PLC; while Tesla Inc. was the best performing Auto Maker.



SOURCES:

ⁱ <https://www.zdnet.com/article/ark-invest-tesla-is-three-years-ahead-of-all-its-competitors/>

ⁱⁱ <https://ca.finance.yahoo.com/news/daimler-buys-torc-robotics-stake-self-driving-trucks-131947637--finance.html>

ⁱⁱⁱ <https://www.bloomberg.com/news/articles/2019-03-19/hyundai-signs-deal-with-russia-s-yandex-for-autonomous-cars>

^{iv} https://www.wsj.com/articles/tesla-deliveries-reach-record-quarter-after-questions-about-demand-11562099355?mod=hp_lead_pos4

^v <https://venturebeat.com/2019/07/02/self-driving-car-report-safety-first-for-automated-driving/>

DISCLAIMER:

Commissions, management fees and expenses all may be associated with exchange traded funds (ETFs) and mutual funds (funds). Please read the prospectus before investing. ETFs and mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs and mutual funds. Please read the prospectus for a complete description of risks relevant to ETFs and mutual funds. Investors may incur customary brokerage commissions in buying or selling ETF and mutual fund units.



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