

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 June 30, 2020



ETF TICKER: EDGE (Hedged)

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

MACROECONOMIC HIGHLIGHTS:

With the future of work re-defined by the COVID pandemic, developments in connectivity, big data, artificial intelligence (AI), cloud computing, automation, and cyber security gained increasing attention during the first half.

Although cloud based tools were already popular, the pandemic created a surge in demand as businesses were forced to enable their employees to work remotely from home as a result of the implementation of lockdown conditions to prevent the spread of the virus.

According to a JPMorgan analyst, videoconferencing tool Zoom saw its daily usage rise by more than 300% from before the pandemic, while Microsoft announced that its collaboration tool Teams added 12 million daily users in just one week in the first quarter. Effectively, cloud computing emerged as one of the few saving graces for businesses during this pandemic.ⁱ

According to a survey by IDG Communications, Inc., the world's leading tech media, data, and marketing services company, 92% of organizations said their IT environment (infrastructure, applications, data analytics, etc.) is in the cloud to some extent today, and this is expected to grow to 95% 18 months from now.ⁱⁱ

In similar vein, DocuSign, the largest holding in the Big Data and Cloud segment of the Fund, emerged as one of the hotter work-from-home plays, posting triple digit gains during the first half of the year - as businesses ditched paper and transitioned to e-signatures.ⁱⁱⁱ

But with working from home becoming the new normal, the stage was set for an increase in cyberattacks. According to the cloud security company Zscaler Inc., there was a 30,000% increase in COVID-19-themed attacks between January and March. The company saw coronavirus-themed attacks grow from around 1,200 observed and blocked COVID-19-related attacks in January to 380,000 such incidents in March.^{iv} A senior official from another company Proofpoint Inc. noted that that cybercriminals have "sent waves of emails that have ranged from a dozen to over 200,000 at a time", and the number of campaigns is "trending upwards".^v

In the meantime, 5G continued to expand in the first half, even as the coronavirus spread across



the globe. Evidently, the continued advance of 5G is more critical than ever now, with people working from home and relying on broadband. According to Ericsson, the Swedish networking giant, it is expected that 5G will be in about twice as many hands in 2020 as it had predicted late last year. The total number of subscribers should reach 190 million this year, with the bulk coming from China. Conversely, North America and Europe won't be quite as strong as the company previously projected.^{vi}

While major Canadian and European carriers have launched 5G, the pandemic has raised questions about how fast their networks can expand. 5G spectrum auctions have been delayed in Canada and parts of the European Union because of the pandemic, pushing out the launch of 5G in some areas by several months or longer. In the US, the carriers are moving closer to their promised broad coverage maps, with the top three US carriers expected to have nationwide networks by the end of the year. It is projected that by the end of 2021, about 30% of US wireless subscriptions will be 5G.^{vii}

In the social media segment of the portfolio, a growing number of socially-conscious big-name companies, among them, Unilever, Coca-Cola, Verizon and Honda have chosen to boycott Facebook, one of the ETFs holdings, on concerns about their brands propping up divisive and hate-filled speech on social media. While Facebook has announced policy changes, the lost revenues from the boycotts so far are comparative small compared to its total revenues.^{viii}

During the period, Qualcomm, a holding in the Fund, unveiled a program to help small businesses convert to a mobile-first work environment. The program will provide small businesses with products powered by Qualcomm, along with collaboration tools and technical and integration support, so they can continue to maintain operations throughout the current global pandemic and beyond.^{ix}

In the genomics space, Exelixis Inc., a holding in the Fund, announced the Initiation of Phase 3 Pivotal Trial of a drug to treat metastatic non-small cell lung cancer. This phase follows positive results from a previous trial. In addition, two additional phase 3 pivotal trials for another drug to treat metastatic castration-resistant prostate cancer and renal cell carcinoma are planned as part of the clinical trial collaboration between Exelixis and Roche.^x Bristol Myers Squibb and Exelixis also announced positive topline results from pivotal phase 3 trial evaluating a drug for use in previously untreated advanced renal cell carcinoma.^{xi} Another company held by the Fund, Blueprint Medicines, announced a global collaboration with Roche to develop and commercialize a drug for patients with RET-altered cancers.^{xii}

PERFORMANCE ATTRIBUTION:

The Fund tracks a benchmark index designed to expose investors to returns in seven sectors: Big Data and Cloud Computing, Robotics and Automation, 5G, Cyber Security, Future Cars and Social Media, which together accounted for 89% of the weight of the portfolio in roughly equal



individual segment weights at the end of June 2020; and Genomics – which has a 11% weight. The Big Data and Cloud Computing segment of the portfolio made the largest contribution to the Fund’s performance, followed by the Cyber security segment. The best performing stock was the Big Data and Cloud Computing stock, DocuSign Inc., followed by the Robotics and Automation stock Nvidia Corp.

SOURCES:

- ⁱ <https://www.forbes.com/sites/forbestechcouncil/2020/05/22/the-current-pandemic-gives-cloud-computing-a-needed-jolt/#264321c46a09>
- ⁱⁱ <https://www.globenewswire.com/news-release/2020/06/18/2050275/0/en/The-Shift-to-Cloud-Computing-Persists-as-Organizations-Use-Multiple-Public-Clouds.html>
- ⁱⁱⁱ <https://money.yahoo.com/docu-sign-ceo-shift-to-digital-accelerated-by-covid-19-pandemic-155148539.html>
- ^{iv} <https://www.rcrwireless.com/20200428/network-infrastructure/cybersecurity-firm-reports-30000-increase-in-covid-19-themed-attacks-since-january>
- ^v <https://www.raconteur.net/technology/covid-19-cybersecurity>
- ^{vi} <https://www.cnet.com/news/not-even-the-coronavirus-can-derail-5gs-global-momentum/>
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- ^{viii} <https://www.politico.com/news/2020/06/26/advertisers-struggle-for-power-over-facebook-as-boycotts-surge-341943>
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