

Evolve E-Gaming Index ETF

HERO invests in equity securities of companies listed domestically and globally with business activities in the electronic gaming industry.

As at June 30, 2020



TICKER: HERO (Hedged)

MACROECONOMIC HIGHLIGHTS:

Unlike many other industries which were affected by the COVID-19 pandemic, the e-gaming industry flourished during the first half of the year.

In fact, video games and e-sports became the go-to form of entertainment for tens of millions of people who were confined to their homes in the wake of government imposed lock down conditions. This resulted in record sales and massive levels of engagement.

According to market research firm the NPD Group, April was one of the strongest month for the industry, with sales totaling \$1.5 billion, 73% higher than last year and besting the previous record for the month in 2008.ⁱ

During the period new releases became immediate blockbusters, with Nintendo's life simulator Animal Crossing: New Horizons selling a staggering 13.4 million copies in its first six weeks of launch and Square Enix's Final Fantasy VII Remake becoming the top game of April, with the best launch month in the 32-year-old franchise, according to the NPD Group.

Nintendo has been one of the companies to see a surge in demand. Sales of its popular Switch console more than doubled in March 2020, compared to the same month a year earlier, according to market research from the NPD Group. In comparison, other leading gaming consoles like Microsoft's Xbox One and Sony's PlayStation 4 saw their sales jump by 25% in March, according to NPD.ⁱⁱ

According to a Nielsen survey, a global data analytics group, there was a sharp rise in both the e-gaming and e-sports markets during the pandemic so far. The survey found that 83% of esports fans aged 18 to 34 are spending more time playing games. Meanwhile, 29% of this demographic are viewing more esports content than they were before lockdown orders took effect.

The report states that one-third of the esports fans that responded to Nielsen's survey were watching games-based video content as an alternative to television, with roughly 18%, who are self-proclaimed "sports fans," watching esports as an alternative to traditional sports.

Elsewhere, Nielsen noted a substantial impact on consumer spending during the pandemic. Reportedly, 37% of survey respondents said that they're spending more money on video game



game downloads, with 34% stating that they've spent more on in-game microtransactions as well.ⁱⁱⁱ

Consumer spending on video gaming overall was up by 9 percent compared to last year, totaling \$10.86 billion.^{iv} Video game content sales totaled \$9.58 billion, an 11 percent increase from last year, according to the report.

"Gains were seen across digital console and PC content, mobile and subscription spending, as well as across hardware and accessories categories," the report said.

Hardware platforms sales reached \$773 million, increasing 2 percent from last year, while sales of video game accessories such as headsets and gamepads, reached \$503 million, an increase of 1 percent. According to NPD, hardware sales were spurred on by sales of the Nintendo Switch hardware.^v

As a result, major game companies enjoyed improved performance, including Activision Blizzard, Electronic Arts, Take-Two and Nintendo, which are all owned by the ETF.^{vi}

The ETF was one of the best performing equity ETFs on the S&P/TSX in March. According to Raj Lala, President of Evolve ETFs, in addition to gaming, e-sports, which the fund invests in, can keep running while traditional sports leagues have closed. He expects sports fans to start paying more attention to e-sports, and advertisers to follow those eyeballs and notes that even after the pandemic, the economic devastation wrought means we're likely to be stuck in a recession for some time. In that environment, he sees more people firing up their consoles for entertainment than spending money at restaurants or hockey games.

The industry also continued to hold live on-line events during the period. Entertainment Arts (EA) held its Play Live 2020 event in June, featuring new games such as Star Wars: Squadrons and the new FIFA, as well as updates on what's coming for games such as Apex Legends; gaming website IGN's also hosted its Summer of Gaming in June, featuring reveals, charity live streams in support of the World Health Organization's COVID-19 Solidarity Response Fund and The Bail Project, and gameplay demos; and GameSpot launched Play For All, a summer digital event that featured more than 30 publishers in a weeks-long event that got started on June 1, among several other events.^{vii}

PERFORMANCE ATTRIBUTION:

As at June 30, the ETF held a diversified pool of gaming companies, with its largest exposures by weight to Netease Inc. ADR, followed by Activision Blizzard. The best performing stock in the first half of the year was Sea Ltd. ADR, followed by Bilibili Inc. ADR. The largest contribution to the ETF's performance was made by Sea Ltd. ADR, followed by Netease Inc. ADR.



SOURCES:

- ⁱ <https://www.forbes.com/sites/mattperez/2020/05/23/73-growth-and-instant-blockbusters-how-gaming-is-blowing-up-during-the-pandemic/>
- ⁱⁱ <https://www.cnbc.com/2020/06/02/nintendo-switch-animal-crossing-and-coronavirus-led-to-record-sales.html>
- ⁱⁱⁱ <https://gamedaily.biz/article/1762/report-82-of-consumers-played-more-video-games-amid-covid-19-pandemic-nielsen11:16>
- ^{iv} <https://www.foxbusiness.com/money/gamestop-video-games-sales-first-quarter-2020>
- ^v https://www.nintendolife.com/news/2020/02/video_12_exciting_new_games_coming_to_nintendo_switch_in_march
- ^{vi} <https://www.usatoday.com/story/tech/gaming/2020/06/18/coronavirus-crisis-online-video-game-events-xbox-ps-5-replace-e-3/3203913001/>
- ^{vii} <https://www.digitaltrends.com/gaming/video-game-sales-may-new-records/>

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