

Evolve Automobile Innovation Index Fund

CARS invests primarily in equity securities of companies that are directly or indirectly involved in developing electric drivetrains, autonomous driving or network connected services for automobiles.



CARS (Hedged)



CARS.B (Unhedged)



CARS.U (USD)

MUTUAL FUND FUNDSERV CODE: EVF140 (Class F); EVF141 (Class A)

MACROECONOMIC HIGHLIGHTS:

2021 opened with positive news for the EV industry.

The January inauguration of President Joe Biden was accompanied by the United States rejoining the Paris Agreement on climate change, and the President's pledge to support new tax credits for consumer purchases of electric vehicles. Biden likewise announced plans to replace the US government fleet of roughly 650,000 vehicles with EVs made in the United States. The cost of this initiative could be north of \$20 billion.

At the same time, private enterprise is working toward the construction of more charging infrastructure across the United States. The Electric Highway Coalition – a coalition of American Electric Power, Dominion Energy, Duke Energy, Entergy Corporation, Southern Co., and the Tennessee Valley Authority – announced plans for a continuous network of charging stations connecting major highway systems from the Atlantic Coast, through the Midwest and South, and into the Gulf and Central Plains. This network will complement the network of 550,000 charging stations across America that will be built by the US government at a cost in the billions of dollars.

In related news, a February report from Electric Autonomy shows a 22% increase in fast-charger installations across Canada since March 2020, despite pandemic conditions. There are currently 13,230 EV chargers at 6,016 public stations across the country.

The spreading network of EV charging stations will come as good news in the Canadian market, where a KPMG study released in February found that 68% of Canadians who plan to buy a new vehicle within the next five years are likely to purchase either a fully electric or hybrid electric vehicle. Interest in moving to EVs was spurred by environmental concerns, lower operating costs, tax incentives, and the prospect of reduced insurance premiums for an EV purchase.

The first half of the year also saw some impressive commitments by countries to promote hybrids and fully electric vehicles by announcing phaseout dates for the sale of fully gas-powered cars and other vehicles.

The Japanese government announced plans to eliminate fully gas-powered cars and other vehicles within the next 15 years, as part of a \$2 trillion-a-year green growth strategy aimed at the country reaching net zero emissions by 2050. The plans allow for conventional hybrids as well as fully electric

vehicles. The government plans investments and subsidies to halve the cost of vehicle batteries to \$97 or less per kilowatt-hour by 2030. Provisions were also included to boost the role of hydrogen vehicles, especially for trucks and buses.

In June, the Liberal government unveiled plans for all new cars and light-duty trucks sold in Canada to be zero-emission vehicles by 2035. This pulls the deadline forward by five years from 2040. Transport Minister Omar Alghabra explained the change as stemming from a recent report by the International Energy Agency. The report says the earlier move to all-EVs is necessary to achieve net-zero emissions by 2050, a goal to which the government has previously committed the Canadian economy. Efforts to achieve the 2035 goal could include mandates for the auto industry to make or sell more electric vehicles within Canada. The government has already provided \$600 million in rebates to consumers when they move to EVs to meet the interim goal of having EVs make up 10% of total new vehicle sales by 2025.

Also in June, the European Union approved a landmark climate change law. New emissions targets—which will be legally binding on member nations—will require overall EU emissions reduced by 55% of 1990 levels by 2030, and then eliminate them entirely by 2050. Dozens of climate-related policies are expected to flow from this decision, including EU carbon market reforms and more stringent CO2 standards for new cars.

This comes at the same time that a number of global automotive companies announced new or accelerated commitments to transitioning their manufacturing toward EV production, particularly in the EU.

Tesla (held by the Fund), along with BMW and Stellantis were cleared to receive about €2.9 billion (\$3.5 billion US) in electric vehicle battery aid from the European Union. The goal of the program is to support the production of more electric vehicles on the continent. The European Commission expects the aid will spur three times that amount in private investment in the initiative.

Volkswagen announced plans to establish six battery cell production “gigafactories” in Europe by the end of the decade as part of an effort to significantly increase mass adoption of electric vehicles globally. They also announced plans for a “new unified cell” that will drive the cost of battery systems to “significantly below €100” (around \$119.19) per kilowatt-hour. The unified cell would roll out in 2023 and be used in as much as 80% of the VW group’s electric vehicles by 2030. VW plans for the company, which also includes brands like Audi and Porsche, to be carbon neutral by 2050.

This announcement followed news that VW tripled deliveries of all-electric vehicles in 2020 and saw a 175% increase in plug-in hybrid sales over 2019 numbers. This positions the VW Group as the number 2 top-selling global electric car manufacturer with 7% market share, and number 1 overall in Europe with a 12% market share.

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PERFORMANCE ATTRIBUTION

For the first six months of 2021, FuelCell Energy Inc made the biggest contribution to the Fund, followed by MicroVision Inc, and Plug Power Inc. By weight, the Fund's largest exposure over the first six months of 2021 was to MicroVision Inc, FuelCell Energy Inc, and Ambarella Inc.

SOURCES:

<https://www.reuters.com/article/us-usa-biden-autos-idUSKBN29U2LW>

<https://www.prnewswire.com/news-releases/aep-dominion-energy-duke-energy-entergy-southern-company-and-tva-plan-to-add-electric-vehicle-fast-chargers-to-connect-gulf-coast-midwest-and-atlantic-state-destinations-301238938.html>

<https://www.reuters.com/article/us-usa-biden-executive-actions-transport/biden-to-order-agencies-to-revisit-vehicle-tailpipe-emissions-standards-idUSKBN29P12Z>

<https://electricautonomy.ca/2021/02/04/canadas-ev-charging-networks-2021/>

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