

Evolve E-Gaming Index ETF

HERO invests in equity securities of companies listed domestically and globally with business activities in the electronic gaming industry.

TSX

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



Source: AFP via Getty Images



China, the world's largest mobile and video games market, is seeing some signs of relief after the government crackdown on technology ranging from e-commerce, fintech, online education, and online gaming. China's National Press and Publication Administration has approved a batch of new video game licenses for the first time since July 2021.

It's still not clear which video games were approved and if they were from industry leaders such as Tencent Holdings Ltd. and NetEase Inc. The media watchdog has been reviewing video games to decide if they meet stricter criteria set by the National Press and Publication Administration around content and child protection.

For companies like Tencent Holdings, the slowdown in video game approval caused by stricter criteria is impacting business. The company's most lucrative business division grew just one percent in the later part of 2021, far behind the 34% increase in Tencent Holding's international business. Its sales growth rate has stalled to the slowest pace since 2004.¹

VR Gaining Momentum From the Metaverse

While there's light at the end of tunnel for the video games market in China, virtual reality (VR) is gaining popularity. Sales of VR headsets soared 70% in 2021 from 2020 according to International Data Corp. The surge in demand is being attributed to the hype surrounding the metaverse.

Fine Homes By Hearthstone Corp., a California-based architectural and home construction firm, recently began building virtual reality rooms in homes. In addition to this, VR gaming systems are also being included in many of the fully furnished homes the company sells.

Rec rooms are also getting more high-tech with indoor golf simulators being placed in homes as their prices have come down. On top of this, gaming systems can now be connected for people to enjoy their favorite video games on bigger screens.²

COMPANY SPECIFIC UPDATES



Source: callofduty.com

Activision Blizzard Inc.

Activision Blizzard, Inc., one of the largest holdings of the fund, is a developer and publisher of interactive video games. The company recently reported earnings for the first quarter of 2022 that were below expectations. However, the company said it was mainly due to Call of Duty and product cycle timing.

In early 2022, Microsoft Corporation announced its intention to acquire the company, and the deal is expected to close in 2023.

Activision Blizzard has also made a big announcement regarding game testers. The company said that all temporary and contingent QA workers will be converted to full-time employees starting July 1, 2022. They will be receiving benefits and will make a minimum hourly wage of \$20.00 effective April 17. Activision Blizzard has almost 1,100 game testers.

This change comes after significant worker activism activity at Raven Software, an Activision studio. In December, the studio said it would lay off QA contractors. After the announcement, some workers had gone on strike resulting in the creation of the Game Workers Alliance union.³

PERFORMANCE (%)

TOTAL RETURNS*	1 MTH	3 MTH	6 MTH	YTD	1 YR	2 YR	SI**
HERO (HEDGED)	-7.91	-11.64	-19.13	-18.10	-27.47	8.92	13.29

Source: Bloomberg, as at April 29, 2022.

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

Sources:

1. "China Ends Game Freeze By Handing Out First Licenses Since July," BNN Bloomberg, April 11, 2022; <https://www.bnnbloomberg.ca/china-ends-game-freeze-by-handing-out-first-licenses-since-july-1.1750628>.
2. Onque, R., "A Virtual Golf Venue, a Metaverse Space: Rooms You'll Find in Homes of the Future," The Wall Street Journal, April 8, 2022; <https://www.wsj.com/articles/why-homes-of-the-future-will-have-spaces-for-the-metaverse-11649427017>.
3. Peters, J., "Activision Blizzard is giving a thousand game testers full-time jobs and pay bumps," The Verge, April 7, 2022; <https://www.theverge.com/2022/4/7/23015033/activision-blizzard-full-time-qa-game-tester-20-dollars-hourly>.

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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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