

## ANNUAL 2021 COMMENTARY

# Evolve FANGMA Index ETF

These six big tech companies have transformed our world, as well as, being a significant driver of growth and returns for our markets.

TSX

TECH

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

Megacap technology stocks, Apple, Amazon, Alphabet, Microsoft, Meta, and Netflix, delivered record earnings and hit all-time highs in 2021. They also acted as a driving force for gains in many broad-based indices.<sup>1</sup>

Their record sales and earnings in 2021 came on the back of COVID-19 pandemic-induced life style changes, which resulted in a shift to remote work and online activity. This accelerated the digital transformation of businesses and increased demand for everything that Mega Tech companies specialize in – whether that be smartphones and computers, gaming and video entertainment, digital software and cloud computing, or social media and e-commerce.

During the year, the regulatory environment remained onerous for Mega Tech companies as governments both at home and abroad continue to try to loosen their control over key markets. Apple, Amazon, Alphabet, Meta, and Microsoft have all been hit with fines or have been subject to investigations during 2021, as regulators probed their dealings in everything from their M&A activity and how they pay tax to how they handle rapidly-growing amounts of data and distribute content.<sup>2</sup>

The majority of investigations have been launched over concerns that Mega Tech companies are too dominant and can consequently leverage their positions to squash or swallow-up smaller rivals.

Late in June, a U.S. judge dismissed federal and state antitrust complaints against Facebook Inc as “legally insufficient”. Seeking to force the sale of Instagram and WhatsApp, the judge said the FTC had failed to show that Facebook had monopoly power in the social networking market. He also dismissed similar lawsuits from several U.S. states, saying they waited too long to challenge the acquisitions of Instagram and WhatsApp in 2012 and 2014, respectively.<sup>3</sup>

Conversely, in November the UK Competition and Markets Authority Regulators ordered Meta to unwind its acquisition of Giphy because the deal would reduce competition between social media platforms and had already removed one potential rival in the advertising market.<sup>4</sup>

However, Mega Tech companies continued on their acquisition binge in 2021. According to Apple’s CEO Tim Cook, Apple acquires one company “every three to four weeks”<sup>5</sup>; namely smaller companies that support the company’s development initiatives. Apple is the leading purchaser of companies in the global artificial intelligence space, according to data shared by GlobalData.<sup>6</sup> For example, in August, Apple acquired Primephonic, a classical music streaming service.<sup>7</sup>

Microsoft also made a several acquisitions during the year. Some of which included the acquisition of RiskIQ, a leader in global threat intelligence and attacks surface management; ReFirm Labs, in order to boost Microsoft’s firmware analysis and security capabilities across all devices and form an intelligent edge ranging from servers to IoT; Kinvolk, to boost its container-optimized innovation; and Nuance Communications, to facilitate the delivery of new cloud and AI capabilities across industries with a focus on healthcare.<sup>8</sup>

Microsoft also showcased Windows 11, its first major operating system revamp since 2015. In addition to new functionality, the major innovation in Windows 11 is the new Windows Store that will allow software developers to use their own in-app payment systems without paying a commission to Microsoft. The move is widely seen as a direct challenge to Apple’s “walled garden” approach with its App Store, as well as Google Play Store, which like Apple, also charges developers commissions of up to 30%.<sup>9</sup>

Select Meta transactions during the year include the acquisitions of Unit 2 Games, which develops a “collaborative game creation platform” called Crayta; Bigbox VR, which develops a popular game for Facebook’s Oculus VR goggles; and Downpour Interactive, another VR game-creator.<sup>10</sup>

Google was also active on the transaction front. In May, the company and Shopify Inc. 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, Google said 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.<sup>11</sup>

Google also acquired Pring, a Japanese payments firm intended to boost GooglePay; as well as Dysonics, a 3D audio startup which has patents for tracking binaural sound – a feature that could come in handy for future iterations of Google’s Pixel buds, or other audio wearables.

Amazon’s largest acquisition during the year was that of MGM, the fabled U.S. movie studio. This marked the company’s second-biggest acquisition to date.<sup>12</sup>

Netflix reported fourth-quarter earnings of \$1.33 vs. the \$0.82 expected earnings per share; as well as revenues of \$7.71 billion, which were in line with expectations.<sup>13</sup>

## Performance Attribution

From its inception on May 4, 2021 to December 31, 2021, Alphabet Inc. was the best performing holding in this Fund, followed by Microsoft Corp. and Apple Inc. The largest holding in this Fund by weight at December 31, 2021, was Apple Inc., followed by Microsoft Corp. and Meta Platforms Inc.

## Sources:

1. <https://www.forex.com/en/market-analysis/latest-research/what-will-big-tech-stocks-face-in-2022/>
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13. <https://www.cnn.com/2022/01/20/netflix-nflx-earnings-q4-2021.html>

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