

# 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: Invisioncommunity.co.uk



Market research firm NewZoo.com forecasts that 3.2 billion people around the world will play online games this year and that the video game market is expected reach \$197.0 billion. As more and more

people play mobile video games on phones and tablets, the market is growing approximately five percent annually. Currently, mobile video games are the largest segment.

However, with growing fears of a recession and rising inflation, analysts are questioning whether the video game market will remain resilient or whether it could face headwinds. In addition, as China represents about 20% of the gaming market, the crackdown from the Chinese government on video games licenses has only exacerbated the worries.

That said, many analysts are optimistic. The video game market is already larger than the Hollywood and U.S. sports industry combined, and a massive secular growth trend has begun.

A large number of gamers don't see gaming and esports as discretionary spending, and it's a staple for their social lives. Comparing the current environment to 2008 and 2009, there could be a rebound just like how there was a rebound after the global financial crisis when gaming spending dropped eight percent.<sup>1</sup>



Source: Karnoff/Shutterstock

COMPANY SPECIFIC UPDATES



Source: Frontofficesports.com/roblox

Roblox Corp.

Roblox Corp., an interactive social gaming platform, held by the fund and one of the biggest contributors to the returns, said that its active daily users (ADUs) increased from 47.3 million in the second quarter of the fiscal year 2021 to 52.2 million in the second quarter of the fiscal year 2022. This represents a 10% increase in ADUs.

Furthermore, the company also provided some insights into the third quarter of fiscal year 2022. It said that for July 2022, its daily active users jumped 26% year-over-year to 58.5 million—a record high. Also, bookings for the month spiked between eight and 10% year-over-year in July to between \$243 million and \$247 million.<sup>2</sup>

It's worth noting that parameters like active daily users are critical in measuring the success of a video game or application in the tech industry. A growing active daily users suggests that there's more interaction, which could ultimately lead to higher revenues.



Source: Optc-www.channel.or.jp

Drecom Co Ltd.

Drecom Co., a Tokyo-based gaming company and a recent addition to the fund, said that their revenue in the first quarter of fiscal year ended on July 28th was up 10% year-over-year, amounting to 2.93 billion yen.

Drecom Co. also marked the eighth anniversary of its flagship title ONE PIECE Treasure Cruise in the recent quarter, and the title made a stable contribution to the company's overall earnings.

While there aren't any major releases planned by the company in the second quarter of fiscal year 2022, sales are expected to be stable over the quarter.

For the second half of the fiscal year 2022, Drecom Co. is planning to introduce three new titles and this is expected to increase sales. Furthermore, development of additional features for some of the titles is getting pushed back from the schedule; however, its impact on earnings is expected to be unchanged.<sup>3</sup>

PORTFOLIO STRATEGY AND ACTIVITY

For the month, Roblox Corp. made the largest contribution to the Fund, followed by Electronic Arts Inc. and Take-Two Interactive Software Inc. The largest detractors to performance for the month were Embracer Group Ab. followed by Bilibili Inc. and Netease Inc. On last rebalance, these securities were added to the portfolio: JoyCity Corp., Neptune Co., Drecom Co Ltd., Gumi Inc., and Netronix Inc. By weight, the Fund's largest geographic exposure was to Japan, followed by the United States and Korea.

## PERFORMANCE (%)

TOTAL RETURNS*	1 MTH	3 MTH	6 MTH	YTD	1 YR	2 YR	3YR	SI**
HERO (HEDGED)	-0.73	-14.10	-11.34	-27.38	-28.30	-10.61	6.94	7.31

Source: Bloomberg, as at October 31, 2022.

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

### Sources:

1. Mayers, A., "Looming recession a tailwind for gaming as consumers look for 'cheap' entertainment," The Globe and Mail, October 17, 2022; <https://www.theglobeandmail.com/investing/globe-advisor/advisor-etfs/article-looming-recession-a-tailwind-for-gaming-as-consumers-look-for-cheap/>.
2. "Roblox Stock: Breaking Down Roblox By The Numbers, Here's What Investors Need To Know," Forbes, October 27, 2022; <https://www.forbes.com/sites/qai/2022/10/27/roblox-stock-breaking-down-roblox-by-the-numbers-heres-what-investors-need-to-know/?sh=e9c28571cc61>.
3. "FY 2022 First Quarter Result Apr 2022 - Jun 2022," Drecom Co., July 29, 2022; <https://drecom.co.jp/en/ir/EN%20Drecom%20%283793%29%20Ver.7%201Q%20FY2023%20Earnings%20View.pdf>.

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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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