

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)

Commodity prices climbed sharply in March on supply fears related to the Russia-Ukraine war which led to wide-ranging sanctions on Russia. Continued dependence on China as a key supplier of rare earth metals, in particular, added momentum to price increases.

The battery metal markets captured headlines in the first half of the year, triggered by significant price hikes for key battery metal components such as lithium and vanadium, in the wake of outsized demand growth in the face of current supply constraints, and concerns about the safety of supply sources. China's dominance of the rare earth metal markets remained a growing concern. In the meantime, critical metal initiatives in the U.S. and Europe are seeking to develop sources of rare earth metal supply that are external to China and Russia.(i) Fears of supply disruptions were magnified because Russia is a key producer and exporter of metals, including nickel, a key ingredient in stainless steel and a major component in lithium-ion batteries used in the rapidly growing electric vehicle market.

However, following a strong first quarter, base metals recorded the worst quarterly slump since the 2008 global financial crisis in the second quarter of 2022, as China's economy recovered only gradually and fears of a world recession intensified.

By the end of the second quarter, the London Metal Exchange Index dropped 25% from the end of March. The decline was magnified due to prices spiking following Russia's invasion of Ukraine. Tin was the worst performer, plummeting 38%, while aluminum dropped by almost a third and copper by 20%. It was the first quarterly decline for the entire index since the start of the pandemic.(ii)

During the first half of the year, Lithium, with a gain of 152.8% and Molybdenum which was up 128% were the leading performers in the metals space. Nickel was up 11.9%, while copper, aluminum, and zinc were all down by 14.9%, 5.8%, and 9.5% respectively for the year. Gold closed the end of June at \$1,808, down 1.2% for the year, while silver closed at \$20.26, down 13%. Platinum declined by 7.3% in the first half, while palladium gained a marginal 0.9%.(iii)

On March 8, the LME temporarily suspended trading of nickel due to a technical glitch. The exchange said it had been forced to halt the nickel market after a "systems error" allowed a small number of trades to go through below its newly imposed daily price limit. Nickel prices

more than doubled in a matter of hours on March 8, climbing above \$100,000 a metric ton as one of the world's top producers, China's Tsingshan Holding Group, bought large amounts to reduce its short bets on the metal.(iv)

On the corporate front, Nucor Corporation, a holding in the Fund, reported consolidated net earnings of \$2.10 billion, or \$7.67 per diluted share, for the first quarter of 2022 making it the most profitable first quarter in the Company's history. By comparison, Nucor reported consolidated net earnings of \$2.25 billion, or \$7.97 per diluted share, for the fourth quarter of 2021 and \$942.4 million, or \$3.10 per diluted share, for the first quarter of 2021.(v)

Steel Dynamics, Inc., the largest holding in the Fund, reported first quarter 2022 net sales of \$5.6 billion and net income of \$1.1 billion, or \$5.71 per diluted share. Comparatively, the company's fourth quarter 2021 earnings were \$5.49 per diluted share, with adjusted earnings of \$5.78 per diluted share.

Vale S.A. ADR, a holding in the Fund, reported first quarter 2022 earnings of \$0.78 per share on revenue of \$10.8 billion. The consensus earnings estimate was \$0.90 per share. Revenue fell 14.5% compared to the same quarter a year ago.(vi)

Performance Attribution

For the six-month period ended June 30, 2022, Vale SA-SP ADR, followed Steel Dynamics Inc., made the largest contribution to the Fund's performance. The largest holding by weight in Fund was Steel Dynamics Inc., followed by Reliance Steel and Aluminum.

Sources

- (i) https://finance.yahoo.com/news/mineralprices-com-metal-price-performance-185800448.html?fr=yhssrp_catchall
- (ii) <https://www.bloomberg.com/news/articles/2022-06-30/metals-set-for-worst-quarter-since-2008-on-global-downturn-angst#xj4y7vzkg>
- (iii) https://finance.yahoo.com/news/mineralprices-com-metal-price-performance-185800448.html?fr=yhssrp_catchall
- (iv) <https://www.cnbc.com/2022/03/16/metals-lme-suspends-nickel-trading-once-again-on-systems-error.html>
- (v) <https://www.prnewswire.com/news-releases/nucor-reports-results-for-the-first-quarter-of-2022-301529811.html>
- (vi) <https://www.earningswhispers.com/epsdetails/vale/>

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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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