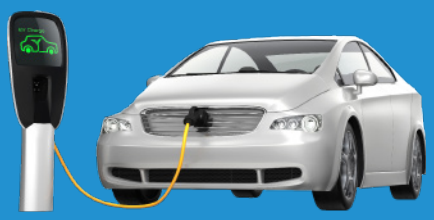
TSX CARS

MONTHLY COMMENTARY

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 September 30, 2019

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

MACROECONOMIC HIGHLIGHTS:

The global electric vehicle (EV) and autonomous vehicle (AV) markets are poised for dramatic growth over the next decade. According to projections by Allied Market Research, the EV market will reach $567 billion by 2025, up from $118 billion in 2017, representing a CAGR of 22.3% over the period. On the other hand, the AV market is forecasted to grow by a CAGR of 41.5% between 2017 and 2026, to reach $615 billion by 2026, according to a recent report by Research And Markets.[i]

In terms of percentage of all cars, a market analysis by Bloomberg NEF concluded that it expects 56% of light commercial vehicle and 31% of medium commercial vehicle sales in U.S., China and Europe to be electric by 2040.[ii]

While individuals are increasingly adopting EVs, it is anticipated that they will also play a greater role in areas such as delivery and public transportation. For instance, Amazon announced plans to acquire 100,000 EVs by 2030 from Rivian, a start-up in which it has invested. Other organizations such as transit agencies, the US Postal services, among others, are expected to follow in Amazon's footsteps.[iii]

Research conducted by Morgan Stanley found that the economics of EVs for ride-sharing are compelling. In its base-case scenario, Morgan Stanley estimates that wider adoption of EVs among ride-sharing fleets, as well as increased regulation and influence from major tech firms, could increase EV penetration of miles driven from 1% in 2020 to nearly 44% in 2040, and 74% in 2050.

Citing research by Schaller Consulting, Morgan Stanley noted that ride-sharing using fuel driven cars has added 5.7 billion miles of driving annually in cities like Boston, Chicago, Los Angeles, Miami, Philadelphia, San Francisco, Seattle, and Washington, DC, increasing their carbon footprint. Meanwhile, about 60% of users in large, dense cities in the U.S. would have taken public transportation, walked, biked, or not made the trip, if ride-sharing hadn't been an option. Given the high mileage of ride-sharing vehicles, and their fuel-inefficient stop-and-go driving, the impact of converting to zero-emission EV fleets could be profound, the study concluded.[iv]

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As EVs and AVs begin to proliferate, insurance companies worry that they are more prone to accidents. According to AXA XL's liability insurance claims data, electric luxury cars and SUVs are 40% more likely to cause accidents compared to their combustion-engine counterparts. The findings were based on 1,000 vehicles that had been on the road for seven years — referred to as 7,000-year risks.

Several reasons were attributed to higher accident rates. EVs accelerate much more quickly and can reach top speed almost instantaneously, whereas regular cars take a few seconds to rev up. In addition, AXA said that half of EV drivers attested to the learning curve associated with "green" cars' more sensitive acceleration and braking. Interestingly, AXA's claims data study found the opposite to be true for compact and micro EVs, which are slightly less likely to be involved in accidents compared to standard versions.[v]

In a new development, while most new in-cabin car technology is directed at enhancing the driver's experience, Porsche announced that it has partnered with Holoride to enable vehicle-synced virtual reality experiences for passengers in the back seat. Holoride is an entertainment technology start-up creating responsive "extended reality" content that is synchronized with a vehicle's motion. The product is expected to be ready in 2021.[vi]

Tesla's CEO Elon Musk says the company 'has a shot' at delivering 100,000 cars this quarter. This would be a new record for the electric car company, after it smashed its global record last quarter with over 95,000 deliveries.[vii]

In their quest to push ultra-efficient engines, Toyota and Suzuki plan to buy stakes in each other. As part of the arrangement, Toyota will buy approximately $907 million in Suzuki stock, for an almost 5% ownership stake in the company; while Suzuki will buy $453 million of Toyota stock. Earlier this year, Toyota agreed to share its hybrid tech with Suzuki for global use, particularly in India. Suzuki's end of the deal was supplying two rebadged compact vehicles that Toyota could sell in India and letting Toyota use its engines to sell in European vehicles. In 2018, Toyota agreed to help Suzuki develop an ultra-efficient engine.[viii]

PERFORMANCE ATTRIBUTION:

At the end of September, the ETF held 68% of its portfolio by weight in companies in the Auto Supply Chain; 17% in Auto Parts and Equipment and 15% in Auto Makers. For the month, the Auto Supply Chain companies Powercell Sweden AB, followed by Plug Power Inc. were the best performing stocks; and also made the largest contributions to the ETF's return by weight.

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SOURCES:

[i] https://www.baystreet.ca/etfs/407/Bet-on-the-Future-of-Cars-With-This-ETF
[ii] https://riskandinsurance.com/auto-insurance-green-suvs/
[iii] https://www.wired.com/story/amazon-all-electric-future-fleet-vehicles/
[iv] https://www.morganstanley.com/ideas/ride-sharing-electric-vehicles-carbon-emissions?subscribed=true&dis=em_2019102_wm_5ideasarticle&et_mid=107067&et_mkid=dc71ce0559b043a353fc12adfa804c6a
[v] https://riskandinsurance.com/auto-insurance-green-suvs/
[vi] https://www.forbes.com/sites/gradsoflife/2019/09/17/your-entry-level-talent-needs-a-strong-frontline-manager/#2fa0f6022356
[vii] https://ca.finance.yahoo.com/news/data-breach-door-dash-sees-155234903.html
[viii] https://www.motor1.com/news/367636/toyota-suzuki-announce-capital-alliance/

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