



Evolve ETFs

# Evolve E-Gaming Index ETF

December 31, 2019

Annual Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-844-370-4884, by writing to us at Evolve Funds, 161 Bay Street, Suite 2700, Toronto, ON, M5J 2S1 or by visiting our website at [www.evolveetfs.com](http://www.evolveetfs.com) or SEDAR at [www.sedar.com](http://www.sedar.com). You may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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## Investment Objective and Strategies

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The Evolve E-Gaming Index ETF (the "Fund") seeks to replicate, to the extent reasonable possible and before fees and expenses, the performance of the Solactive E-Gaming Index, or any successor thereto. The Fund primarily invests in equity securities of companies listed domestically and globally, and other issuers, with business activities in the gaming industry.

## Risk

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There were no changes to the Fund over the period of this report that materially affected the level of risk associated with an investment in the Fund. Prospective investors should read the Fund's most recent prospectus and consider the description of risks contained therein.

## Results of Operations

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Since the Fund was launched on June 17, 2019, no performance data can be shown. The Fund's net assets were \$2.2MM as at December 31, 2019.

## Portfolio Manager Commentary

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### MACROECONOMIC HIGHLIGHTS:

The gaming industry experienced strong growth in 2019, benefitting holdings in the Fund. According to a report by Newzoo, a global leader in games and e-sports analytics, gaming market revenues are expected to grow by 9.6% in 2019 to reach \$152.1 billion, up from \$138.7 billion in 2018.(i)

The largest segment, 36%, will be generated by smartphone games, while the smallest segment of the market, 2%, will go to Browser PC Games. It is expected that browser-based games will continue to lose market share in 2019 and over the next few years.(ii) In contrast, console games were projected to account for 32% of industry revenue in 2019 and are expected to grow faster than smartphone games in the coming years, though they will not overtake smartphone games.(iii)

Globally, Xbox, PlayStation, Nintendo and other console games were on track for 13.4% in revenue growth in 2019. Nintendo is the largest holding in the fund by weight.

China, the global leader in the gaming market, was replaced by the US in 2019. This is largely due to the fact that Chinese gaming companies suffered from a nine-month freeze on game licenses last year that significantly shrank the stream of new titles.

As a result of China's 2019 slowdown, Asia-Pacific is no longer the fastest-growing gaming region. Instead, that is now Latin America, which is enjoying 10.4% compound annual growth.

The e-sports industry continued to experience strong growth in the wake of rising popularity. According to Forbes, global revenue for esports reached an estimated \$1.1 billion in 2019, up 27% from 2018, with North America accounting for 40% of that growth.

Forbes now counts 13 e-sports 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.(iv)

According to Newzoo research, video game competitions reached a global audience of 454 million in 2019, 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.(v)

Games industry representatives from associations including the ESA, the ESAC, IGEA, 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.(vi)

In December, e-sports organization G2 Esports raised a \$10 million USD investment round from Joseph Tsai, via his sports investment vehicle J Tsai Sports. A Taiwan-born Canadian billionaire businessman, Tsai co-founded Alibaba Group and also owns the Brooklyn Nets NBA franchise. This was the second of two investment rounds held by G2 Esports in 2019, totalling \$27.3 million USD.(vii)

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And AI-powered e-sports tournament platform developer Game.tv announced it raised a \$25M investment round led by Intel Capital. The financing round will be used to grow Game.tv's mobile gaming communities through sponsorships and additional plugins, and scale the development of its core product, Tourney, which allows communities, streamers, and content creators to create community tournaments via Discord, Twitter, or Facebook.(viii)

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.(ix)

In spite of reduced profitability in 2019 due to a nine-month Chinese freeze on game approvals, a sharp Chinese economic slowdown, and tricky political considerations, Tencent a major holding in the Fund, remained the world's largest publicly listed gaming firm.(x) Despite these challenges, Tencent, acquired a stake in the video developer, Sumo Group, 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.(xi)

Canada's video game industry contributed \$4.5 billion to the country's gross domestic product (GDP) in 2019, 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 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.(xii)

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. The deal was valued at close to C\$30.36 million.(xiii)

In December, SpringboardVR and VRstudios announced partnership to deliver a popular selection of SpringboardVR titles for play on VRstudios' ATOM VR attractions in commercial locations. SpringboardVR's Marketplace offers VR games and experiences from over 270 content creators and distributes to hundreds of operators (primarily VR Arcade businesses) in 45 countries. VRstudios retail customers include Cineplex's Cinemas, Rec Room, and Playdium destinations, and the newly announced Junxion.(xiv)

(i) <https://techcrunch.com/2019/06/19/global-gaming-market-2019/>

(ii) <https://fortune.com/longform/video-game-streaming/>

(iii) <https://www.forbes.com/sites/gradsoflife/2019/07/11/skills-ready-workers-key-to-eliminating-barriers-to-employment/#5d08601e18bc>

(iv) <https://www.forbes.com/sites/civcnation/2019/11/13/forming-a-foundation-my-life-as-a-first-gen-military-child/#165c07d7756c>

(v) <https://www.forbes.com/sites/civcnation/2019/11/13/forming-a-foundation-my-life-as-a-first-gen-military-child/#165c07d7756c>

(vi) <https://www.gamesindustry.biz/articles/2019-11-05-games-industry-international-trade-bodies-unite-on-universal-esports-principles>

(vii) <https://esportsobserver.com/g2-investment-10m-joseph-tsai/>

(viii) <https://esportsobserver.com/gametv-series-a-investment/>

(ix) [http://www.nintendolife.com/news/2019/11/nintendo\\_switch\\_was\\_the\\_best-selling\\_video\\_game\\_hardware\\_in\\_the\\_united\\_states\\_last\\_month](http://www.nintendolife.com/news/2019/11/nintendo_switch_was_the_best-selling_video_game_hardware_in_the_united_states_last_month)

(x) <https://techcrunch.com/2019/06/19/global-gaming-market-2019/>

(xi) <https://www.gamesindustry.biz/articles/2019-11-15-tencent-buying-10-percent-of-sumo-digital>

(xii) <https://www.gamingstreet.com/canadian-gaming-companies-revenues-rise/>

(xiii)

<https://investingnews.com/daily/tech-investing/gaming-investing/esports-investing/torque-esports-frankly-winview-esports-platform/?mqsc=E4104026>

(xiv) <https://www.auganix.org/springboardvr-and-vrstudios-announce-partnership-to-deliver-popular-vr-titles-to-location-based-entertainment/>

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## Recent Developments

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Subsequent to year end, COVID-19 became a global pandemic and resulted unprecedented actions by governments around the world to curtail the spread of the disease. These events have resulted in a high level of uncertainty and volatility in the financial markets and have had an enormous impact on businesses and consumers in all sectors. The duration and impact of these developments is unknown at this time and as such, the financial impact to investments cannot be estimated.

## Related Party Transactions

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Manager complies with its current policy and procedures regarding investments in related issuers and reports periodically to the Investment Review Committee.

## Management Fees

The management fees are calculated based on 0.70% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid monthly. For the year ended December 31, 2019, the Fund incurred \$7,477 in management fees. These management fees were received by Evolve Funds Group Inc. for the day-to-day operations of the fund, including managing the portfolio, maintaining portfolio systems used to manage the Fund, maintaining the [www.evolveetfs.com](http://www.evolveetfs.com) website, and providing all other services including marketing and promotion.

## Administration Fees

The administration fees are calculated based on 0.15% per annum of the average daily net asset value of the Fund. The fees are accrued daily and are generally paid monthly. For the year ended December 31, 2019, the Fund incurred \$1,603 in administration fees. These administration fees were received by Evolve Funds Group Inc. for the following operating expenses of the Fund including but not limited to: mailing and printing expenses for periodic reports to unitholders; Registrar and Transfer Agent and Custodian; any reasonable out of pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Fund; IRC committee member fees and expenses in connection with the IRC; expenses related to compliance with NI 81-107; fees and expenses relating to voting of proxies by a third party; insurance coverage for the members of the IRC; fees payable to the auditors and legal advisors of the Fund; regulatory filing, stock exchange and licensing fees and CDS fees; costs and expenses of complying with all applicable laws, regulations and policies, including expenses and costs incurred in connection with the continuous public filing requirements such as permitted prospectus preparation and filing expenses; and legal, accounting and audit fees and fees and expenses of the Trustee, Custodian and Manager which are incurred in respect of matters not in the normal course of the Fund's activities. The administration fee paid to the Manager by the Fund may, in any particular period, be less than or exceed the operating expenses that the Manager incurs for that class.

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## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the period indicated.

### The Fund's Net Assets Per Unit<sup>1</sup>

	December 31, 2019 (\$)
For the periods ended:	
<b>Hedged Units - Net Assets per Unit</b>	
Net Assets per Unit, beginning of period <sup>2</sup>	20.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.16
Total expenses	(0.24)
Realized gains (losses)	0.11
Unrealized gains (losses)	2.50
<b>Total increase (decrease) from operations<sup>3</sup></b>	<b>2.53</b>
<b>Distributions:</b>	
Return of capital	(0.03)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.03)</b>
<b>Net Assets per Unit, end of period</b>	<b>22.31</b>

- 1 This information is derived from the Fund's audited annual financial statements as at December 31, 2019. The Fund began operations on June 17, 2019.
- 2 This amount represents the initial launch price.
- 3 Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the period.
- 4 Distributions were paid in cash or reinvested in additional units of the Fund, or both. Actual distributions may vary slightly owing to rounding.

### The Fund's Ratios/Supplemental Data

	December 31, 2019
For the periods ended:	
<b>Hedged Units - Ratios/Supplemental Data</b>	
Total Net Asset Value (\$) <sup>5</sup>	2,231,075
Number of units outstanding <sup>5</sup>	100,000
Management expense ratio <sup>6</sup>	0.99%
Trading expense ratio <sup>7</sup>	0.98%
Portfolio turnover rate <sup>8</sup>	28.57%
Net Asset Value per unit (\$)	22.31
Closing market price (\$)	22.32

- 5 This information is provided as at December 31, 2019.
- 6 Management expense ratio ("MER") is based on total expenses plus harmonized sales tax (excluding distributions, commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
- 7 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average daily net assets during the period.
- 8 The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher the Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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## Past Performance

Since the Fund is a reporting issuer for less than one year, with inception date June 17, 2019, providing performance data for the period is not permitted.

## Summary of Investment Portfolio

### Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
Electronic Arts Inc.	10.4
NetEase Inc., ADR	10.3
Activision Blizzard Inc.	9.9
Nintendo Company Limited, ADR	9.9
Take-Two Interactive Software Inc.	6.0
BANDAI NAMCO Holdings Inc.	5.8
Sea Limited, ADR	5.3
NEXON Company Limited	5.2
NCSOFT Corporation	4.4
Ubisoft Entertainment SA, ADR	3.5
Netmarble Corporation	2.9
Square Enix Holdings Company Limited	2.7
iShares MSCI Poland Capped ETF	2.5
Zynga Inc.	2.5
Bilibili Inc., ADR	1.9
Sega Sammy Holdings Inc.	1.7
Capcom Company Limited	1.6
Kingsoft Corp Limited	1.6
Koei Tecmo Holdings Company Limited	1.5
GungHo Online Entertainment Inc.	0.9
Franklin FTSE Taiwan ETF	0.9
Embracer Group AB	0.9
Pearl Abyss Corporation	0.9
mixi Inc.	0.7
COLOPL Inc.	0.6
<b>Total</b>	<b>94.5</b>

### Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Communication Services	85.0
Consumer Discretionary	8.0
ETFs - International Equity	3.4
Information Technology	1.6
Derivative Assets	1.4
Derivative Liabilities	(0.0)
Cash and Cash Equivalents	0.7
Other Assets, less Liabilities	(0.1)
<b>Total</b>	<b>100.0</b>

## Evolve E-Gaming Index ETF

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The summary of Investment Portfolio may change due to the ongoing portfolio transactions of the Fund. Updates are available quarterly by visiting our website at [www.evolveetfs.com](http://www.evolveetfs.com).



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