

SEMI-ANNUAL 2022 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)

At the end of the first half of 2022, major Canadian banks recorded an increase in aggregate profit before tax of 23.8%. On an adjusted basis, aggregate net income grew by 9.2% from \$28.87 billion to \$31.53 billion.(i)

On average, dividends per share were up by \$0.28 to an average of \$2.03 per share in the first half of 2022, compared to first half of 2021. BMO had the largest increase in dividends per share up \$0.54 compared to 1H21, followed by National Bank which increased dividends per share by \$0.30 in the first half of 2022 over the first half of 2021.(ii)

At the end of their fiscal second quarter, Canadian banks reported solid earnings. Royal Bank of Canada reported a net income of \$4.25 billion or \$2.96 per share for the quarter ended April 30, 2022, beating estimates of \$2.71.(iii) TD reported net income of \$3.8 billion with adjusted earnings at \$2.02 per share, down slightly from the year prior but ahead of the consensus analysts' prediction of \$1.93 per share.(iv) CIBC earned \$1.52 billion, or \$1.62 per share, compared with \$1.65-billion, or \$3.55 per share, in the same quarter last year – before the bank completed a 2-for-1 share split.(v) Scotiabank reported net income of \$2.75 billion, up from \$2.46 billion a year earlier. It earned \$2.18 per share, well above the \$1.97 in earnings per share forecast by analysts.(vi) BMO's net income more than tripled to \$4.76 billion from \$1.3 billion a year earlier. On an adjusted basis, BMO earned \$3.23 per share, in line with analysts' average expectations of \$3.22 per share.(vii)

RBC raised its quarterly dividend by 8 cents per share to \$1.28, while CIBC increased its dividend by 2.5 cents per share to 83 cents.(viii) Scotiabank raised its quarterly dividend to \$1.03 per share from \$1.00 previously, effective July 27, 2022,(ix) and BMO raised its quarterly dividend to \$1.39 per common share from \$1.33 effective August 26, 2022.(x)

In the U.S., the Federal Reserve offered a vote of confidence to the largest U.S. banks following its annual health check. The results of the Fed's annual stress test indicated that the banks have enough capital to weather a severe economic downturn.

According to the Fed, the 34 lenders with more than \$100 billion in assets that it oversees would suffer a combined \$612 billion in losses under a hypothetical severe downturn. However, that would still leave them with roughly twice the amount of capital required under its rules. As a result, large banks such as Morgan Stanley, and Goldman Sachs

(both holdings in the Fund) can use their excess capital to issue dividends and buybacks to shareholders.(xi)

Healthcare

During the first half of 2022, the global health care sector rose up to the new challenges presented by the ongoing COVID-19 pandemic, which continued to dominate health care systems' attention and resources.(xii)

This has resulted in the reshaping of the workforce and as to what, how, and where work is performed; swiftly scaling virtual health services for patients, and forging partnerships to produce and procure the required vaccines, treatments, and supplies.(xiii)

While the S&P 500 and NASDAQ lost substantial ground over the first half of the year, blue chip healthcare stocks were solid gainers. Merck, and biotech king Amgen, were among the top performers in the Dow Jones Industrial Average, while drug supplier McKesson, cystic fibrosis treatment maker Vertex, and big pharma leader Eli Lilly were all winners in the S&P 500. In fact, Bristol-Myers Squibb and Eli Lilly closed the quarter at near all-time highs.(xiv)

The strong gains for healthcare stocks are being driven more by the current economic cycle than the pandemic. Health care stocks often hold up well during tumultuous times. They are perceived to be stable companies that offer products and services people need even during a recession.(xv)

Entertainment

In the first half of 2022, the media & entertainment industry continued to evolve quickly. Not only through reckoning with ongoing trends and disruptions within the industry, but also in its continued response to pandemic-led behavioral changes.(xxvii)

Twitter reported earnings in the first quarter of 2022 at around the same time its board agreed to sell the company to Elon Musk for \$44 billion. During the quarter, Twitter missed revenue estimates, reporting \$1.2 billion versus the \$1.23 billion that analysts were expecting but beat earnings per share estimates at 4 cents compared to 3 cents that was expected. Monthly Daily Active Users (MDAUS) grew to 229 million this quarter compared to an expected 226.9 million.(xxvii)

For its second fiscal quarter, Walt Disney Company reported that revenues for the quarter and six months grew 23% and 29%, respectively. The media giant also reported earnings per share from continuing operations for the six months ended April 2, 2022, increased to \$0.89 from \$0.52 in the prior-year period. "Our strong results in the second quarter, including fantastic performance at our domestic parks and continued growth of our streaming services—with 7.9 million Disney+ subscribers added in the quarter and total subscriptions across all our DTC offerings exceeding 205 million—once again proved that we are in a league of our own," said Bob Chapek, Chief Executive Officer.

Amazon announced its first quarter results highlighting an increase in net sales of 7% to \$116.4 billion, compared with \$108.5 billion in first quarter 2021. During the quarter, Amazon closed its acquisition of MGM, with MGM employees officially joining Prime Video and Amazon Studios. In addition, Amazon announced the general availability of its Amazon Luna cloud gaming service, which offers an expanded lineup of games and new features.(xvi)

Meta Platforms had 3.64 billion monthly active users across its family of applications in the first quarter, up 6% year over year. In addition to its metaverse spending, Meta is investing heavily in the development of artificial intelligence, which can be used to bolster advertising — the source of around 97% of the company's revenue.(xvii)

Technology

At the end of the second quarter, the Nasdaq Composite was down almost 28% since the start of the year, with big tech stocks recording significant losses. Apple, Alphabet, and Microsoft all closed the six-month period down by more than 22% (all holdings in the Fund).(xviii)

T-Mobile, a holding in the Fund, reported mixed first-quarter 2022 results with total revenues increasing by 1.8% year over year, but net income decreasing from \$713 million or 57 cents per share compared to \$933 million or 74 cents per share in the prior-year quarter. The decline was attributed to merger-related costs, but regardless, the telecommunications company beat analyst expectations. (xix)

In an increasingly digital world, the demand for the cloud continued to grow during the first half of the year. According to predictions from Gartner, global spending on cloud services is expected to reach over \$482 billion in 2022, up from \$313 billion in 2020.(xx)

In the meantime, the industry is dynamically evolving to

meet to varying needs of businesses, with hybrid cloud, edge computing, and other cloud computing concepts beginning to take hold. According to Flexera 2022 State of the Cloud Report, the consumption of cloud — whether public, private, or a hybrid approach — continued to expand across all industry verticals and disrupt the ways in which IT provisions, manages, and orchestrates resources.(xxi)

Fintech is also expected to experience strong growth. According to research by Vantage Market Research, the global fintech market was \$112.5 billion in 2021 and is expected to grow to \$332.5 billion by 2028. While North America held the biggest share of the global fintech market, the research states that the Asia Pacific market is expected to witness robust growth on the back of fintech blockchain technology in the commercial sector.(xxii)

Performance Attribution

For the six-month period ended June 30, 2022, the largest contributor to the Fund's performance was Seagen Inc., followed by United Health Group Inc. The largest holding in the Fund by weight was United Health Group Inc, followed by Twitter Inc.

Sources:

- (i) <https://home.kpmg/ca/en/home/insights/2022/06/banking-in-transition-2022-mid-year-results-analysis.html>
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- (iii) <https://www.theglobeandmail.com/business/article-canadian-banks-benefit-from-consumer-spending-rebound/>
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