

Evolve Global Materials & Mining Enhanced Yield Index ETF

BASE invests directly or indirectly in equity securities of global issuers engaged in the manufacturing, mining and/or integration of metals and materials, with added value of a covered call strategy on up to 33% of the portfolio.



BASE (Hedged)



BASE.B (Unhedged)

MACROECONOMIC HIGHLIGHTS:

The rising price of copper through the first half of 2021 suggests that the recovery of the industrial economy is beginning to pick up speed as many regions of the world look to the end of the global pandemic. Demand for copper is likely to increase as spending on construction, electrical networks, transportation, and industrial machinery opens up post-pandemic. Likewise, the accelerating shift toward green energy from solar power and wind farms, as well as growing consumer preference for electric vehicles, mean that large quantities of copper will be needed in these industries for use in storage and transmission.

The first half of the year also saw a boom in steel and iron ore. North American prices for the benchmark hot-rolled coil steel were up 300% from pandemic lows, with prices also climbing in Europe. Worldwide steel demand is projected to grow 5.8%, exceeding pre-pandemic levels by the end of the year, according to the World Steel Association. In China, where steel is already at its most expensive since 2008, consumption will keep growing from record levels. China already accounts for half of the total global demand for steel.

In June, the World Steel Association reported that global crude steel production had reached a new record high of 174.4 million tons, a 16.5% year over year increase. Production rose across all 64 reporting nations, especially amongst major producers India, Japan, the United States, and especially China, which account for more than half of global steel output. In May alone, China produced 99.5 million tons of crude steel, up 6.6% year over year. This follows output growth of 13.9% year over year to 473.1 million tons of crude steel for the early part of 2021.

In March, Nucor announced the construction of a new tube mill near the Nucor Steel Gallatin sheet mill site in Kentucky. This location will expand the capacity of the Gallatin sheet mill and add a galvanizing line. The new tube mill will have a production capacity of roughly 250,000 tons of hollow structural section (HSS) steel tubing, mechanical steel tubing, and galvanized solar torque tube. The project, worth \$164 million, is expected to commence operations by mid-2023.

Nucor also announced a 10-year Virtual Power Purchase Agreement (VPPA) with Orsted Onshore North America for 100 megawatts from Orsted's Western Trail wind farm (WTW) in North Texas.

Coupled with a similar VPPA deal struck in 2020 with EDFR Renewables North America, the WTW deal give Nucor the potential to supply renewable power to the regional electric grid 24 hours a day. The wind project is designed to withstand extreme weather events like the deep freeze that crippled the state's energy system in February.

In its capacity as North America's largest steel recycler, Nucor also boosted its ongoing sustainability initiative in May with an announced partnership with Array Technologies. Array is one of the world's largest manufacturers of ground-mounting systems for solar power projects. While also incorporating renewable energy sources in its manufacturing processes, participating in the renewable sector as a supplier has been lucrative for Nucor. Last year, the company said orders for its products by the renewable energy sector exceeded the 2019 volume by 15% just through September 2020.

Sibanye-Stillwater, a leading international precious metals mining group held by the Fund, announced a strategic partnership with Johnson Matthey, a global leader in sustainable technologies. The new partnership will aim to identify and develop decarbonization solutions and the more secure, efficient, and ethically sourced acquisition of critical platinum group metals (PGMs) supply for key technologies and end-users, including in the battery technology industry. The companies will also pool their collective experience to support the development of more sustainable supply chains for battery materials, including metals recycling of 'difficult to recover' materials.

Steel products manufacturer Ternium announced a \$500 million US plan for environmentally friendly emission reduction, effluent management, and materials management projects and technologies for its plants in Mexico, Argentina, and Brazil. The company announced this environmental investment while also announcing its Decarbonization Roadmap, an initiative to reduce the company's specific CO2 emissions by 20% by the year 2030.

South African miner Gold Fields, held by the Fund, announced major capital spending plans for 2021, including a \$46.11 million US solar plant at its South African South Deep mine. Construction of the 40 MW solar plant is expected to begin in Q2 2021 and will consist of 116,000 solar panels and cover 118 ha, roughly the size of 200 soccer fields. When completed, the plant will generate 20% of the mine's electricity and save the mine more than \$8.8 million US (ZAR 120 million) on the cost of electricity per year.

The use of self-generated, renewable energy will likewise boost Gold Fields Group's use of renewable electricity from 3% to more than 11%. This will reduce the company's overall carbon footprint by around 100,000 tonnes of CO2 a year, contributing to Gold Fields' long-term commitment to carbon-neutral operations.

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PERFORMANCE ATTRIBUTION:

For the first six months of 2021, Nucor Corporation made the biggest contribution to the Fund, followed by Steel Dynamics Inc, and Cia Siderurgica Nacional. By weight, the Fund's largest exposure over the first six months of 2021 was to Nucor Corporation, followed by Freeport-McMoRan Inc, and Cia Siderurgica Nacional.

SOURCES:

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