

CARS 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.

ETF TICKERS: CARS (HEDGED); CARS.B (UNHEDGED); CARS.U (USD)

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

Investment Thesis: The car is becoming digital. Autonomous, Connected, Electric and Shared ('ACES')

Electrification

- Technological advances
- Improved vehicle experiences
- EVs becoming cost competitive with ICE (Internal Combustion Engine) counterparts
- Government mandates on carbon
- Charging network build-out
- Re-charge times
- Battery capacities / range

Autonomous Technology

- Smarter chips
- Better and cheaper sensors
- Smart infrastructure
- Government mandates for safety
- Only Level 2 (partial automation) is available today
- Advanced Driver Assist ('ADAS') in most cars
- Level 3 (conditional), 4 (high) and 5 (full) years away

MACRO ECONOMIC HIGHLIGHTS

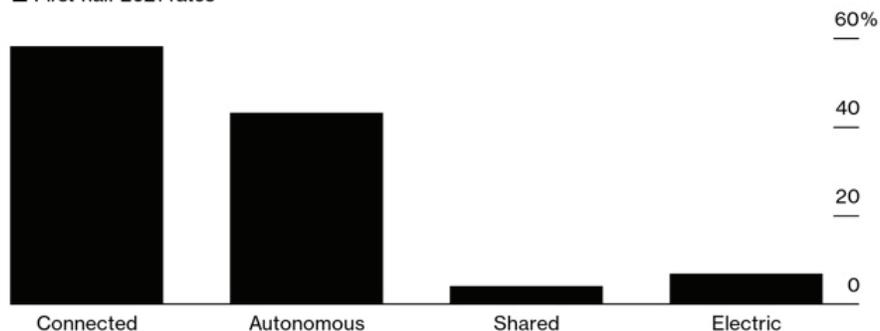
The future of the car won't only be electric, but also connected, shared and autonomous. This month, Bloomberg (BNEF) released a study of what vehicles are in each stage of A.C.E.S.

- **Autonomous:** No vehicles available today are fully autonomous (level-5) but level-2 autonomy is offered in vehicles with advanced driver assistance. Over 40% of vehicles offer ADAS as at least an option. This could exceed 90% by 2030.
- **Connected:** BNEF estimates that almost 60% of global passenger vehicle sales came with embedded telematics.
- **Electric:** Global EV sales hit a new record of 7% of global passenger vehicles. This global share could approach 70% by 2040 as battery prices fall further.
- **Shared:** Shared mobility services include companies like Uber and Zipcar. This sector has the slowest adoption at about 5% but BNEF predicts it could also exceed 90% by 2030.

C.A.S.E. Adoption

How quickly cars are becoming connected, autonomous, shared and electric

■ First-half 2021 rates



Source: BloombergNEF

Note: Connected, Level-2 autonomous and electric-vehicle values refer to global shares of passenger vehicle sales. Shared-mobility value refers to global share of passenger vehicle kilometers traveled.

Bloomberg

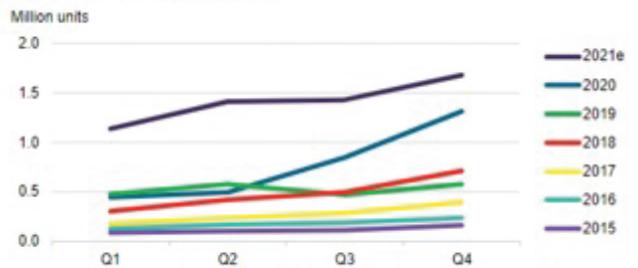
This month BNEF also published their 3Q 2021 Electrified Transport Market Outlook. According to their research, global **passenger electric vehicle sales increased 188% in 2Q 2021** YOY. China and Europe led the market again as manufacturers try to meet their countries fuel regulations.¹

17%
EV share of passenger car sales in Europe in 2Q 2021

13%
EV share of passenger car sales in China in 2Q 2021

5.6 million
BNEF forecast for global passenger EV sales in 2021

Figure 1: Passenger EV sales forecast

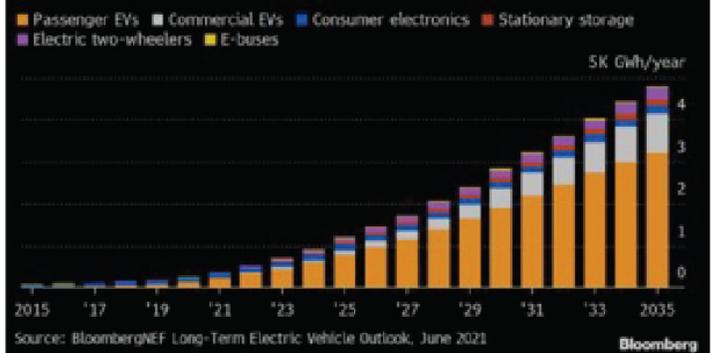


Source: BloombergNEF, Marklines. Note: Total includes BEVs and PHEVs. e refers to estimated.

Shifting focus to **Batteries**, global **EV battery sales jumped 144% in the first 7 months** of the year as government incentives helped boost demand for EVs.² **BMW** ordered \$24 billion of batteries as EV demand grows with EVs accounting for 11% of the company's first half deliveries.³ **Toyota** also announced spending \$13.7 billion by 2030 on battery R&D for electric and hybrid vehicles.⁴ **VW** has also invested \$80 million on a facility in Germany to research, develop and test EV batteries. The company's goal is to reduce their dependency on suppliers and cut the cost of batteries by as much as 50%.⁵

Greedy for Gigawatts

EVs are going to be the driving force for lithium-ion battery demand



Source: BloombergNEF Long-Term Electric Vehicle Outlook, June 2021

Bloomberg

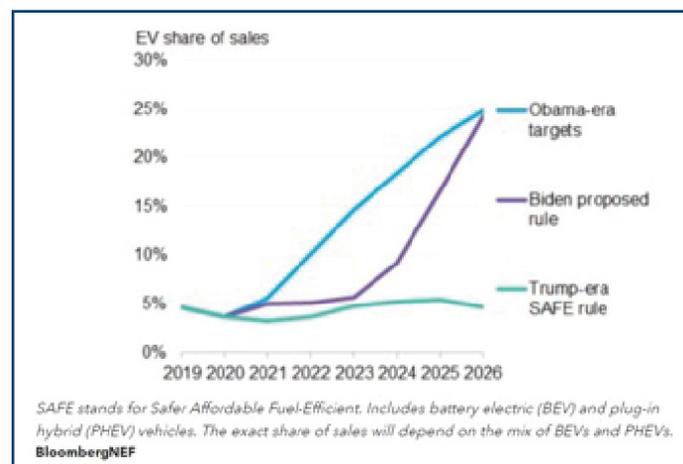
EV batteries are very expensive because of what goes into them. An EV uses the same batteries as your mobile phone – just on a much bigger scale. The most expensive part of a battery is the cathode, which contains metals like cobalt, nickel, lithium, and manganese. Battery prices have decreased significantly in recent years, however, not currently falling as quickly as in the past, larger due to rising raw material costs. One-way manufacturers are looking at reducing costs, is shifting from cobalt to nickel. Nickel is cheaper and holds more energy but can overheat or catch fire much easier. Simplifying and standardizing the product design can also deliver savings.⁶



As discussed in previous commentaries, **charging infrastructure** remains a hurdle for wide EV adoption. This month, **Shell** announced it will install 50,000 on-street EV chargers by 2025 in the United Kingdom. The UK government will finance 75% of installation costs. The UK has banned the sale of petrol/diesel cars by 2030 and as such as incentivized to rapidly build out their charging network.⁷ **China** is also looking to step up their highway charging network with a commitment to cover 80% of highways with EV charging by 2025.⁸

ELECTRIC VEHICLE UPDATES AROUND THE WORLD:

- **UK:** EV interest soared at the end of September as Britain’s fuel shortage intensifies. Online google searches for electric cars in the UK rose by 1,600% on Sept. 24 - the date when fuel shortages became widespread across the country.¹⁷
- **Canada:** Justin Trudeau committed to net-zero emissions by 2050 which will require 50% of cars sold in Canada be zero-emissions by 2030. His re-election will likely benefit the EV industry.⁹
- **US:** The Biden administration needs 1 in 4 cars to be electric to meet US fuel targets. Below is BNEF’s estimation of required EV share of sales under different policies.¹⁰ EV spending was boosted in the democrat’s infrastructure bill to \$13.5 billion.¹² This month, New York implement their most aggressive plan yet on banning the sale of gasoline powered cars by 2035. New York joins the state of California that made a similar commitment last year.¹¹



- **India:** Over the next 5 years, the Indian government will provide \$3.5 billion through incentives to auto companies in manufacturing and exporting clean technology.¹³
- **China:** In China, the EV industry has undergone significant growth driven by government subsidies which totaled \$5.1 billion through 2020 from over 300 different EV makers, most of them small and scattered. The top 3 EV makers in China represented 44% of China EV sales in the first half of 2021.¹⁸ This month, China vowed to consolidate the industry by encouraging mergers and restructuring.¹⁴
- **Norway:** Norway has banned gas car sales by 2025, but trends suggest they could reach 100% EV sales as early as April.¹⁶



Nio Inc., held by the fund, announced plans this month to launch an e-car in Germany by next year. The company plans to take on Volkswagen AG’s Audi, Daimler AG’s Mercedes-Benz and BMW AG.¹⁵

PERFORMANCE ATTRIBUTION

For the month, Ambarella Inc. made the biggest contribution to the Fund, followed by Lordstown Motors Corp. and QuantumScape Corp.

PERFORMANCE (%)

| TOTAL RETURNS* | 1 MTH | YTD | 1 YR | 2 YR | 3 YR | 4 YR | SI** |
|-------------------|-------|-------|-------|-------|-------|-------|-------|
| CARS (HEDGED) | -3.77 | 0.45 | 51.01 | 54.66 | 33.59 | 25.15 | 25.15 |
| CARS.B (UNHEDGED) | -3.78 | -0.72 | 45.88 | 55.77 | 34.82 | 26.80 | 26.92 |
| CARS.U (USD) | -4.16 | -0.22 | 53.31 | 59.29 | 35.69 | - | 24.87 |

Source: Bloomberg, as at September 30, 2021.

** Performance since inception of CARS and CARS.B on September 27, 2017.
Performance since inception of CARS.U on November 1, 2017.

SOURCES:

- <https://www.bnef.com/insights/27267/view>
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- <https://www.bnef.com/news/965173?e=News%20Watch:sailthru>
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