

Evolve Global Materials & Mining Enhanced Yield Index ETF

BASE invests directly or indirectly in equity securities of global issuers engaged in the manufacturing, mining and/or integration of metals and materials, with added value of a covered call strategy on up to 33% of the portfolio.

TSX

BASE

ETF TICKERS: BASE (HEDGED); BASE.B (UNHEDGED)

In spite of supply-side disruptions caused by the COVID-19 pandemic, metals had an outstanding year in 2021, with prices rising significantly over the previous year.

Copper prices rose a record 25.9% in dollar terms, boosted by firm demand from China, the world's top buyer; supply disruptions in Chile, the world's top supplier¹; and lower inventory levels. Incidentally, China accounts for about half of global primary copper consumption, with most of its imported copper destined for manufactured export goods.

Aluminum rose 41.9%, Zinc 31.8%, and Nickel 25.5%.² Tin, which normally doesn't get much attention, was the big winner among base metals, with its price almost doubling year-over year, buoyed by the electronics boom fueling demand and COVID-19 disruptions crimping supply.³

Iron ore was among the big losers of 2021, with a decline of 24%, largely due to a slowdown in construction in China.⁴

In the steel sector, output in China, the world's largest producer, declined in 2021 as the country sought to achieve carbon peaking and carbon neutrality goals. The country produced an estimated 1.03 billion tonnes of steel last year, down 35 million tonnes over 2020, according to the China Iron and Steel Association. In spite of a decline in production, profits surged by 87% as rising costs and demand pushed up prices.⁵

The rebound in demand for steel in the rest of the world in 2021 was stronger than anticipated, with estimated output of 870 million tonnes in 2021, exceeding pre-pandemic levels a year earlier than expected, according to the World Steel Association.⁶

Ex-China steel output exceeded pre-pandemic levels in 2021, and additional growth of nearly 5% is expected in 2022, according to the World Steel Association. Rising consumption reflects pent-up demand and stimulus measures, including the €750 billion EU recovery fund and the recent \$550 billion (US\$) U.S. infrastructure bill, across durable goods, autos, construction and infrastructure, with strong support for the energy transition.⁷

Incidentally, soaring energy costs in Europe dominated the supply-side for base-metals. In its latest impact on production, Alcoa Corp., a company held by this Fund, reported that that it will halt operations at a Spanish plant for two years due to high energy costs.⁸

On the precious metal front, gold fell 3.5% in its biggest annual decline since 2015 as central banks started to dial back pandemic-era stimulus to fight rising inflation and the U.S. Federal Reserve signalled that it will raise interest rates in

2022.⁹ Silver followed suit, falling 11.6%.¹⁰

In corporate news, Nucor, a holding of this Fund, completed the acquisition of Cornerstone Building Brands' insulated metal panels business in August to accelerate its vision of broadening value-added capabilities to its product offerings.¹¹ Then in December, Nucor announced that it reached an agreement to acquire a majority ownership position in California Steel Industries, Inc. (CSI) through the purchase of a 50% equity interest from a subsidiary of Vale S.A. (Vale) and a 1% equity ownership stake from JFE Steel Corporation. The company will be a joint venture between Nucor and JFE, pending regulatory approvals.¹²

Arcelor Mittal, another holding of this Fund announced 3Q 2021 operating income of \$5.3bn compared to \$4.4bn in 2Q 2021; and an EBITDA of \$6.1bn in 3Q 2021, the strongest quarter since 2008 and 19.9% higher than 2Q 2021. This, the company stated, is due to a positive evolution of steel spreads which more than offset 8.4% lower steel shipments and in spite of weaker demand, in particular automotive order cancellations, as well as production constraints and order shipment delays.¹³

In December, Steel Dynamics, another holding, provided fourth quarter 2021 earnings guidance in the range of \$5.46 to \$5.50 per diluted share, representing record quarterly performance. Comparatively, the company's sequential third quarter 2021 earnings were \$4.85 per diluted share.¹⁴

Performance Attribution

For the annual period ending December 31, Nucor Corporation made the biggest contribution to the Fund, followed by Steel Dynamics Inc, and Freeport Mc Moran Inc. By weight, the Fund's largest exposure at the end of 2021 was to Alcoa Corp., followed by Gold Fields Ltd. and Freeport-McMoran.

Sources:

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5. <https://www.bignewsnetwork.com/news/272142940/chinas-steel-output-declines-in-2021>
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12. <https://www.nucor.com/news-release/#item=18671>
13. <https://corporate.arcelormittal.com/media/press-releases/arcelormittal-reports-third-quarter-2021-results>
14. <https://ir.steeldynamics.com/Steel-Dynamics-Provides-Fourth-Quarter-2021-Record-Earnings-Guidance-12-16-2021>

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