TSX CYBR

SEMI-ANNUAL COMMENTARY

Evolve Cyber Security Index Fund

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.

As at June 28, 2019

ETF TICKER: CYBR (Hedged); CYBR.B (Unhedged); CYBR.U (USD)
MUTUAL FUND FUNDSERV CODE: EVF150 (Class F); EVF151 (Class A)

MACROECONOMIC HIGHLIGHTS:

- Cybercriminal activity has been at the forefront of global security concerns, fuelling growth in the demand for cybersecurity solutions.

- During the first half of the year, several research reports highlighted the gravity of cybercrime and cyberthreats, with the 2019 Cybersecurity Almanac, published by Cisco and Cybersecurity Ventures noting that cyberattacks are the fastest growing crime globally, and are increasing in size, sophistication and cost.

- The Almanac forecasts that cybercrime damages will cost the world $6 trillion annually by 2021 – exponentially more than the damage inflicted from natural disasters in a year, and more profitable than the global trade of all major illegal drugs combined.

- In fact, cyberattacks and data theft topped the charts of the Global Risks Report 2019, released by World Economic Forum in January; while a Conference Board survey of more than 800 international CEOs and 600 C-suite members ranked cybersecurity as the No. 1 external concern for U.S. CEOs for 2019.

- Point Software Technologies, an Israel based cyber security firm, noted that large scale cyberattacks have been targeting mobile, cloud and on-premise networks and that they are scaling and fast moving like never before, with fifth generation cyberattacks increasing and impacting a greater number of firms.

- According to Verizon's 2019 data breach investigations report published in May, phishing was deemed one of the web's great scourges, representing 12% of all data breaches. Mobile devices were associated with 18% of phishing email clicks, with hackers increasingly targeting senior executives. The report was based on an analysis of more than 41,000 security incidents and over 2,000 breaches.[i]

- The Cisco-Cybersecurity Ventures report states that the five most cyber-attacked industries over the past 5 years are healthcare, manufacturing, financial services, government, and transportation. It predicted that healthcare will suffer 2-3 times more cyberattacks in 2019 than the average amount for other industries because of its woefully inadequate security practices, weak and shared passwords, plus vulnerabilities in code. The report also forecasted that that retail, oil and gas / energy and utilities, media and entertainment, legal, and education will round out the top 10 most-attacked industries for 2019 to 2022.

Evolve ETFs
Brookfield Place, 161 Bay Street, Suite 2700, Toronto ON M5J 2S1
416.214.4884 | 1.844.370.4884 | www.evolveetfs.com

- Incidentally, social media has become a major platform for cybercrime. According to the Bromium report, "Social Media Platforms and the Cybercrime Economy," nearly 1 in 5 organizations worldwide are now infected by malware distributed by social media,[ii] including Facebook, Twitter, Instagram and YouTube. A study by a criminology expert at the University of Surrey, contends that social media criminals earn nearly $3.25 billion annually by exploiting popular social platforms. In fact, Facebook, What's App and Twitter have all suffered from security breaches so far this year. Facebook also disclosed that it expected to be fined up to $5-billion by the Federal Trade Commission for privacy violations.[iii]

- In a breach of privacy in May, the Federal Emergency Management Agency unintentionally shared the personal addresses and banking information of 2.5 million U.S. disaster survivors with a contractor.[iv] Also in May, the city of Baltimore became a victim of a ransomware attack, in which critical files were encrypted remotely until a ransom was paid.[v]

- In May, Equifax became the first firm to see its outlook downgraded due to a cyber-attack. The firm, which suffered a major security breach in 2017, had its credit rating outlook slashed by Moody's – from stable to negative.[vi]

- In a surprising move to prevent cyberattacks, the U.S. Government announced plans in June to secure its power grids by using "retro" technologies. Rather than using new technology and skills, it will use analog and manual technology to isolate the grid's most important control systems, thwarting the potential for cyberattacks and limiting the reach of a catastrophic outage.[vii]

- In news about cyber solutions, CyberArk Software Ltd. launched the industry's first Privileged Access Security Solution for continuous discovery and protection in the cloud. It eliminates the most advanced cyber threats by identifying existing accounts across networks, locking them down, and leveraging advanced analytics and continuous monitoring to detect and isolate anomalous behavior to stop attacks. This solution is on the U.S. Department of Defense Information Network Approved Products List.

- CyberArk was also named a Government Security News (GSN) Homeland Security Award winner for the third consecutive year and is the platinum winner for "Best Identity Management Platform".

- Fortinet Inc., which leverages leading-edge machine learning and AI tech to develop threat intel, emerged as 2019 Winner of the Best Security Company at the 30th SC Excellence Awards; while Fire Eye Inc. was Winner of the Best Email Security Solution.

PERFORMANCE ATTRIBUTION:

- The top performing holding in the ETF for the month of June was Symantec Corp., which was also the largest contributor to its total return. Zscaler Inc., the largest holding by weight, was the next largest contributor to the ETF's performance.

Evolve ETFs
Brookfield Place, 161 Bay Street, Suite 2700, Toronto ON M5J 2S1
416.214.4884 | 1.844.370.4884 | www.evolveetfs.com

SOURCES:

[i] http://fortune.com/2019/05/11/verizon-data-breach-report-facebook-lawsuit-china-nsa-hacking-tools/
[ii] https://www.cpomagazine.com/cyber-security/cyber-criminals-have-turned-social-media-cyber-crime-into-a-3-billion-business/
[iii] https://www.theglobeandmail.com/business/technology/article-instagram-growth-boosts-facebook-revenue-but-potential-privacy/
[iv] https://www.foxnews.com/tech/were-already-in-the-middle-of-a-major-cyberwar-experts-believe
[v] https://www.nytimes.com/2019/05/22/us/baltimore-ransomware.html
[vi] https://www.forbes.com/sites/kateoflahertyuk/2019/05/28/equifax-becomes-first-firm-to-see-its-outlook-downgraded-due-to-a-cyber-attack/#2184ff3e5671
[vii] https://www.forbes.com/sites/kateoflahertyuk/2019/07/03/u-s-government-makes-surprise-move-to-secure-power-grid-from-cyber-attacks/#725c45d53191

DISCLAIMER:

Evolve ETFs
Brookfield Place, 161 Bay Street, Suite 2700, Toronto ON M5J 2S1
416.214.4884 | 1.844.370.4884 | www.evolveetfs.com