

## Evolve Innovation Index Fund

EDGE provides investors with access to global companies that are involved in innovative or disruptive trends across a broad range of industries.

As at June 28, 2019



**ETF TICKER:** EDGE (Hedged)

**MUTUAL FUND FUNDSERV CODE:** EVF160 (Class F); EVF161 (Class A)

### MACROECONOMIC HIGHLIGHTS:

- The first half of the year was largely marked by positive developments in connectivity, big data, artificial intelligence (AI), cloud computing, robotics, automaton, cyber security, and social media. These developments led to strong first quarter earnings reports by several leading companies held by the ETF in their respective space, such as Zscaler Inc., Salesforce.com Inc., Broadcom Inc., Nividia Corp., Palo Alto Networks Inc., Proofpoint, Fortinet Inc; SAP, Facebook Inc., Snap Inc., and Twitter.
- In January, several automotive companies showcased innovative developments in vehicles of the future at the annual Consumer Electronics Show (CES) in Las Vegas. Audi highlighted the use of virtual reality in in-car entertainment; Bell unveiled a full-scale prototype of a vertical-takeoff-and-landing air taxi; Harley-Davidson revealed its first electric motor; Hyundai unveiled a science fiction-like design of a walking, van-like vehicle developed to help first responders travel over rough terrain; Nissan unveiled an improved version of its electric car, with a longer driving range and more torque; and Qualcomm, one of the ETF's holdings, highlighted its design to make vehicle-to-everything communication a reality.
- There were several new developments in the AI space during the first half. In April, Google announced that it wants to position itself as an "AI first" company and plans to establish research centers across the globe in places such as Tokyo, Zurich, New York, and Paris. It opened its first center in Ghana, Africa.<sup>i</sup> Google also expanded its partnership with Salesforce in an attempt to create a smarter customer service experience by combining Salesforce's customer knowledge with Google's customer service-related AI products.<sup>ii</sup>
- Salesforce announced in March that it is targeting an increase in revenue for 2023, driven by innovation in technology, including demand for AI. To achieve this, the company has introduced the next generation of its AI platform, Einstein.
- Facebook also confirmed that it is working on an artificial intelligence-based digital voice assistant similar to Amazon's Alexa and Google Assistant. Facebook said it is focusing less on messaging and more on platforms in which hands-free interaction, via voice control and potentially gesture control, is paramount.<sup>iii</sup>





- Amazon also indicated that it has moved its AI plans from hype to reality. In an interview with the health website Stat, Amazon's Taha Kass-Hout stated that the company sees big potential in developing AI tools for health. Incidentally, Amazon launched Comprehend Medical, a machine learning service for health information in 2018.
- In March, U.S. chip supplier Nvidia Corp acquired Israeli chip designer Mellanox Technologies Ltd. in a deal that would help the firm boost its data center and artificial intelligence business. Nvidia provides chips to speed up artificial intelligence tasks such as teaching servers to recognize images while Mellanox makes chips that connect the servers inside the data center.<sup>iv</sup>
- In the robotics space, the California-based chip-maker, NVIDIA opened its first full-blown robotics research lab and launched its new Jetson AGX Xavier Module that it hopes will become the go-to brain for next-generation robots.
- In June, Google's announced plans to bolster its cloud computing business by buying the data analytics start-up Looker for \$2.6 billion. The significant size of the deal, implies that Google intends to make a bigger push into the enterprise market, targeting specific industries like retail and finance.<sup>v</sup>
- New-York Sidewalk Labs LLC's controversial ambitions to build a futuristic city on Toronto's waterfront returned to the front burner in May. The urban innovation unit of Alphabet Inc., proposes to redevelop 350 derelict acres on the city's waterfront in return for a cut of property taxes, development charges and increased land values.
- The popular social media platforms such as Facebook, Twitter, Instagram and YouTube have been identified as major avenues for cybercrime. According to a report published by the cybersecurity firm, Bromium, nearly 1 in 5 organizations worldwide are now infected by malware distributed by social media.<sup>vi</sup>
- The Grand Committee on Big Data, Privacy and Democracy held in Ottawa in May, learned that artificial intelligence was at the heart of online toxicity, playing a major role in exacerbating the problems being blamed on large digital platforms. The committee deemed Facebook the number one public enemy.
- In June, Facebook announced plans to launch a cryptocurrency called Libra, meant primarily to help unbanked and underbanked people participate in the financial system. While Facebook designed Libra under great secrecy, it intends to turn control over the cryptocurrency to a body of partners, including, non-profits, credit card companies and payment brokers, among others. Libra remains controversial and has not been widely accepted by the banking system.
- Several companies held by the ETF during the first half reported better than expected earnings, including Zscaler Inc., Salesforce.com Inc., Broadcom Inc., Nividia Corp., Palo Alto Networks Inc., Proofpoint, Fortinet Inc; SAP, Facebook Inc., Snap Inc., Twitter, and the biopharmaceutical company, BeiGene Ltd. On the other hand, Google's earnings were below estimates, while FireEye Inc.'s and Symantec Corp's were in line with estimates.





## PERFORMANCE ATTRIBUTION:

- The ETF tracks a benchmark index designed to expose investors to returns in six sectors: Big Data and Cloud Computing, Robotics and Automation, Cyber Security, Automotive Innovation and Social Media, which together accounted for 86% of the weight of the portfolio in roughly equal individual segment weights at the end of June 2019; and Genomics – which has a 13% weight. The Big Data and Cloud Computing segment of the portfolio made the largest contribution to the ETF's performance, led by ServiceNow Inc., and followed by Atlassian Corp. PLC Class A. In the Cybersecurity segment, the ETF held the Evolve Cybersecurity Index, which made the second highest contribution to its return. Loxo Oncology Inc. was the best performing Oncology stock in the ETF; while Advanced Microdevices Inc. was the best performing Robotics and Automation stock; and Snap Inc. A, the best performing Social Media stock.

## SOURCES:

- <sup>i</sup> <https://www.cnn.com/2019/04/14/africa/google-ai-center-accra-intl/index.html>
- <sup>ii</sup> <https://techcrunch.com/2019/04/10/salesforce-and-google-want-to-build-a-smarter-customer-service-experience/>
- <sup>iii</sup> <https://www.theverge.com/2019/4/17/18412757/facebook-ai-voice-assistant-portal-oculus-vr-ar-products>
- <sup>iv</sup> <https://ca.reuters.com/article/technologyNews/idCAKBN1QS197-OCATC>
- <sup>v</sup> <https://www.cnbc.com/2019/07/03/david-marcus-facebook-wont-control-libra-cryptocurrency.html>
- <sup>vi</sup> <https://www.cpomagazine.com/cyber-security/cyber-criminals-have-turned-social-media-cyber-crime-into-a-3-billion-business/>

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