

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: Adobestock



The gaming industry is growing at a robust pace. In fact, the pandemic has really accelerated growth in the video games industry, and the ripple effects are still being felt. In 2022, the video games industry is

expected to be worth \$170.0 billion—that's five times as much as the global box office.

So far, the biggest game of the year has been *Call of Duty: Modern Warfare II*. It took this game just 10 days to hit sales of \$1.0 billion. Compare that to the highest grossing movie of 2022, *Top Gun: Maverick*—it took the film a whole month to gross \$1.0 billion after being released.¹

That said, the box office and video game industry are still closely linked. Electronic Arts Inc. said recently that it has ironed out a deal to develop three games inspired by characters in the Marvel Cinematic Universe (MCU). This deal gives Electronic Arts access to one of the biggest and well-known entertainment franchises in the world.

It is also a big win for Electronic Arts since Marvel character-based games could bring in new customers who may not be too keen on the company's existing brands like FIFA.

The first video game Electronics Arts is developing will be based on Iron Man. It will be a single-player action-adventure game for PCs and consoles. The company hasn't elaborated much on how it plans to use the Marvel character and it hasn't provided a timetable. However, it will be a video game based on Iron Man's history and original story.²

Beyond everything else, there's a lot of buzz around what's happening with Microsoft Corp.'s acquisition of Activision Blizzard, Inc. It has gotten a lot of attention from regulators. This is Microsoft's biggest acquisition and one of the largest in the video game industry.

Regulators from ¹⁶ territories have probed this takeover by Microsoft. The Federal Trade Commission (FTC) is expected to make a decision about it, while Britain's Competition and Markets Authority (CMA) and the European Commission have looked into this deal in depth.¹

COMPANY SPECIFIC UPDATES



Source: NetEaseGames

NetEase Inc.

NetEase Inc., one of the largest contributors to the fund's return and one of the biggest gaming companies in China, is experiencing a setback as Activision Blizzard will be suspending most of its games in China due to the expiration of licensing agreements with NetEase.

Blizzard said the two parties couldn't reach a deal to renew an agreement. With this, the 14-year deal between the two gaming companies will end and most of Blizzard's titles will stop operating in China.³



PLAYSTUDIOS



Source: Gamesindustry.biz

Playstudios Inc.

Playstudios Inc. is a recent addition to the fund. The company who is the developer and publisher of the playAWARDS loyalty platform and various games, including Tetris, Solitaire, Spider Solitaire, Sudoku, myVEGAS Blackjack, and myVEGAS Bingo, posted strong financial performance for the third quarter of 2022.

Andrew Pascal, CEO of Playstudios said that despite macroeconomic headwinds, the company was able to hold its daily active users (DAU) and monthly active users (MAU) flat compared to the previous quarter.

Furthermore, the company is encouraged by the recent acquisition of Brainium and its portfolio of 10 highly engaging casual games that have close to two million DAU. The company views Brainium as an excellent complement to Playstudios' existing portfolio and an important aspect when it comes to their playAWARDS expansion.⁴

PORTFOLIO STRATEGY AND ACTIVITY

For the month, NetEase Inc. made the largest contribution to the Fund, followed by Nexon Co Ltd. and Krafton Inc. The largest detractors to performance for the month were Embracer Group Ab. followed by Take-Two Interactive Software and Roblox Corp. On last rebalance, these securities were added to the portfolio: Neowiz, Nexon Games Co Ltd., Gamania Digital Entertainment Co Ltd., Digital Bros SpA, Playstudios Inc., and Scisplay Corp.

PERFORMANCE (%)

TOTAL RETURNS*	1 MTH	3 MTH	6 MTH	YTD	1 YR	2 YR	3YR	SI**
HERO (HEDGED)	-0.05	-9.96	-15.56	-27.42	-29.42	-13.74	5.58	7.12

Source: Bloomberg, as at November 30, 2022.

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

Sources:

1. "Microsoft, Activision Blizzard and the future of gaming," The Economist, November 29, 2022; <https://www.economist.com/business/2022/11/29/microsoft-activision-blizzard-and-the-future-of-gaming>.
2. Shaw, L., "Electronic Arts Strikes Three-Game Deal With Marvel," BNN Bloomberg, October 31, 2022; <https://www.bnnbloomberg.ca/electronic-arts-strikes-three-game-deal-with-marvel-1.1839605>.
3. Liao, R., "Blizzard ends 14-year licensing deal with NetEase in China," TechCrunch, November 17, 2022; <https://techcrunch.com/2022/11/16/blizzard-ends-14-year-licensing-deal-with-netease-in-china/>.
4. "PLAYSTUDIOS, Inc. Announces Third Quarter Results," Yahoo! Finance, November 8, 2022; <https://finance.yahoo.com/news/playstudios-inc-announces-third-quarter-211500395.html>.

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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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