

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 December 31, 2020



ETF TICKER: EDGE (Hedged); EDGE.U (USD)

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 throughout 2020.

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.

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% by the end of 2021.

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 for 2020, as businesses ditched paper and transitioned to e-signatures. With its stocks rising 200% over the course of the year (much of this growth in the first three quarters), DocuSign's value is now up roughly 515% from its initial public offering (IPO) in 2018. The company reported 822,000 paying customers, representing growth in the client base of 46% year-over-year. DocuSign was well-positioned to capitalize on the accelerated digital transition, and has taken a leadership position in its service category.

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.

Already the toll of rising cybersecurity threats in 2020 is clear. Roughly 56% of companies surveyed by CrowdStrike report being targeted by a ransomware attack in the previous 12 months and paying an average of \$1.1 million USD in ransom to have their data and systems decrypted.

In the meantime, 5G continued to expand in 2020, even as the coronavirus spread across the globe. 5G



is more critical than ever now, with people working from home and relying on broadband. According to Ericsson, the Swedish networking giant, 5G was in twice as many hands in 2020 as it had predicted. The total number of 5G subscribers was approximately 190 million in 2020, with the bulk coming from China.

Conversely, while some 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 until at least June 2021 due to on-going delays from the pandemic. In the European Union, spectrum auctions were delayed a number of months, with some only getting underway late in 2020. This has pushed out the launch of 5G in places like Sweden by months, if not longer.

In the US, the top three US carriers worked to expand their 5G nationwide networks throughout 2020, despite the pandemic. Projections are that by the end of 2021, about 30% of US wireless subscriptions will be 5G.

In the social media segment of the portfolio, Pinterest—the online platform for sharing images, short videos, and other media—had a banner year in 2020 as people spent more time online trying to stay in touch in ways that were compliant with social distancing guidelines. The best-performing stock in the social media segment of the portfolio, shares of Pinterest rose 253.5% in 2020, beating analysts' earnings targets each quarter, and expanding its total monthly active users to 442 million, a 37% increase over the prior-year period. This engagement growth helped boost Pinterest's digital ad sales revenue, as well as integration with online retail. A natural fit for e-commerce promotions and integration, Pinterest is well positioned for continued growth into 2021 as the effects of the pandemic continue to be felt.

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. 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.

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.

PERFORMANCE ATTRIBUTION:

EDGE tracks a benchmark index designed to expose investors to returns in seven sectors: big data and cloud computing, robotics and automation, cybersecurity, automotive innovation, 5G and social media, which together accounted for 88% of the weight of the portfolio in February 2020; and genomics, which accounted for had a 12% weight. The best-performing stocks in the fund for the month were Nvidia Corp. (Robotics & Automation), T-Mobile US Inc. and Softbank Group (5G), and Docusign Inc. (Big Data & Cloud).



SOURCES:

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