

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 March 17, 2020



ETF TICKER: CARS (Hedged); CARS.B (Unhedged); CARS.U (USD)

MUTUAL FUND FUNDSERV CODE: EVF140 (Class F); EVF141 (Class A)

UPDATE:

Since peak of the equity markets on February 19th, CARS is down about -40%, while the unhedged class (CARS.B) is down about -35%.

Automakers and suppliers across the globe have been scrambling to keep production going, after the pandemic crisis shuttered parts plants across China.

Automakers have begun to offer coronavirus-induced incentives, implementing payment relief and first-payment deferral plans for new and existing financing customers. General Motors is now offering 0% financing for 7 years, deferred payments.

Car dealerships are expecting to feel the pinch from this pandemic crisis, as governments have begun calling for lockdowns of walk-in businesses. Dealers, like other retail outlets, will begin to see the impacts of social distancing.

MACROECONOMIC HIGHLIGHTS:

The electric vehicle (EV) roller coaster continued into February, after near-record December 2019 sales followed by a coronavirus-led sales slump in January 2020.ⁱ Meanwhile, as more governments have moved to ban internal combustion engine vehicles, tougher emissions standards came into effect in Europe and China, acting as motivation for car manufacturers to promote and sell more electric vehicles.ⁱⁱ

Indonesian President Joko Widodo announced that Indonesia's new capital city will be the first in the world to use only autonomous and electric vehicles for all public and private transportation. The government will be moving Indonesia's capital city from Jakarta to a now forested area in North Penajam Paser by the end of Mr. Joko's second term in 2024, at a cost of US\$46 billion. The plan matches the Indonesian government's vision of promoting electric vehicles as a means not only of reducing the country's carbon emissions, but also of promoting domestic EV battery production. Indonesia is rich in cobalt and manganese, main components for EV batteries.ⁱⁱⁱ



The United Kingdom announced that it will ban sales of new gasoline and diesel cars from 2035—five years earlier than previously planned. Additionally, for the first time hybrid vehicles will now be included in this ban. The UK government said the more aggressive approach was necessary to fight the climate crisis and help the United Kingdom cut carbon emissions to "net zero" by 2050.^{iv}

Likewise, Singapore announced that it, too, will phase out gasoline and diesel vehicles by 2040, in an effort to cut greenhouse gases and fight climate change. Singapore is one of the most expensive places in the world to buy a car and there are few electric vehicles on the roads. New measures to encourage EV adoption will include a registration fee rebate on purchases of fully electric car and taxis. Long an oil-refining hub, Singapore also announced the expansion of public charging infrastructure to 28,000 points by 2030, up from the current 1,600.^v

Tesla is in advanced talks with CATL to use that company's lithium iron phosphate (LFP) batteries in cars made at its China plant. Such a deal would mark the first time for the U.S. automaker to include LFP batteries in its cars as it seeks to lower production costs amid a slowdown of EV sales in China. Because LFP batteries contain no cobalt—one of the most expensive metals used in EV battery manufacture—the new batteries would be cheaper than Tesla's existing batteries by a "double-digit percent."^{vi}

Volkswagen of America plans to establish a joint marketing fund to help drive dynamic EV marketing at the dealership level in advance of the rollout of the ID Crozz crossover EV late this year. The ID Crozz will sell in the low- to-mid US\$30,000 range after a US\$7,500 federal tax credit. With dealership-level enthusiasm the weakest link in the EV marketing pipeline, VW plans to support the ID Crozz with aggressive marketing at the local level. VW will match local marketing funds and potentially supply as much as 75% of the resources, depending on the specific market. US Volkswagen dealers will also get funding for 50% of the equipment needed to support their EV sales efforts.^{vii}

Volvo Trucks unveiled the VNR Electric, a production-ready fully electric semi intended for short-haul routes. The VNR Electric is the centerpiece of a the Low-Impact Green Heavy Transport Solution (LIGHTS) project. In addition to Volvo, which has invested \$36.7 million, 14 other public sector and private enterprises have signed on to this \$90-million collaborative pilot project.

Based heavily on the design of Volvo's diesel-powered VNR, externally the VNR Electric is nearly identical to the original semi, as are the cabin inputs and controls, which carry over from the diesel model (with the addition of some EV-specific controls and gauges). The conversion process was aided by a highly modular design that prioritized technology and component-sharing with Volvo's extensive lineup of heavy-duty electric construction vehicles. The process has been likened to the same battery design powering an entire line of small power tools.

With an expected range of 75-175 miles, the first five pilot trucks are expected to be placed into daily consumer operation within weeks.^{viii}





PERFORMANCE ATTRIBUTION:

At the end of February, the Evolve Automobile Innovation Index Fund (CARS) held 68% of its portfolio by weight in companies in the Auto Supply Chain, 17% in Auto Makers, and 14% in Auto Parts and Equipment.

For the month, FuelCell Energy, Inc., was the best performing stock in the Fund, with Bloom Energy, and Nvidia Corp coming in second and third. Overall, the Fund underperformed due in large part to the effects of the coronavirus on Asian markets and supply chains.

SOURCES:

- ⁱ <https://investorintel.com/sectors/cleantech/cleantech-intel/the-ev-downturn-looks-to-be-over-as-china-ev-sales-rebound-in-december-2019-and-subsidies-look-safe-for-2020/>
- ⁱⁱ <https://investorintel.com/sectors/cleantech/cleantech-intel/dynacerts-technology-in-demand-as-we-approach-the-2020-tighter-emission-standards/>
- ⁱⁱⁱ <https://www.straitstimes.com/asia/se-asia/only-green-vehicles-for-indonesias-new-capital-jokowi-says>
- ^{iv} <https://edition.cnn.com/2020/02/04/business/petrol-and-diesel-ban-uk/index.html>
- ^v <https://www.reuters.com/article/us-singapore-economy-budget-autos/singapore-aims-to-phase-out-petrol-and-diesel-vehicles-by-2040-idUSKBN20C15D>
- ^{vi} <https://www.reuters.com/article/us-tesla-china-electric-exclusive/exclusive-tesla-in-talks-to-use-catls-cobalt-free-batteries-in-china-made-cars-sources-idUSKBN20C0RP>
- ^{vii} <https://electrek.co/2020/02/17/ww-will-fund-dealers-to-wage-local-marketing-campaigns-for-evs/>
- ^{viii} <https://arstechnica.com/cars/2020/02/charging-into-the-mainstream-volvo-electrifies-its-first-class-8-truck/>

DISCLAIMER:

Commissions, management fees and expenses all may be associated with exchange traded funds (ETFs) and mutual funds (funds). Please read the prospectus before investing. ETFs and mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs and mutual funds. Please read the prospectus for a complete description of risks relevant to ETFs and mutual funds. Investors may incur customary brokerage commissions in buying or selling ETF and mutual fund units.

