

ANNUAL 2021 COMMENTARY

Evolve Future Leadership Fund

LEAD seeks to provide investors with long-term capital appreciation by investing primarily in a diversified mix of equity securities of companies located domestically or internationally that are determined to be leaders in sectors that stand to benefit from medium and long term economic trends.

TSX

LEAD

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

The Evolve Future Leadership Fund (LEAD) was established in September 2020 to provide investors with access to the leading companies of today and the future companies of tomorrow, through four categories of leadership: Finance, Healthcare, Technology, and Media & Entertainment.

Finance

U.S. banks posted strong profits in 2021, albeit declining by 1.2% at the end of the third quarter, as they were slower to shrink their credit loss provisions and grappled with low interest rates, according to the Federal Deposit Insurance Corporation. While 96% of all banks were profitable, two-thirds of them reported annual profit growth.¹

The performance of U.S. banks was buoyed by strong capital markets and easy monetary conditions. The four largest U.S. consumer banks, JPMorgan Chase & Co, Citigroup, Well Fargo & Co, and Bank of America Corp reported a combined profit of \$28.7 billion for the third quarter, beating analysts' estimates.²

Signature Bank and SVB Financial Group, owned by this Fund, made impressive gains for the third quarter, reporting gains of 11.3% and 10.0%, respectively.³ SVB Financial Group acquired Boston Private Financial Holdings, Inc. the parent company of Boston Private Bank & Trust Company, a leading provider of integrated wealth management, trust, and banking services to individuals, families, businesses, and nonprofits.⁴

PayPal, owned by this Fund, which last year added the ability for users to buy, hold, and sell cryptocurrency, announced they will now allow customers who hold Bitcoin or other digital currencies to convert their holdings into fiat currencies at checkouts to make purchases. The crypto payments will work the same as credit or debit cards currently do within a PayPal wallet. By pushing cryptocurrency as a payment method to its 29 million+ online merchants, PayPal makes itself one of the largest mainstream financial companies to open its network to cryptocurrencies.⁵ PayPal will also allow users to withdraw cryptocurrency held in PayPal accounts off-platform and into third-party wallets.⁶

Google and Shopify Inc., both held by the Fund, announced a partnership to allow more merchants to sell across Google properties and boost the search giant's e-commerce business. With the new integration, Shopify's 1.7 million merchants can more easily list items on Google's Shopping site, as well as other properties such as Maps and YouTube.

Coinbase Global, held by this Fund, the largest crypto exchange in the U.S., went public on the Nasdaq in April at a valuation of nearly \$100 billion. Coinbase shares began

trading at \$381 a share, a more than 50% jump from the reference price for its stock of \$250 a share. The company listed its shares directly on the Nasdaq, as opposed to selling new stock through an initial public offering.⁷

Healthcare

The global health care sector was dominated by challenges posed by the COVID-19 pandemic. The pace of digitization across the healthcare sector accelerated, with the adoption of digital technologies affecting everything from patient-care delivery to practice management to the development of advanced precision therapeutics.⁸

Pharmaceutical companies like Pfizer, Johnson & Johnson, Moderna, Astra Zeneca, and Eli Lilly reported strong gains, largely related to the demand for COVID vaccines and related therapy.

Pfizer, owned by this Fund, reported that its earnings and sales more than doubled in the fourth quarter, and raised its outlook for results for the full year, buoyed by its COVID-19 vaccine. The company reported adjusted earnings of \$7.7 billion, up 133% from a year earlier. Revenue soared to \$24.1 billion, up 134%, beating analyst forecasts. The vaccine business alone was responsible for more than 60% of the company's sales. Revenue outside of its COVID-19 vaccine business was up by a modest 7%.⁹

Thermo Fisher Scientific Inc., owned by this Fund, the world leader in serving science, announced that it has completed its acquisition of PPD, Inc., a leading global provider of clinical research services to the biopharma and biotech industry, for a purchase price of \$17.4 billion.¹⁰

Thermo Fisher also acquired Mesa Biotech, Inc., a privately held molecular diagnostic company, which has developed and commercialized a PCR-based rapid point-of-care testing platform for detecting various infectious diseases, including SARS-CoV-2.¹¹

In addition, Thermo Fisher acquired Henogen S.A., Novasep's viral vector manufacturing business. Novasep provides contract manufacturing services for vaccines and therapies to biotechnology companies and large biopharma customers.¹²

Danaher Corporation, owned by this Fund, acquired Aldevron, a manufacturer of critical nucleic acids and proteins used in the production of gene and cell therapies, gene editing technologies, DNA and RNA vaccines. Aldevron will operate as a standalone operating company and brand within Danaher's Life Sciences segment.¹³

In November, Novo Nordisk, owned by this Fund, announced that it has entered into a definitive agreement to acquire Dicerna Pharmaceuticals (Dicerna). The acquisition of Dicerna's ribonucleic acid interference (RNAi) platform is a strategic addition to Novo Nordisk's existing research technology platforms and supports the strategy of using a broad range of technology platforms applicable across all Novo Nordisk's therapeutic focus areas.¹⁴

Novo Nordisk gained FDA approval for a weekly injection, dubbed Wegovy, for chronic weight management. Wegovy is the first weight management drug approved for chronic use in most obese and overweight adults since 2014.¹⁵

Technology

Qualcomm Wireless Communication Technologies (China) Ltd. and Z-ONE TECH announced a strategic cooperation relationship to deliver intelligent cockpit experiences by utilizing the 4th Generation Snapdragon Cockpit Platforms with Z-ONE TECH's Galaxy Full Stack Solution 3.0. from Qualcomm International (Shanghai) Co., Ltd.¹⁶

Ericsson, Qualcomm Technologies, Inc. (held by this Fund) and Telstra achieved the highest uplink peak rate ever recorded on a commercial network during a live demo in Queensland, Australia. Together, they reached an uplink data speed of close to 1Gbps, paving the way for more seamless experiences in cases such as live video streaming and social media content sharing.¹⁷

During the annual Snapdragon Tech Summit 2021, Qualcomm Technologies, Inc. introduced its latest premium 5G mobile platform, Snapdragon 8 Gen 1. The new Snapdragon 8 leads the way into a new era of premium mobile technology equipped with cutting-edge 5G, AI, gaming, camera, and Wi-Fi and Bluetooth technologies to transform the next generation of flagship devices.¹⁸

Nvidia, held by this Fund, announced that it expects to report around \$7.4 billion in earnings in the fourth quarter, higher than analyst expectations of \$6.86 billion. The company has had more demand than it can fill, especially for its hard-to-find GeForce graphics cards that are popular with gamers. It has also made significant gains in data centers, where cloud providers and big enterprises are turning to graphics processors made by Nvidia for artificial intelligence applications.¹⁹

Amazon, held by this Fund, revealed a variety of new tools designed to support its Amazon Web Services (AWS) arm. The tools include effortless machine learning models, fortified artificial intelligence, robotics technology, and data lakes which are aimed at bolstering AWS data and analytics infrastructures, and enhance user efficiency across Amazon's cloud computing platform.²⁰

The company also announced the launch of AWS IoT TwinMaker which allows developers to easily create digital twins of real-time systems such as factories, industrial equipment, and product lines; and its IoT FleetWise tool which is specifically tailored for automakers to efficiently collect, transform, and transfer vehicle data in the cloud at a faster rate.²¹

Oracle, held by this Fund, and Cerner Corporation jointly announced an agreement for Oracle to acquire Cerner through an all-cash tender offer. Cerner is a leading provider of digital information systems used within hospitals and health systems to enable medical professionals to deliver better healthcare to individual patients and communities. Cerner is expected to be a significant revenue growth engine for Oracle for years to come as Oracle expands Cerner's business to more countries internationally.²²

Okta Inc., an identity verification software developer, held by this Fund, announced that it expects to see 30% annual growth through to 2024. Okta expects annual revenue of almost \$2 billion by the close of fiscal year 2024 without the need for acquisitions beyond Auth0, which Okta acquired in 2021. This projected growth comes from the ongoing dramatic boost in usership that Okta experienced due to the shift to remote work during the pandemic.

Okta Inc., was named a Leader in the Gartner® Magic Quadrant™ for Access Management for the Fifth Consecutive Year in November. Okta was recognized as having the highest to "Ability to Execute" of all vendors evaluated.

Entertainment

In 2021, the demand for cloud strategies increased, accompanied by higher spending resulting from greater-than-expected cloud usage due to the at-home working conditions triggered by the COVID-19 pandemic.

The gaming market experienced steady growth in 2021, buoyed by higher consumer spending during COVID-19 lockdown conditions. It was expected to generate total revenues of \$180.3 billion for the year, up by 1.4% over last year.²³

Incidentally, the audiences for games and gaming content have continued to grow, reaching some 3 billion players worldwide, representing a 5.3% increase over 2020. The Asia-Pacific region accounted for 55% of all players.²⁴

While console and PC saw slight declines in growth due to thinner release calendars, mobile game spending continued to increase and was expected to reach \$89.6 billion globally across the App Store and Google Play.²⁵

The cloud gaming market, on the other hand, generated more than twice as much revenues in 2021 than it did in 2020.²⁶

It benefitted from greater use of smartphones, especially 5G-ready devices. In 2021, the global number of active smartphones reached 4.6 billion (+5.7% year on year), among which 15.4%, or 703.5 million, are 5G-ready. This represents a year-on-year growth of +230.9% in the number of active 5G-ready smartphones worldwide,²⁷ furthering the growth of cloud gaming.

The e-sports market also experienced massive success in 2021, with the number of viewers increasing by 6.7% in 2021 to reach 465.1 million people. Of these viewers, 235.5 million are occasional viewers, while the remaining 229.6 million are e-sports enthusiasts. Twitch, YouTube, and Facebook Gaming were among the channels that attracted the largest number of viewers.²⁸

The year was marked by a substantial number of corporate transactions, including mergers and acquisitions, strategic alliances, private investments, and IPOs. According to the investment banking firm Drake Star Partners, games industry deals surpassed an unparalleled \$71 billion in the first nine months of 2021.

Of the total of 864 deals, 228 were M&A deals, amounting to \$31.9 billion in value.²⁹ Selected M&A activity among companies held by the fund include Electronic Arts' (a holding of this Fund) acquisition of Glu Mobile; Zynga's acquisition of Chartboost, Starlark, and Echtra Games; and Activision Blizzard's acquisition of Digital Legends.³⁰ In December, Zynga Inc. also announced that it had formed a strategic alliance with Forte, a leading developer of blockchain solutions for game publishers.³¹

Performance Attribution

For the 12-month period ending December 31, 2021, the best performing stock in this Fund was Fortinet Inc, followed by Nvidia Inc. and Silvergate Capital Corp. The largest holding in this Fund was SVB Financial Group, followed by Novo Nordisk A/S and Intuit Inc.

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