



Evolve ETFs

# Evolve E-Gaming Index ETF

December 31, 2020

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, 40 King Street West, Suite 3404, Toronto, ON, M5H 3Y2 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.

# Evolve E-Gaming Index ETF

December 31, 2020

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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 reasonably possible and before fees and expenses, the performance of the Solactive eGaming Index (the "Benchmark"), 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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For the year ended December 31, 2020, the Hedged ETF Units returned 66.8% versus the Solactive eGaming Index PR CAD Hedged return of 71.4%. The difference in performance of the hedged units relative to its benchmark can be attributed primarily to management fees plus applicable sales taxes and to portfolio trading and hedging strategies. The Fund's net assets were \$41.8MM as at December 31, 2020.

## Portfolio Manager Commentary

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### MACROECONOMIC HIGHLIGHTS

Unlike many other industries which were affected by the COVID-19 pandemic, the e-gaming industry flourished during 2020. 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.

IDC estimates that global videogame revenue surged 20% to \$179.7 billion USD in 2020. This makes the videogame industry more lucrative than the global movie and North American sports industries combined.(i)

According to a Nielsen survey, there was a sharp rise in both the e-gaming and e-sports markets during the pandemic. The survey found that 83% of esports fans aged 18 to 34 spent more time playing games in 2020. Meanwhile, 29% of this demographic viewed more esports content than they were before lockdown orders took effect.

Nielsen also noted a substantial impact on consumer spending during the pandemic. Fully 37% of survey respondents said that they spent more money on video game downloads, with 34% stating they spent more on in-game microtransactions as well.(ii)

Nintendo was one of the early beneficiaries of the pandemic bump. In March 2020, as lockdowns began, monthly sales of Nintendo's popular Switch console more than doubled year-over-year compared to March 2019. 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.

Nintendo's life simulator Animal Crossing: New Horizons was also a massive hit for the company, selling a staggering 13.4 million copies in its first six weeks of launch. 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.(iii)

Sea Ltd. was a standout holding for the Fund in 2020. According to data from S&P Global Market Intelligence, the Singapore-based tech company's stock climbed 394.9% in trading during 2020 thanks to strong performance in its video game and e-commerce businesses, and especially its hit game Garena Free Fire, which was one of 2020's top grossing mobile apps.

As a result, Sea now has a market capitalization of roughly \$104 billion—up nearly 450% from just a year earlier. Gaming and e-commerce still have room for huge growth in Southeast Asia, and as Singapore and Southeast Asia's most valuable company in 2020 based on market capitalization, Sea has positioned itself for continued growth in Asia and around the world.(iv)

In the United States, total videogame spending in 2020 rose 22% from a year earlier to \$44.5 billion USD. Hardware sales rose 34% to nearly \$4 billion USD, software sales rose 21% to \$38.4 billion USD, and sales of accessories and peripherals rose 22% to \$2.1 billion USD versus the prior year. These figures in the US were driven in large part by the November release of Sony's PlayStation 5 and Microsoft's new Xbox Series X, along with some long-awaited game titles.

# Evolve E-Gaming Index ETF

December 31, 2020

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All three of the largest publicly traded US videogame publishers—each of which is held by the Fund—outperformed the S&P 500 index in 2020. Activision Blizzard was up 49%, Electronic Arts Inc. was up 30%, and Take-Two Interactive Software Inc. was up 64%, compared with a 14% gain for the S&P 500.(v)

Despite the pandemic, the industry also continued to hold live on-line events during 2020. 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.(vi)

## PERFORMANCE ATTRIBUTION

In 2020, the Fund held a diversified pool of gaming companies, with its largest exposures by weight to Activision Blizzard Inc., Netease Inc., and Nintendo Co. Ltd. The largest contribution to the Fund's performance in 2020 was made by Sea Ltd., followed by Nintendo Co. Ltd.

(i) <https://www.marketwatch.com/story/videogames-are-a-bigger-industry-than-sports-and-movies-combined-thanks-to-the-pandemic-11608654990>

(ii) <https://gamedaily.biz/article/1762/report-82-of-consumers-played-more-video-games-amid-covid-19-pandemic-nielsen>

(iii) <https://www.cnbc.com/2020/06/02/nintendo-switch-animal-crossing-and-coronavirus-led-to-record-sales.html>

(iv) <https://www.nasdaq.com/articles/why-sea-stock-skyrocketed-394.9-in-2020-2021-01-08>

(v) <https://www.marketwatch.com/story/videogames-are-a-bigger-industry-than-sports-and-movies-combined-thanks-to-the-pandemic-11608654990>

(vi) <https://www.usatoday.com/story/tech/gaming/2020/06/18/coronavirus-crisis-online-video-game-events-xbox-ps-5-replace-e-3/3203913001/>  
<https://www.digitaltrends.com/gaming/video-game-sales-may-new-records/>

## Recent Developments

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In the year 2020, COVID-19 became a global pandemic and resulted in 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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Evolve Funds Group Inc. (the "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, 2020, the Fund incurred \$110,840 in management fees. These management fees were received by the Manager 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.

# Evolve E-Gaming Index ETF

December 31, 2020

## 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, 2020, the Fund incurred \$23,752 in administration fees. These administration fees were received by the Manager 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 the Fund.

## 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, 2020 (\$)	December 31, 2019 (\$)
For the periods ended:		
<b>Hedged ETF Units - Net Assets per Unit</b>		
Net Assets per Unit, beginning of period	22.31	20.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.26	0.16
Total expenses	(0.47)	(0.24)
Realized gains (losses)	2.20	0.11
Unrealized gains (losses)	14.89	2.50
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>16.88</b>	<b>2.53</b>
<b>Distributions:</b>		
From capital gains	(0.06)	-
Return of capital	-	(0.03)
<b>Total annual distributions<sup>3</sup></b>	<b>(0.06)</b>	<b>(0.03)</b>
<b>Net Assets per Unit, end of period</b>	<b>37.14</b>	<b>22.31</b>

1 This information is derived from the Fund's audited annual financial statements as at December 31, 2020 and 2019. The Fund began operations on June 17, 2019.

2 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.

3 Distributions were paid in cash or reinvested in additional units of the Fund, or both. Actual distributions may vary slightly owing to rounding.

# Evolve E-Gaming Index ETF

December 31, 2020

## The Fund's Ratios/Supplemental Data

For the periods ended:	December 31, 2020	December 31, 2019
<b>Hedged ETF Units - Ratios/Supplemental Data</b>		
Total Net Asset Value (\$) <sup>4</sup>	41,783,501	2,231,075
Number of units outstanding <sup>4</sup>	1,125,000	100,000
Management expense ratio <sup>5</sup>	0.96%	0.99%
Trading expense ratio <sup>6</sup>	0.42%	0.98%
Portfolio turnover rate <sup>7</sup>	31.35%	28.57%
Net Asset Value per unit (\$)	37.14	22.31
Closing market price (\$)	37.26	22.32

4 This information is provided as at December 31, 2020 and 2019.

5 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.

6 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.

7 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.

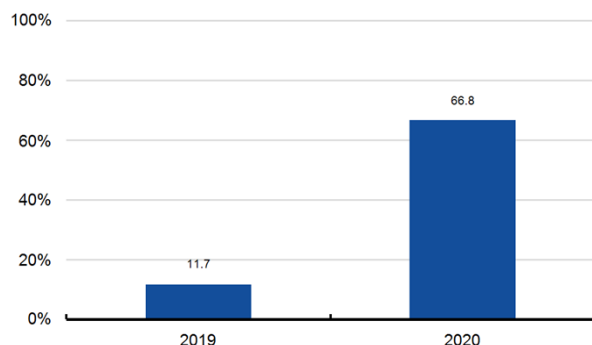
## Past Performance

The performance information does not take into account sales, redemption, distribution, income taxes payable by any unitholder or other optional charges that, if applicable, would have reduced returns or performance. The performance information shown assumes that all distributions made by the investment fund in the periods shown were reinvested in additional securities of the investment fund. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

## Year-by-Year Returns

The bar chart below shows the Hedged ETF Units' annual performance for the periods shown. The chart shows, in percentage terms, how much an investment made in the Fund on the first day would have grown or decreased by the last day of the period.

### HERO Hedged ETF Units<sup>1</sup>



1 The Hedged ETF Units of the Fund effectively began operations on June 17, 2019.

# Evolve E-Gaming Index ETF

December 31, 2020

## Annual Compound Return

The table below shows the historical annual compound total return of the Hedged ETF Units. The returns are for period ended December 31, 2020. For a discussion of the relative performance of the Fund as compared to the index, please refer to the "Results of Operations" section in the "Management Discussion of Fund Performance".

	Since Inception <sup>1</sup> (%)	1 Year (%)
Hedged ETF Units	49.4	66.8
Solactive eGaming Index PR CAD Hedged	53.2	71.4

1 From inception date of June 17, 2019.

## Summary of Investment Portfolio

### Top 25 Positions

	Percentage of Net Asset Value (%)
Security	
Activision Blizzard Inc.	10.4
Nintendo Company Limited, ADR	10.1
Sea Limited, ADR	10.1
NetEase Inc., ADR	9.4
Electronic Arts Inc.	9.2
NEXON Company Limited	6.1
Take-Two Interactive Software Inc.	5.3
Bilibili Inc., ADR	5.0
NCSOFT Corporation	4.1
Ubisoft Entertainment SA, ADR	2.6
Zynga Inc.	2.4
Netmarble Corporation	2.3
Capcom Company Limited	2.0
Konami Holdings Corporation	1.8
Koei Tecmo Holdings Company Limited	1.8
Square Enix Holdings Company Limited	1.7
Embracer Group AB	1.6
CD Projekt SA	1.6
Sega Sammy Holdings Inc.	0.9
Stillfront Group	0.9
Paradox Interactive AB	0.7
Pearl Abyss Corporation	0.6
XD Inc.	0.6
DeNA Company Limited	0.5
Archosaur Games Inc.	0.5
<b>Total</b>	<b>92.2</b>

# Evolve E-Gaming Index ETF

December 31, 2020

## Industry Allocation

Portfolio by Category	Percentage of Net Asset Value (%)
<b>Equities</b>	
Communication Services	98.3
Consumer Discretionary	1.3
Information Technology	0.1
Derivative Assets	0.4
Derivative Liabilities	(0.1)
Cash and Cash Equivalents	1.4
Other Assets, less Liabilities	(1.4)
<b>Total</b>	<b>100.0</b>

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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