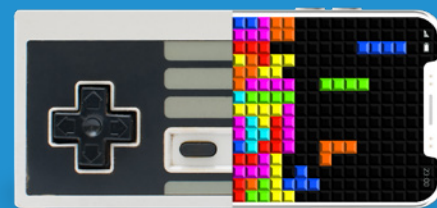


Evolve E-Gaming Index ETF

HERO invests in equity securities of companies listed domestically and globally with business activities in the electronic gaming industry.



As at November 29, 2019

TICKER: HERO (Hedged)

MACROECONOMIC HIGHLIGHTS:

The e-sports industry continued to experience strong growth in the wake of rising popularity. According to Forbes, global revenue for esports will reach \$1.1 billion this year, up 27% from 2018, with North America accounting for 40% of that pie.

Forbes now counts 13 companies with a value of more than \$100 million, with the average valuation hitting \$217 million, up 52% over last year. At the top of its list of the world's most valuable e-sports companies were Team SoloMid and Cloud9, which tied for first place with a valuation of \$400 million. At the bottom of the list of 13 were OverActive Media and Misfits Gaming, which both had a valuation of \$120 million.ⁱ

According to Newzoo research, video game competitions reach a global audience of 454 million, with at least 190 million more expected to be watching in three years. The average fan, according to Nielsen, is a millennial male, makes nearly \$70,000 a year and favors streaming platforms like Twitch, YouTube and Mixer over traditional television. Sponsorship, advertising and media rights have almost doubled since 2017, to \$897 million.ⁱⁱ

In Canada, TSXV-listed Torque Esports announced that they will form a new entertainment entity called ENGINE Media Holdings. ENGINE's business model is to provide an immersive streaming platform that focuses on news, sports and esports content. Using the combined assets of Torque, Frankly and Winview, the core of the new entity will focus on providing a live esports platform that offers immersive experiences within the space, including hosting Call of Duty esports tournaments and running a Miami-based esports arena. As part of the deal, Torque will acquire all of Frankly and WinView's outstanding shares, while 26.4 million Torque Esports shares will be exchanged for WinView's shares valued at close to C\$30.36 million.ⁱⁱⁱ

Canada's video game industry has contributed \$4.5 billion to the country's gross domestic product (GDP) this year, according to an economic impact study, The Canadian Video Game Industry 2019, conducted by the research firm Nordicity and released by the Entertainment Software Association of Canada (ESAC). The study found that Canadian video game companies generated an estimated \$3.6 billion in revenue in 2019, indicating a 15% jump from 2017. In-game or in-app sales made up 13% of total revenue, while game unit sales and provincial games industry tax credits both contributed 11% respectively; while e-sports generated 76% of revenue.



The report stated that there are currently 692 active video game companies in Canada, representing a 16% increase over 2017. The majority (82%) of Canada's video game companies are located in Quebec, Ontario and British Columbia.^{iv}

In company news, Nintendo Switch Lite made a huge debut on the way to becoming the fastest-selling console ever in the U.S., moving 2.74 million units in its first month. Including Switch Lite, Nintendo has now sold 41.67 million consoles since the device debuted in March 2017, along with 246 million games. Overall, Switch sales rose 50 percent over a year ago to just shy of 4.8 million units for the quarter. Nintendo Switch is the only platform with sales gains both in October as well as year to date.^{v,vi}

In spite of strong growth in the e-sports industry, the profits of Tencent, the Chinese social media goliath, fell 13% last quarter after an economic downturn depressed advertising and prompted charges within its huge portfolio of investments. Tencent was supposed to hit the comeback trail this year after a nine-month freeze on game approvals gutted its most profitable business in 2018. But a sharp Chinese economic slowdown, competition from up-and-comer ByteDance Inc. for internet traffic and advertising, and tricky political considerations have snarled its recovery.

Tencent hopes to see light at the end of the tunnel in the fourth quarter. It hit pay-dirt with its smartphone adaptation of Call of Duty. The game garnered more than 100 million downloads in the first week, putting it ahead of Nintendo Co.'s Mario Kart Tour. That was four times more than Fortnite's mobile version. That strong debut positioned it to join the other mega cash-cows in Tencent's stable: old favorite Honour of Kings and 2019's standout hit, Peacekeeper Elite.^{vii}

In spite of declining profitability, Tencent acquired a stake in the video developer, Sumo Group. The company entered into an agreement with Perwyn, an established investor in the Group and its Crackdown 3 studio, to acquire 15 million shares, which will give Tencent a 9.96% interest in the developer. Tencent already fully owns League of Legends developer Riot Games, and has interests varying from 5% to 85% in Ubisoft, Activision Blizzard, Bluehole, Glu Mobile, Epic Games, Paradox Interactive.^{viii}

Games industry representatives from associations including the ESA, the ESAC, ICEA, ISFE, and UKIE have united on a set of principles for esports engagement. In a joint announcement, the organizations unveiled a set of four principles for promotion of and participation in esports, including Safety and Well-Being, Integrity and Fair Play, Respect and Diversity.^{ix}



SOURCE:

- ⁱ <https://www.forbes.com/sites/civcnation/2019/11/13/forming-a-foundation-my-life-as-a-first-gen-military-child/#165c07d7756c>
- ⁱⁱ <https://www.forbes.com/sites/civcnation/2019/11/13/forming-a-foundation-my-life-as-a-first-gen-military-child/#165c07d7756c>
- ⁱⁱⁱ <https://investingnews.com/daily/tech-investing/gaming-investing/esports-investing/torque-esports-frankly-winview-esports-platform/?mqsc=E4104026>
- ^{iv} <https://www.gamingstreet.com/canadian-gaming-companies-revenues-rise/>
- ^v <https://www.geekwire.com/2019/nintendo-profits-double-game-giant-sells-1-95m-switch-lite-consoles-just-11-days/>
- ^{vi} http://www.nintendolife.com/news/2019/11/nintendo_switch_was_the_best-selling_video_game_hardware_in_the_united_states_last_month
- ^{vii} <https://ca.rogers.yahoo.com/finance/news/tencent-profit-misses-lowest-estimate-095108742.html>
- ^{viii} <https://www.gamesindustry.biz/articles/2019-11-15-tencent-buying-10-percent-of-sumo-digital>
- ^{ix} <https://www.gamesindustry.biz/articles/2019-11-05-games-industry-international-trade-bodies-unite-on-universal-esports-principles>

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