

AUGUST COMMENTARY



Evolve E-Gaming Index ETF

HERO invests in equity securities of companies listed domestically and globally with business activities in the electronic gaming industry.

Investment Thesis: eGaming is the largest and fastest growing entertainment sector.

Adoption growth is being driven by:

- Shift from physical to digital distribution
- Increased accessibility through mobile gaming
- Advancements in cloud computing

Multiple consumer experiences including:

- Playing video games
- Watching streams
- Collaborating and socializing
- Competitive gaming (eSports)

MACROECONOMIC HIGHLIGHTS:

China Tech Crackdown Update

Chinese technology stocks continued to be under pressure this month. 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 trend briefly reversed on August 24th when 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.

There hasn't been any indication that the nations regulatory crackdown will ease, but the lack of significant news over the last couple weeks led investors who see long term value in China stocks to buy the bottom. According to recent reports, the US and China are preparing for talks again before the end of the year to start remedying frayed relationships.



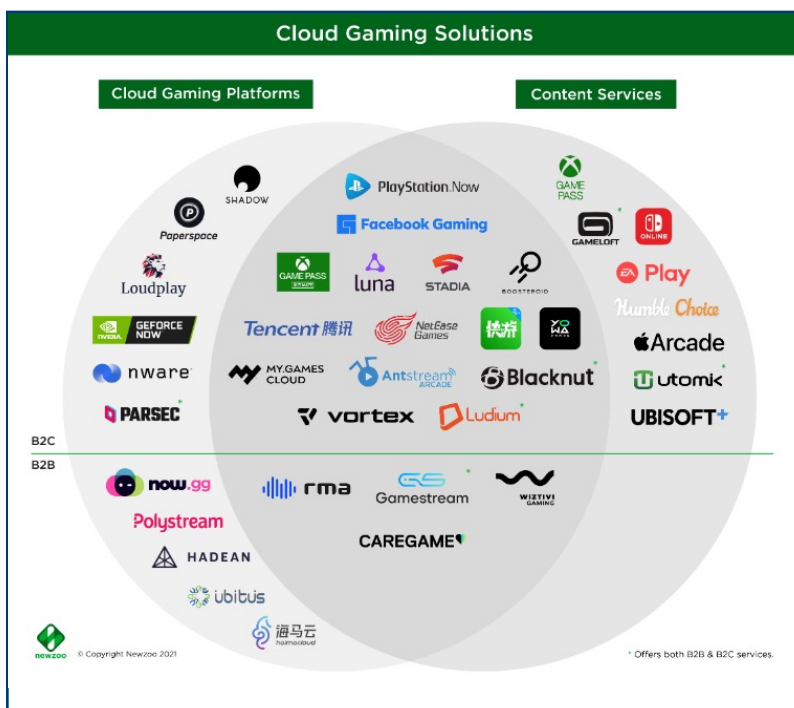
Gaming Curfews

Earlier this month South Korea announced it would end its gaming curfew, the Cinderella Law, which prevented underage gamers from playing between midnight and 6am. Excessive gaming will be managed by the "choice permit system" which will let parents and guardians arrange approved play times.

On August 30th, China announced it will be cutting minors gaming time to 3 hours a week (from 1.5 hours a day). Gaming platforms can only offer gaming to children 18 and under from 8pm-9pm on Fridays, weekends and public holidays. This is the countries strictest rules yet. 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 only 0.3%.

Mobile Gaming

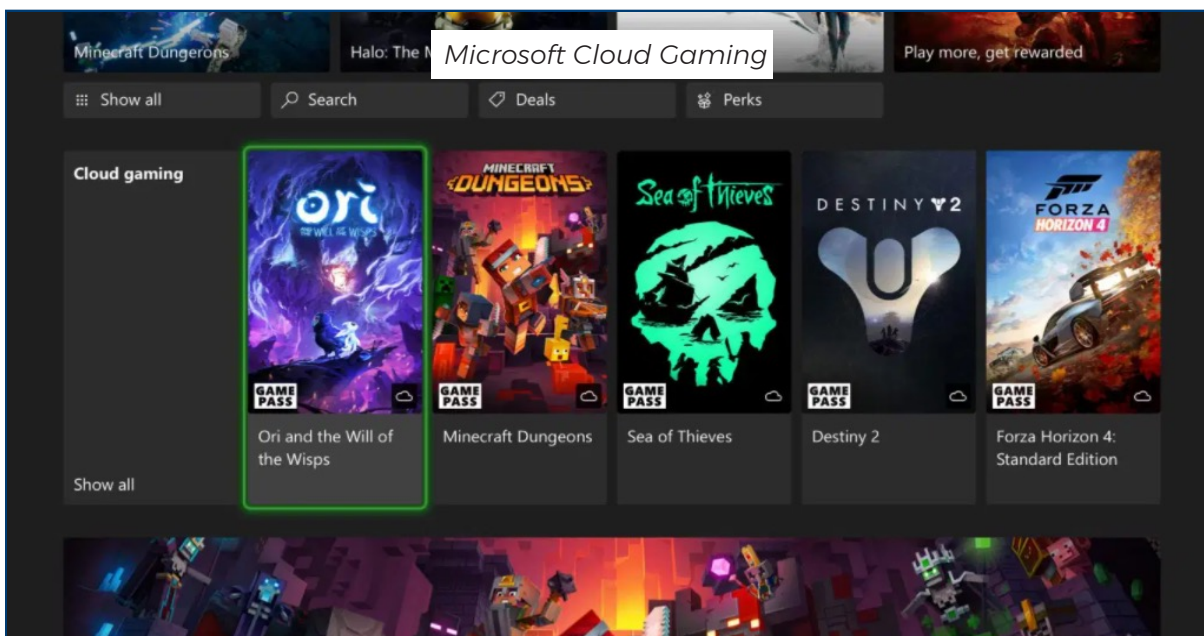
Mobile games are on track to grow 20% in 2021, from \$100 billion in 2020 to \$120 billion. The growth continues despite difficult comparisons to 2020's pandemic growth and Apple's change to the Identifier for Advertisers (IDFA) which requires users to opt in to share their user data with advertisers. Many publishers are using hybrid monetization models by using in-app purchases and incorporating advertising on top of that.



Cloud Gaming

Cloud gaming is one of the most exciting technologies to come to the gaming industry since mobile. The cloud gaming market is constantly growing with new players entering the market.

In August, Microsoft announced it will bring its cloud gaming services to Xbox consoles later this year. This will let players stream games instead of having to download them onto a device. The company plans to eventually launch cloud gaming on TVs as cloud gaming is becoming a large part of Microsoft's strategy.



E-Sports vs Traditional Sports

The audience for e-sports more than tripled from 2012 to 2019. In 2019, e-sports had 443 million global viewers while American football and rugby combined had 410 million. A recent report projects that by 2022 e-sports will have more viewers than baseball. In 2020, Limelight Networks reported that gamers 18-25 spend ~4 hours a week watching video games compared to ~2.5 hours watching traditional sports.

Twitch recorded 6.2 billion hours watched in Q2 2021, representing a 31% increase YOY. Facebook gaming also increased 24% in Q2 2021, with 1.21 billion hours watched.



PERFORMANCE ATTRIBUTION

For the month, Sea Ltd made the biggest contribution to the Fund, followed by Konami Holdings Corp and Electronic Arts Inc. By weight, the Fund's largest exposure was to Sea Ltd, Activision Blizzard Inc, and Electronic Arts Inc.

PERFORMANCE (%)

TOTAL RETURNS*	1 MTH	6 MTH	YTD	1 YR	2 YR	SI**
HERO (HEDGED)	-2.76	-10.50	-4.98	6.18	31.13	29.40

Source: Bloomberg, as at August 31, 2021. ** Performance of HERO since inception on June 13, 2019.

SOURCES:

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<https://www.gobankingrates.com/money/business/esports-primed-over-traditional-sports-good/>
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