

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 June 30, 2020

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

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

MACROECONOMIC HIGHLIGHTS:

Although the prospects for electric (EV) and autonomous vehicles (AV) remain strong, the growth of the industry was stalled by the COVID pandemic during the first half of the year. This was largely due to the fact that major US automakers were forced to temporarily close their plants during the first quarter, which according to a Navigant Research principal analyst gave the companies more flexibility to manage production and inventories to deal with declines in demand.ⁱ

In addition, European carmakers also closed their factories amid health concerns for their employees, falling demand, and severe disruptions to manufacturing supply chains, including China.

In China, auto sales fell 80 percent in the first quarter on the back of the onset of the coronavirus. However, China's auto sales surged 14.5% in May, a second straight month of growth as the global industry's biggest market gradually recovered from the coronavirus pandemic. In the US, the market intelligence company, IHS Markit projected that US car sales this year will decline to 15.4 million vehicles, from 16.5 million a year ago.ⁱⁱ

Incidentally, the US EV market is particularly vulnerable in the current crisis, partially due to its early growth stage and its dependence on global sourcing for its' the batteries. Plummeting oil prices, could also keep potential EV buyers on the side of internal combustion vehicles for a while, especially given the fact that EVs are more expensive and consumers could become more cautious in the wake of high unemployment levels.

On the AV front, which is closely linked to the development of EVs, China has accelerated the development of AVs in recent months for use as driverless delivery systems that would be useful in pandemic situations. AVs have provided a valuable mobility solution as they have been used to deliver necessary medical supplies and meals to health-care professionals and the public in infected areas. According to Allied Market Research, the autonomous driving space is expected to witness a CAGR of 39.5% between 2019 and 2026, and reach \$556.67 billion by 2026.ⁱⁱⁱ

During the period, shares of Tesla, the pioneer in the EV space and the largest automaker by weight in the ETF, rose dramatically in the second quarter, following a sharp decline in March.



Although Tesla's sales are negligible compared to those of the big automakers, it has emerged as the most valuable car brand in the world based on market capitalization and is worth more than General Motors, Honda, Ford, Fiat Chrysler and Daimler combined.^{iv}

Tesla's shares have been on a rally since its Shanghai factory became operational and it began manufacturing its Model Y at its original U.S. car plant in Fremont, California. Investors also bought into the company's promises to deliver an electric semi-truck, an electric pickup truck, and improvements in self-driving technology.

Shares of Plug Power Inc. the ETFs largest holding by weight in the auto supply chain segment rose significantly during the period on increasing revenues and plans to vertically dominate the hydrogen fuel cell industry - from hydrogen production to operation of hydrogen fuel filling stations to production of hydrogen fuel cells that run electricity powering machines and vehicles. To execute its plans, the company acquired United Hydrogen, a hydrogen producer and Giner ELX, a leader in electrolysis technology used by proton exchange membranes to convert hydrogen into electricity to power vehicles and machinery.^v

In the auto parts and equipment segment of the ETF, Ballard Power, a hydrogen fuel cell manufacturer, also experienced a sharp uptick in its price. In a whitepaper issued by the consulting firm Deloitte in conjunction with Ballard, it was noted that "fuel cell electric vehicles are projected to be less expensive to run than battery electric and internal combustion engine vehicles within 10 years," providing impetus for Ballard's stock. The stock rose on increasing orders, including one for its fuel cell stacks that will support backup power systems at German radio towers.^{vi}

During the period, the ETF invested in four new companies which were added to the Solactive Future Cars Index, Ballard Power Systems Inc., Ceres Power Holdings PLC and Volkswagen AG. Two companies, FuelCell Energy Inc. and General Motors Co. were removed from the index.

PERFORMANCE ATTRIBUTION:

At the end of the June, the ETF held 62% of its portfolio by weight in companies in the Auto Supply Chain; 17% in Auto Makers and 21% in Auto Parts and Equipment. For the six-month period, the auto supply chain company, Plug Power Inc. was the best performing stock in the ETF, followed by the Auto Maker, Tesla Inc. However, Auto Makers made the largest contribution to the ETFs performance, followed by Auto Supply Chain companies.



SOURCES:

- ⁱ <https://www.wired.com/story/covid-19-bad-for-auto-industry-worse-for-evs/>
- ⁱⁱ <https://www.wired.com/story/covid-19-bad-for-auto-industry-worse-for-evs/>
- ⁱⁱⁱ <https://finance.yahoo.com/news/driverless-car-race-heats-amid-125012976.html>
- ^{iv} <https://www.forbes.com/sites/johnkoetsier/2020/06/11/why-tesla--gm--honda--ford--fiat-chrysler--daimler/>
- ^v <https://www.fool.com/investing/2020/06/19/is-plug-power-stock-a-buy.aspx>
- ^{vi} <https://www.fool.ca/2020/01/19/why-ballard-systems-tsxblp-stock-price-has-risen-61-in-january-so-far/>

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.

