



## SEMI-ANNUAL 2022 COMMENTARY

# Evolve Enhanced 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.

FACEBOOK

AMAZON

NETFLIX

GOOGLE

MICROSOFT

APPLE



TSX

TECE

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

At the end of first half of 2022, the Nasdaq Composite was down almost 28%, with big tech stocks recording significant losses. Apple, Alphabet, and Microsoft all recorded losses of more than 22%, while Amazon.com was down by 36%, and Facebook's parent Meta Platforms was down by 51%.<sup>(i)</sup>

In June, U.S. FCC commissioner requested Apple and Google to remove TikTok from their app stores over China-related data security concerns. The popular short video app is owned by Chinese company ByteDance, which has come under scrutiny in the U.S. In a letter to the two companies, the commissioner said if the Apple and Alphabet do not remove TikTok from their app stores, they should provide statements to him by July 8 which state "the basis for your company's conclusion that the surreptitious access of private and sensitive U.S. user data by persons located in Beijing, coupled with TikTok's pattern of misleading representations and conduct, does not run afoul of any of your app store policies."<sup>(ii)</sup>

In an interview with CNBC's Jim Kramer, Meta Platforms CEO Mark Zuckerberg said that the metaverse could be a considerable part of the social network operator's business in the second half of the decade. He hopes to attract around a billion people to the metaverse doing hundreds of dollars of commerce, purchasing digital content, and doing different things to express themselves. In addition to its metaverse spending, Meta is investing heavily in the development of artificial intelligence, which can bolster advertising – the source of around 97% of the company's revenue.<sup>(iii)</sup>

Meta Platforms had 3.64 billion monthly active people across its family of applications in the first quarter, up 6% year over year. Meta CEO also announced a slew of monetization updates for Facebook and Instagram, including the news of a revenue-sharing extension. Creators on Facebook and Instagram would not have to share a cut of their revenue with the platforms until 2024. Meta previously said it would hold off on revenue sharing until 2023.<sup>(iv)</sup>

Amazon announced that it is launching a fleet of e-cargo bikes and a team of on-foot delivery staff to replace thousands of van deliveries on London's roads. The online retailer is opening its first "micromobility" hub in East London, which along with an existing fleet of electric vehicles will be expected to contribute to 5 deliveries a year across about a 10th of the capital's ultra-low emission zone postcode districts. The bikes will be operated by a

variety of partner businesses, not directly by Amazon. The company plans more such delivery hubs around the UK this year as part of its efforts to cut its carbon emissions.<sup>(v)</sup>

Apple is launching a new feature for Apple Pay to let users pay for purchases in four installments over time without interest, called Apple Pay Later. It is Apple's take on a buy now, pay later service, built right into Apple Pay and coming with iOS 16.<sup>(vi)</sup> The new features are designed to attract more people to Apple Pay and keep customers locked into the iOS ecosystem.

The iPhone's Wallet app will directly compete with products from other fintech companies such as Affirm and PayPal. Apple will also launch a new payments system that lets users pay someone by tapping their iPhone against theirs. It's a direct competitor to Block's Square.<sup>(vii)</sup>

Over 90% of Apple's products are made in China by contractors but tensions between China's communist government and the US make the company's reliance on China risky, while COVID-19 lockdowns in China have led to supply-chain disruptions. About one-fifth of Apple's global sales are often attributed to China.<sup>(ix)</sup>

In a partnership with Samsung, Microsoft launched its Xbox TV app, allowing owners of Samsung's 2022 smart TVs and monitors to play Xbox games without a game console. Xbox Game Pass Ultimate subscribers will be able to access more than 100 games through Samsung's 2022 smart TVs, streaming through the cloud powered by custom Xbox Series X hardware. The Xbox TV app will work very much like Netflix on TVs and will be available from Samsung's gaming hub.<sup>(viii)</sup>

Netflix reported a loss of 200,000 subscribers during the first quarter. This is the first time the company has reported a subscriber loss in more than a decade. Netflix blamed increased competition, password sharing, inflation and the ongoing Russian invasion of Ukraine for the stagnant subscriber growth. Netflix is forecasting a global paid subscriber loss of 2 million for the second quarter. Netflix previously told shareholders it expected to add 2.5 million net subscribers during the first quarter.

Netflix reported revenue of \$7.87 billion versus analysts forecast of \$7.93 billion in the first quarter for an earnings per share of \$3.53 versus \$2.89, according to a Refinitiv survey of analysts.<sup>(x)</sup>

Google is introducing new options to reject tracking

cookies in Europe after its existing dialog boxes were found to be in violation of EU data laws. Earlier this year, France's data protection agency CNIL fined Google €150 million for deploying confusing language in cookie banners. Previously, Google allowed users to accept all tracking cookies with a single click, but forced people to click through various menus to reject them all. To remedy the situation, Google's new cookie banners give clear, balanced choices: "reject all," "accept all," or "more options."<sup>(xi)</sup>

## Performance Attribution

For the period ending June 30, 2022, Microsoft Corp was the largest contributor to the Fund's performance, followed by Apple Inc. The largest holding by weight in the Fund was Apple Inc., followed by Microsoft Corp.

## Sources:

- (i) <https://www.barrons.com/articles/tech-stocks-second-half-could-be-worse-51656693199?mod=Searchresults>
- (ii) <https://www.cnbc.com/2022/06/29/fcc-commissioner-tells-apple-google-to-remove-tiktok-from-app-stores.html>
- (iii) <https://www.cnbc.com/2022/06/22/mark-zuckerberg-envisions-1-billion-people-in-the-metaverse.html>
- (iv) <https://www.theverge.com/2022/6/21/23176749/meta-instagram-facebook-creators-revenue-policy-reels>
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- (vii) <https://www.cnbc.com/2022/06/07/apple-expands-fintech-ambitions-in-ios-16.html>
- (viii) <https://www.theverge.com/2022/6/9/23159460/microsoft-xbox-tv-app-samsung-2022-tv-xbox-cloud-gaming-streaming>
- (ix) <https://www.cnet.com/news/apple-wants-to-increase-production-outside-of-china-report-says/>
- (x) <https://www.cnbc.com/2022/04/19/netflix-nflx-earnings-q1-2022.html>
- (xi) <https://www.theverge.com/2022/4/21/23035289/google-reject-all-cookie-button-eu-privacy-data-laws>

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