

NOVEMBER 2021 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.

TSE

HERO

ETF TICKER: HERO (HEDGED)

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

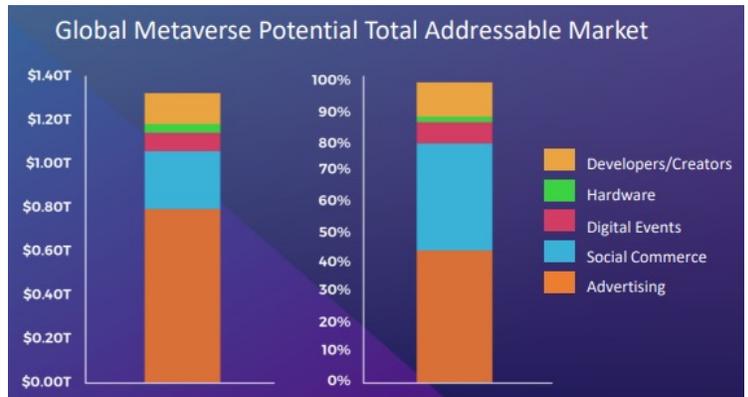
Multiple consumer experiences including:

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

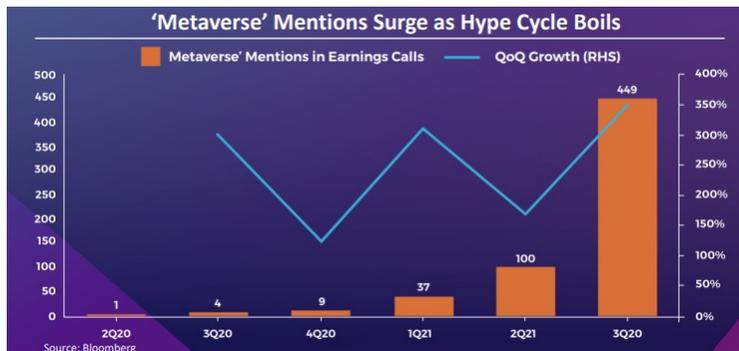
GENERAL INDUSTRY UPDATE



The **metaverse** is an exciting new theme that has garnered lots of media attention this month. The metaverse is not a company or a product, it's the next generation of the internet enabled by real time 3D. It connects the digital and physical worlds through virtual or augmented reality technologies. The metaverse is being designed to be immersive so that you feel as though you are inside the experience rather than just looking at it. One key element of the Metaverse is the ability to socialize, work, learn and play in real time with other users.



The video game industry has been creating virtual worlds for years. **EverQuest** was an online game that launched in 1999 and had half a million subscribers at its peak. **World of Warcraft** launched in 2004 and hit 12 million users. Today, **Roblox** has 200 million active monthly users hanging out in their virtual worlds.²



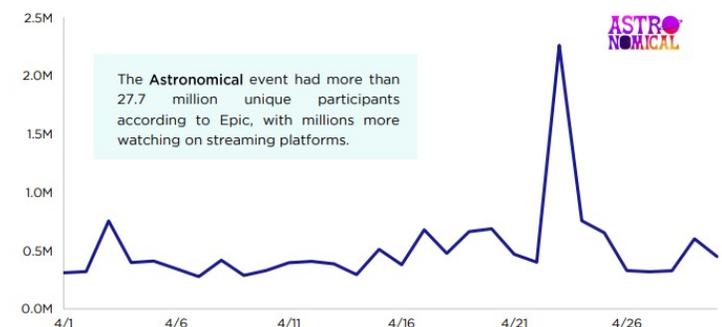
Bloomberg estimates that the metaverse could be worth **\$800 billion by 2024** and **Morgan Stanley** estimates it could be worth **\$8 trillion over time**. The revenue opportunity can be broken down into several categories including advertising, social commerce, hardware, digital events, and game developers/creators. Many companies in the eGaming industry are positioned to benefit from this emerging theme.¹

One revenue opportunity for **eGaming** companies is **digital events**. Bloomberg estimates live **entertainment businesses may exceed \$200 billion by 2024**. As an example, the Travis Scott Fortnite concert was attended by 27.7 million unique users with millions more watching on streaming platforms.

The Astronomical Impact of Travis Scott

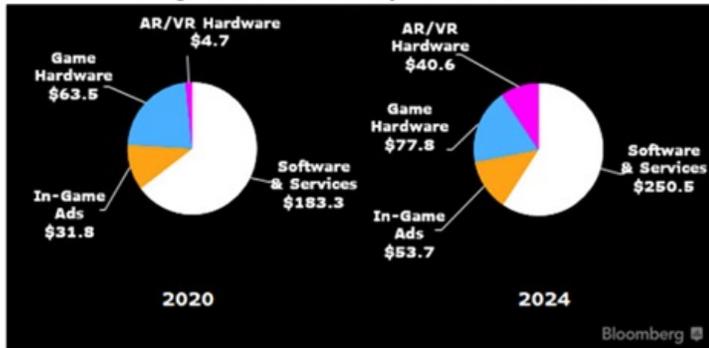
Peak Concurrent Viewers in April 2020; YouTube & Twitch Combined

FORTNITE



Going forward, growth in the gaming industry will be driven by 3D virtual world adoption. Bloomberg estimates **gaming AR/VR** will create **\$413 billion primary market**.

Gaming Growth Aided By 3D Virtual Worlds



Source: Bloomberg Intelligence, Newzoo, IDC

The metaverse will include an abundance of virtual experiences, and gaming will certainly be one of them.

COMPANY SPECIFIC UPDATES

ROBLOX Corp

Roblox, held by the fund, was up over 50% for the month of November as investors looked for companies poised to win in the metaverse. Roblox is an online gaming platform where users and players can create their own immersive virtual worlds. Roblox’s founder and CEO David Baszucki told CNBC this month that their business plan from 17 years ago predicted the rise of the metaverse. “Our whole company is really focused on the innovation to drive and shepherd this vision of what some people call the metaverse – or human co-experience – forward,” said Baszucki. Roblox had **47 million daily active users** in Q3, a 31% increase since last year. Retailers are also pivoting their strategy to the metaverse as a new way to advertise to consumers. In November, Nike launched its Nikeland immersive world experience on Roblox.^{4,5}



Above: Welcome to Nikeland.
Image Credit: Roblox

NetEase Inc

NetEase is China’s second largest video game company. In the company’s recent earnings call the founder and CEO said that the company has already prepared many of the technologies required to build out a metaverse. NetEase has also registered several metaverse related trademarks.⁶

Activision Blizzard Inc

Back in May of 2021 the Activision Blizzard CEO said a Ready Player One-Like metaverse is coming. He believes the most important aspects of the Metaverse will be “continuous social connection”. Users can already access various virtual worlds from Activision Blizzard including World of Warcraft, Call of Duty and many others.⁷



PERFORMANCE (%)

TOTAL RETURNS*	1 MTH	6 MTH	YTD	1 YR	2 YR	SI**
HERO (HEDGED)	1.53	-6.83	-3.52	5.43	29.09	26.88

Source: Bloomberg, as at November 30, 2021.

** Performance of HERO since inception on June 13, 2019.

Sources:

1. The Metaverse, Web 3.0 Virtual Cloud Economics, Grayscale Research, November 2021
2. <https://www.economist.com/leaders/dont-mock-the-metaverse/21806354>
3. https://resources.newzoo.com/hubfs/Reports/Free_Metaverse_Report_Newzoo.pdf?utm_medium=email&_hsmi=144724428&_hsenc=p2ANqtz-_2ym9CyN4JSB_m9dp-3uvKXR7UAjDvR9Hgo_UUY4nBNXnq2G5SqwuUDchuYhRPgGevDJ5gF-AQINPP8XUL9s3Gm7N9g&utm_content=144724428&utm_source=hs_automation
4. <https://www.cnn.com/2021/11/09/roblox-founder-and-ceo-our-business-plan-17-years-ago-predicted-the-rise-of-metaverse.html>
5. <https://venturebeat.com/2021/11/18/nikeland-debuts-on-roblox-as-its-latest-persistent-gaming-space/>
6. <https://www.scmp.com/tech/trends/article/3156381/ceo-says-netease-will-lead-metaverse-race-chinese-tech-giants>
7. <https://www.gamespot.com/articles/activision-blizzard-ceo-says-a-ready-player-one-like-metaverse-is-coming/1100-6490762/>

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The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF or returns on investment in the ETF. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

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