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.

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

**Investment Thesis:** Innovation is a long-term, key driver of global economic growth. Access 8 themes that are re-shaping our world. **Data** and **AI** are at the center of technological innovation.

<table>
<thead>
<tr>
<th>8 Themes</th>
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<tbody>
<tr>
<td><strong>1. Cybersecurity:</strong> Non-discretionary need to protect our data infrastructure</td>
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<td><strong>2. Cloud Computing:</strong> Store and access data through the internet</td>
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<td><strong>3. 5G:</strong> Increasing wireless delivery speeds and efficiencies to connect the world</td>
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<td><strong>4. Automobile Innovation:</strong> The car is becoming digital. Autonomous, Connected &amp; Electric</td>
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<td><strong>5. Genomics:</strong> Better drugs, developed in a fraction of the time at lower costs</td>
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<td><strong>6. Robotics &amp; Automation:</strong> Rise of robots will boost productivity and economic growth</td>
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<td><strong>7. Fintech:</strong> Transforming how financial services are delivered and consumed</td>
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<td><strong>8. eGaming:</strong> Largest and fastest growing entertainment sector</td>
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**MACRO ECONOMIC HIGHLIGHTS**

**Cybersecurity**

Cybersecurity stocks had a strong month in August. On August 25th, the White House hosted a cybersecurity summit with CEOs in multiple sectors including big tech and insurance. The result of the meeting was billions of dollars committed by various businesses to increase their cyber security efforts and skills training to ~500,000 unfilled US cybersecurity jobs. Microsoft had the largest commitment of **$20 billion over 5 years**, 5x its current rate of investment. This announced increased spending was positive for stocks. T-Mobile was the next major cyber-attack this month with 53 million customers affected. On August 30th, T-Mobile announced signing a multi-year partnership with cybersecurity firm Mandiant to prevent future attacks. Poly Network also had $600M of tokens from the cryptocurrency platform stolen in the largest crypto hack of all time. The money was later returned by the hacker, but the incident exposed vulnerable in Poly Network’s code.

**Cloud Computing**

This month we received more clarity on Biden’s proposed infrastructure plan, including $100 billion allocated to digital infrastructure. In August, Forbes published that demand for cloud computing platforms continues to surge at **22.3% CAGR from $229 billion in 2019 to $500 billion in 2023**. During the month of August, Microsoft launched its new cloud PC Windows 365 service and after only 1 day of signups had to pause free trials due to demand. Microsoft also revealed it will bring its cloud gaming services to Xbox consoles later this year. On August 26th, Microsoft announced Charlie Bell, one of Amazon’s veteran cloud executives, would be joining the firm. His role is still unclear, but the announcement comes as Microsoft Azure has been closing the gap with market leader AWS.

**$20bn**

The amount Microsoft has pledged to spend on cyber security measures over five years, four times its current rate of investment.

Source: Financial Times
5G is designed to connect everyone and everything virtually. When people think about 5G they often think about cell phones. 5G is 10-50x faster than previous generations of networks - it goes far beyond that. 5G is key to shaping the future of basically every industry by transforming the way machines interact with each other. Biden’s digital infrastructure commitment of $100 Billion has a special focus on providing internet access across hard-to-reach parts of the country. Qualcomm published an article in August outlining their focus to providing better, faster connectivity in three vital industries: education, healthcare, and manufacturing. Verizon is using AI models to find the optimal spots to place thousands of 5G transmitters as they roll out their multi-billion-dollar 5G network. Google is partnering with Samsung Electronics to supply the 5G modem for its flagship pixel smartphone. Samsung is one of three companies in the world that make 5G modems that can connect devices to wireless data networks. The other two are Qualcomm and Taiwan’s MediaTek Inc. GM and AT&T are also partnering to launch a high performance 5G network in select vehicles, bringing a new era of vehicle connectivity.

Automobile
EV stocks suffered from volatility this month from some company-specific news, regulatory concerns, chip shortages and geopolitical worries.

Bloomberg released an update to their EV outlook in August that projected the global EV market will grow 10x this decade. Thirty two million passenger vehicles are projected to be sold in 2030, up from 3 million in 2020. China, Europe and the US will remain the top markets. Bloomberg also estimates that reaching net-zero requires 355 million EVs by 2030 or 1 in 5 cars need to be electric. On August 5th, Biden set the goal that 50% of all new cars sold by 2030 be battery-electric, plug-in hybrid or fuel cell-powered. Biden’s $1 Trillion infrastructure bill will allocate $7.5 billion to EV charging stations. However, industry experts say an investment of $50 billion is required to build a charging network that can support the number of EVs by 2030. The chip shortage that was predicted to start easing by Q2 2021 shows no signs of slowing yet. Toyota, who claimed to be unaffected by the shortage in May, just announced it would cut production in Japan by 40% because of the shortage. In August, GM, Ford, Stellantis and VW all said they would also likely have to cut production. Despite these challenges, automakers are committed to developing their EV line ups to hit sales and net-zero goals. Volkswagen is investing 58% of all capex into EVs and digital.
The pandemic shows no signs of slowing down as many countries reinstate various lockdown procedures to protect against the spread of the Delta variant. In August, Pfizer was granted full approval from the FDA for their COVID-19 vaccine. Moderna has since submitted their request for full approval. This month the Biden administration requested a Sept 20th start to the nationwide booster plan. On August 30th, the EU voted to restrict the US for non-essential travel. The rapid spread of Delta has increased the concern that more dangerous variants will continue to surface. This is revealing the need for more global investment in genomic sequencing. These variants occur through the mutations of genome when the virus replicated it. Currently, the two widely available COVID tests are not designed to detect mutations. Instead, we need genome sequencing performed by machines that can quickly read chemical elements in viral genomes. Agilent Technologies Inc, held by the fund, posted very strong Q3 results in August. Specifically, Agilent’s diagnostics and Genomics Group’s (DGG) revenue increased 44% YOY with an operating margin of 22.6%. The company also announced the opening of a Target Enrichment Manufacturing Facility in China, allowing local customers to benefit from reduced delivery time for next generation sequencing products.

Robotics & Automation
Robotics are transforming several key industries, including healthcare. Singapore’s Changi General Hospital is taking advantage of healthcare robots to increase precision and diagnostics. A report in August revealed that more than 50 of its staff are robots. These robots have become a vital part of the hospital’s operations as the pandemic has created a new need for contactless and remote healthcare solutions. This month, 60 minutes featured Boston Dynamic’s robotics workshop. Atlas (pictured below) is the most human look alike robot they have ever made. While Atlas can’t do everything on its own, several decisions it makes are fully autonomous. During Tesla’s AI day in August, Elon Musk unveiled the company is building a humanoid robot. The robot will be designed to deal with work that is boring repetitive and even dangerous. Not much else was revealed about the robot, but Elon did say they should have a prototype next year.
Fintech stocks were back in focus this month after **Square** announced to buy **Afterpay** for US$29 billion at the end of July. Afterpay is up over 35% MTD on the news. CNBC reported this month that **PayPal** plans to explore stock-trading platforms to compete with Robinhood and Square’s retail trading. The company recently hired industry veteran Rich Hagen to run the previously unreported division of PayPal called Invest at PayPal. Previously Hagen was the co-founder of online brokerage Trade King, which was bought by Ally Invest. On August 30th, **Amazon** announced it will partner with **Affirm**, another buy-now-pay-later platform. Affirm closed up 46.67% on the day of the news. The partnership will let customers break up any purchases of $50 or more.

**eGaming**

eGaming was the largest detractor from performance this month. Volatility continued with Chinese technology stocks still under pressure. At the beginning of August, Beijing filed a civil suit against **Tencent** over claims that WeChat’s Youth Mode does not comply with laws protecting minors. The down trend briefly reversed on August 24th when Chinese tech stocks rallied for two days in a row. The rally was on the back of Tencent’s share buy back and strong results from JD.com. On August 30th, **China** announced it will be cutting minors gaming time to 3 hours a week (from 1.5 hours a day). Tencent and other gaming companies gave some context to this news stating that minors only make up a small fraction of their business. Specifically, players under 16 accounted for just 2.6% of Tencent’s domestic gross game spending in Q2, with those under 12 just 0.3%. An August report published by App Annie stated that mobile games are on track to grow 20% in 2021, from $100 billion in 2020 to $120 billion. In August, **Microsoft** announced it will bring its cloud gaming services to Xbox consoles later this year. **Twitch** recorded 6.2 billion hours watched in Q2 2021, representing a 31% increase YOY.
PERFORMANCE ATTRIBUTION:
For the month, 6 of the 8 categories were positive contributors to return. Cybersecurity made the biggest contribution to the Fund, followed by Cloud Computing and Robotics & Automation. The largest detractor was e-gaming, followed by Automobile Innovation.

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<th>PERFORMANCE (%)</th>
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<tbody>
<tr>
<td>TOTAL RETURNS*</td>
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<tr>
<td>1 MTH</td>
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<tr>
<td>EDGE (HEGED)</td>
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</tbody>
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Source: Bloomberg, as at August 31, 2021. ** Performance since inception on April 30, 2018.

SOURCES:
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