ANNUAL 2022 COMMENTARY

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.

ETF TICKERS: BASE (HEDGED); BASE.B (UNHEDGED)

In March of 2022, commodity prices surged on supply fears related to sanctions on Russia as a direct result of the Russia-Ukraine war. In fact, before restrictive measures were imposed on Russia, 4.6% of net assets of this Fund were exposed to a Russian security (MMC Norilsk Nickel PJSC, ADR). The Portfolio Management team made the active decision to dispose of this position before sanctions were implemented in order to avoid any resulting liquidity issues related to the freezing of Russian assets. With Russia being a key exporter of precious metals such as aluminum, nickel, copper, steel, and coal, the prices of these basic materials surged as countries around the world sanctioned Russian exports in an attempt to stifle the country’s economy. However, the Russia-Ukraine war is not the only factor putting pressure on the commodity market, or more specifically, basic materials and metal prices. Record high metals prices during the year, and more specifically battery metal prices, were also driven by supply chain pressures, inflation, and sharp demand growth. All of these factors have had a direct impact on materials and mining companies such as the ones within this Fund, as the index climbed steadily until mid-2022.

Additionally, China’s COVID-Zero policy caused further uncertainty in commodity market demand during the year, as strict lockdowns and business closures have stifled the country’s production. China saw additional challenges in August, when surging summer temperatures led to a power crisis which resulted in curtailed power supply to the industrial sector in Sichuan province, reducing the demand for metals. Similarly, in Europe, the EU faced an unprecedented energy crisis ignited by the Russia-Ukraine war. With supplies of Russian gas critical for heating, industrial process, and power, cut by more than 80% during 2022, wholesale prices of electricity and gas have surged by as much as 15 times since early 2021. These escalating power costs undermined the profitability of several aluminum producers and prompted them to either lower output or suspend operations altogether.

Earnings reports released in 2022 reflected the headwinds that materials and mining companies faced during the year. For example, Alcoa Corporation, another holding in this Fund, reported a net loss of $746 million or $4.17 per share in the third quarter of 2022. Management explained the loss is primarily due to the decline in aluminum and alumina prices, higher energy and raw material costs, and restructuring related charges recorded in the third quarter. Furthermore, Cleveland-Cliffs Inc. reported third quarter net income of $165 million, or $0.29 per diluted share, compared to $1.3 billion, or $2.33 per diluted share during the same period in 2021. Some companies proved to be an exception to this, as DuPont de Nemours beat earnings estimates when they released third quarter earnings of $0.82 per share. They also announced net sales growth of 4% over the quarter and an increase in organic sales of 11% as compared to the same quarter in 2021. RBC Bearings Inc. also reported strong earnings when they released fiscal second quarter results in November, announcing adjusted diluted earnings per share of $1.93 as compared to $1.16 in the same quarter in the prior year. Furthermore, the company reported net sales of $369.2 million, an increase of 129.4% over 2021. Other notable headlines during the year included the announcement made by Rio Tinto, a holding in this Fund, announcing the acquisition of Canadian copper mining company Turquoise Hill Resources for $3.3 billion on September 5, 2022.

Performance Attribution

For the twelve month period ending December 31, 2022, Steel Dynamics Inc. made the biggest contribution to the Fund, followed by Vale S.A. and Reliance Steel & Aluminum Co. By weight, the Fund’s largest holdings were Alcoa Corporation, ArcelorMittal, and BHP Group Limited.
Sources:

7. https://ca.style.yahoo.com/dupont-nemours-dd-beats-q3-121512273.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAErHu0Vhe_JGc-7xBwpxQemdMS--XGa0Yr6jiRHdy9TPV/Wa3exITvumNF42y4lgrLluYgmjo8CYWY9hP4rYh3sUa4T8La49XUsdf18_IT_Lk-sUZXEnEXBlnj3npmKXDALQAqIbdLXxs1F6JXK92YCuLzjCJNf5FKDSm7dh

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