

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 January 31, 2020



ETF TICKER: EDGE (Hedged)

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

MACROECONOMIC HIGHLIGHTS:

A novel coronavirus with characteristics similar to SARS emerged in China in January and has had a profound impact on that nation's economy and public health. Unlike SARS, and in a demonstration of how far genomic technology has come in the last 17 years, the coronavirus (now dubbed COVID-19) has had its full genome sequenced and made publicly available online within one month of the first case of the pneumonia-causing virus being reported on December 8, 2019. The genome's availability is helping researchers looking for treatment, and also aiding doctors in properly diagnose the infection. Because COVID-19 causes flu-like symptoms, it can be difficult to distinguish from more common illnesses.ⁱ

The British government announced its decision to allow China's Huawei to help build the UK's 5G wireless networks. The decision comes despite concerns that the decision could undermine trade and intelligence ties with the United States. The US government has long been concerned about potential national security risks posed by Huawei components and the threat of Chinese cyberattacks. It has pressed the UK (and other allies) for a total ban on Huawei products, alleging that Beijing would have access to the equipment and could use it for espionage. The American government has warned that US-UK intelligence sharing could be put at risk by a Huawei-built 5G network in the UK. As an attempted compromise, UK mobile operators will be able to use Huawei equipment in their 5G networks, but the company is excluded from "security critical" areas and core infrastructure.ⁱⁱ

Cybersecurity company Trend Micro Inc. (a holding in the fund) released the results of a months-long study into how knowledgeable and ingenious threat actors could be in compromising a manufacturing facility. Establishing a decoy high-tech manufacturer with several common cybersecurity vulnerabilities, Trend Micro was able to use this "honeypot" trap to study the targets and methods of malicious hackers.ⁱⁱⁱ

What they experienced was a variety of malware and cyberattacks, including ransomware and cryptocurrency mining, as well as more direct attacks. In some instances, hackers were able to gain access to workstations that could have allowed them to physically disrupt work on the factory floor. Likewise, hackers also issued numerous system shutdown commands, which could have had severe negative consequences in a real smart-factory environment.



Their study serves as a wake-up call particularly for owners of smaller factories and industrial plants, who have perhaps been assuming that they were too small for hackers to bother with. The study demonstrated that the attackers were common cybercriminals, not nation-state-backed hacking groups, who are happy to target smaller businesses. Their activities—anything from ransomware to cryptojacking—can have serious consequences for the bottom line and can even put business continuity in jeopardy.^{iv}

General Motors announced it will spend US\$2.2 billion to refurbish an underused Detroit factory, transforming it to build a series of electric and self-driving vehicles starting in 2021. As part of the refurbishment, GM will spend an additional US\$800 million in equipment for parts suppliers and other projects that are EV-related. GM expects the factory will eventually employ 2,000 people and build the company's first electric pickup late next year, followed by a self-driving shuttle for GM's Cruise autonomous vehicle unit. GM CEO Mary Barra has promised an "all-electric future" for GM, with the company developing 20 electric models that it plans to sell worldwide by 2023.^v

EV startup Rivian Automotive Inc. showed off its first pickup truck and SUV at an event in San Francisco in late January. The first deliveries of Rivian's all-electric R1T trucks should happen late this year, with the R1S SUVs following after. The R1T pickup has a range of 300 miles and an expected list of US\$69,000 and the R1S SUV with similar range is expected at US\$72,000.^{vi} Rivian investors include Amazon, Ford, and Cox Automotive.

UPS announced that in February it will begin a six-month pilot program of autonomous delivery vehicles with Alphabet's Waymo. Waymo's autonomous Chrysler Pacifica minivans will shuttle packages from Phoenix UPS stores to a nearby sorting center.^{vii}

PERFORMANCE ATTRIBUTION:

The EDGE ETF tracks a benchmark index designed to expose investors to returns in seven sectors: big data and cloud computing, robotics and automation, cybersecurity, automotive innovation, 5G and social media, which together accounted for 87% of the weight of the portfolio in January 2020; and genomics, which accounted for had a 12.5% weight. The best-performing stocks in the ETF for the month were Atlassian Corp, Paycom Software Inc, and ServiceNow Inc—all holdings from the big data and cloud sector.



SOURCES:

- ⁱ <https://www.the-scientist.com/news-opinion/scientist-scrutinize-new-coronavirus-genome-for-answers-67006>
 - ⁱⁱ <https://www.cnn.com/2020/01/28/tech/huawei-5g-uk/index.html>
 - ⁱⁱⁱ <https://www.trendmicro.com/vinfo/us/security/news/internet-of-things/fake-company-real-threats-logs-from-a-smart-factory-honeypot>
 - ^{iv} <https://www.zdnet.com/article/ransomware-snooping-and-attempted-shutdowns-the-state-of-this-honeypot-shows-what-hackers-do-to-systems-left-unprotected-online>
 - ^v <https://www.theglobeandmail.com/business/international-business/us-business/article-gm-spending-22-billion-to-build-electric-vehicles-at-detroit-plant/>
 - ^{vi} <https://seekingalpha.com/news/3534529-rivian-looks-to-crash-ev-party>
 - ^{vii} <https://seekingalpha.com/news/3536142-ups-aims-for-driverless-electric-future>
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