

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.



EDGE (Hedged)



EDGE.U (USD)

MUTUAL FUND FUNDSERV CODE: EVF160 (Class F); EVF161 (Class A)

MACROECONOMIC HIGHLIGHTS:

January saw stunning takedowns of online criminal operations running two of the web's most pernicious malwares. Police in Canada, the United States, the Netherlands, Germany, the United Kingdom, France, Lithuania, and Ukraine coordinated the seizure of the infrastructure behind the Emotet botnet, which by some estimates is responsible for delivering up to 60% of all online malware.

The Netwalker ransomware-as-a-service operation was also disrupted by law enforcement as authorities seized control of the Netwalker website. The Netwalker group has collected over \$30 million in ransoms since their first significant attacks in March 2020. Netwalker often targeted the healthcare sector, taking advantage of COVID-19 fears to extort victims.

In May, one of the USA's biggest fuel pipeline operators, Colonial Pipeline, was hit with a ransomware attack by Russia-based hacking group DarkSide. Colonial Pipeline carries almost half the gasoline, diesel, and jet fuel used on the US East Coast, and the attack led to temporary price spikes and gas shortages up and down the East Coast. In parts of the US South, three in every four gas stations ran dry. The attack shut down sections of its pipeline entirely and affected Colonial's operations for more than 11 days. Colonial's chief executive later revealed that the company paid the equivalent of \$4.4 million in cryptocurrency to the hackers to release its systems.

The first half of the year 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 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.

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.

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, pulling the deadline forward by five years from 2040. 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.

President Biden also signed an executive order in February ordering a 100-day review of supply chains for four critical products, including semiconductor chips. The ongoing pandemic-induced shortage of semiconductor chips has affected various industries reliant on the components, including the automotive sector and the electronic gaming industry. The newest generation of game consoles from PlayStation and Xbox, and high-end graphics cards used in PCs, are suffering in light of the shortage. Supply constraints with semiconductor chips have held back sales of both new PlayStation and Xbox consoles. As a result, neither is outpacing sales of the previous iterations of the consoles. Microsoft's chief financial officer Amy Hood said the company expected Xbox sales to "still be constrained by supply" during the first quarter of 2021.

Despite these challenges, after a record 2020, data released in March by the NPD Group showed that spending on video games grew 35% year-over-year in February to \$4.6 billion. Hardware sales likewise surged 121% to \$406 million. This marks a full year of sales gains for the industry amid pandemic conditions. On the back of these figures, Newzoo is predicting global videogame revenues could reach \$189.3 billion in 2021.

The European Union announced plans to negotiate a significant contract extension for Pfizer-BioNTech's COVID-19 vaccine. US-based Pfizer and German-based BioNTech provided the EU with an extra 50 million doses in Q2 of this year, making up for shortfalls in delivery of the AstraZeneca vaccine. Pfizer and BioNTech provided 250 million doses to Europe by the end of June and are on pace to provide 600 million by the end of the year.

Qualcomm, the world's biggest supplier of smartphone chips held by the Fund, has been actively moving into the vacuum left by Huawei's withdrawal. Due to US sanctions on Huawei Technologies Co Ltd last year, the Chinese company's access to chips was cut off, essentially preventing it from continuing to make smartphones. Qualcomm executives expect much of Huawei's previous market share to migrate to other Android devices which use Qualcomm's chips.

PayPal announced plans to allow users to withdraw cryptocurrency held in PayPal accounts off-platform and into third-party wallets. Though PayPal has allowed purchases of Bitcoin and other cryptocurrencies via the online payment service since October 2020, until now customers have been prevented from moving their digital coins out of the PayPal system.

"We want to make it as open as possible," said Jose Fernandez da Ponte, the head of PayPal's blockchain, crypto, and digital currencies business unit. "We want to give choice to our consumers, something that will let them pay in any way they want to pay."

PERFORMANCE ATTRIBUTION:

The EDGE ETF tracks a benchmark index designed to expose investors to returns in seven sectors: big data and cloud computing, robotics and automation, cybersecurity, automotive innovation, blockchain, 5G and social media, which together accounted for approximately 85% of the weight of the portfolio through the first six months of 2021; and genomics, which accounted for approximately 13% of the weight. The best-performing stocks in the ETF for the first six months of 2021 were Galaxy Digital Holdings Ltd, BioNTech SE, and Marathon Digital Holdings Inc. By weight, the Fund's largest exposure over the first six months of 2021 was to Qualcomm Inc, BioNTech SE, and BeiGene Ltd.

SOURCES:

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