

## Quarterly Update: E-Sports & Gaming

**E-Sports & Gaming: Game over? Even for experienced "gamers" a challenging quarter**



### Summary

- Annual sales of video games decline for the first time in years
- The sector is well protected from the worst effects of a global downturn
- Supply chain issues will continue to weigh on the new consoles. However, these technologies remain a game changer and will have a lasting positive impact on the market.

### Performance Review

	1M	3M	YTD	1Y	Issuance
<b>E-Sport &amp; Gaming</b>	3.3%	-14.1%	-21.3%	-26.9%	-20.4%
<b>MSCI ACWI Net TR</b>	0.1%	-5.9%	-12.8%	-6.8%	5.7%

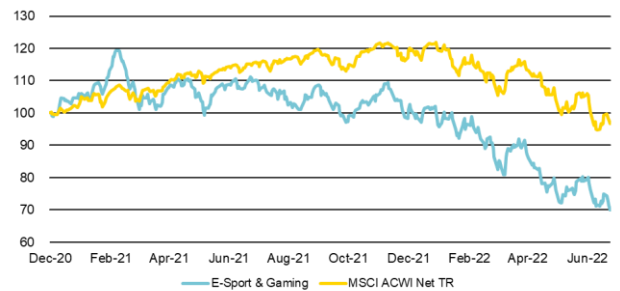
Source: MSCI, Vontobel. The strategy's return may fall as well as rise due to exchange rate fluctuations between currencies. Historical performance is not an indicator of current or future performance.

From a macroeconomic point of view, the second quarter was marked by interest rate hikes in the USA to combat steadily rising inflation at levels not seen for several decades, supply chain problems and China lockdowns. The video gaming industry has not been spared either. According to the market research company Ampere Analysis, annual sales of video games will decline for the first time in years. From 2019 to 2021, the industry grew by around 26% and reached a record volume of USD 191 billion. Video game sales have grown steadily since

2015 and are expected to decline by 1.2% year-on-year in 2022.

Recession fears in Europe and the US also increased during June. The E-Sports & Gaming strategy underperformed the MSCI ACWI in the second quarter due to its heavy reliance on technology stocks.

**Graphic 1: Nettoperformance Vontobel E-Sports & Gaming AMC vs. MSCI ACWI TR Index, in USD**

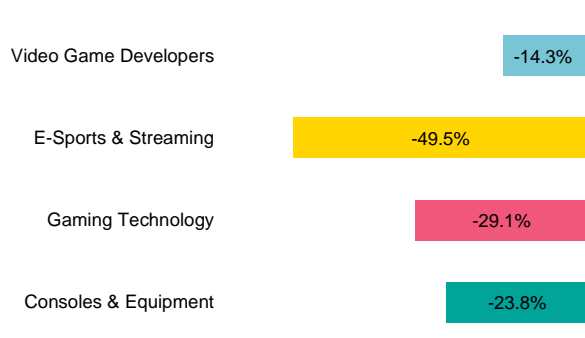


Source: MSCI, Vontobel. The strategy's return may fall as well as rise due to exchange rate fluctuations between currencies. Historical performance is not an indicator of current or future performance.

In terms of sub-themes, the video game developer sector was the best performer at -14.3%. Shares of French video game maker Ubisoft performed well this quarter. As a result of rumours that various private equity firms, including Blacks-tone Inc. and KKR & Co, may be taking a close look at the company and seeking a takeover. Unity Software Inc. was by far the worst performer due to a poor growth forecast and bad data from a major client, based on which the targeting algorithms for

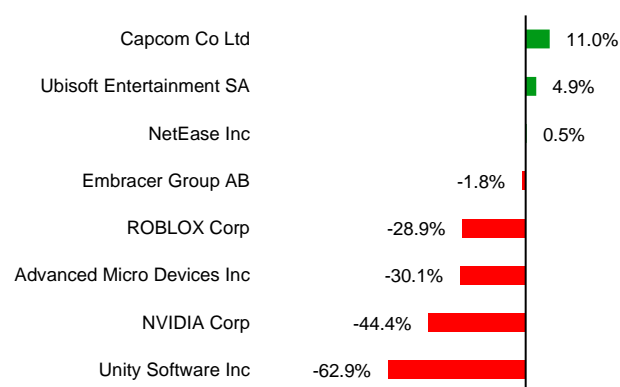
advertising ploy were developed. The value of targeted advertising declined as a result, and advertisers adjusted their marketing budgets accordingly. This quarter it was announced that EA will not renew its partnership with FIFA for the naming rights to its football games. We believe this is positive for EA as it does not materially impact the game, eliminates the USD 150 million per year in royalties and allows for broader brand partnerships.

**Graphic 2: Sub-theme quarterly performance, in USD**



Source: Bloomberg, Vontobel

**Graphic 3: Best / Worst performers of the quarter, in local currency**



Source: Vontobel

**Transactions in Q2 2022**

In the E-Sports & Gaming strategy, we carried out many transactions this quarter. In total, we bought 12 new shares and sold 7 positions. Detailed information on the transactions and the reasons for each transaction can be found in Table 1 at the end of this document.

**Outlook E-Sports & Gaming**

There is no denying that the video game market is not recession-proof. However, games are still very affordable, which means that the sector is well protected from the worst effects of a global downturn as consumers cut back on other spending and spend more time at home.

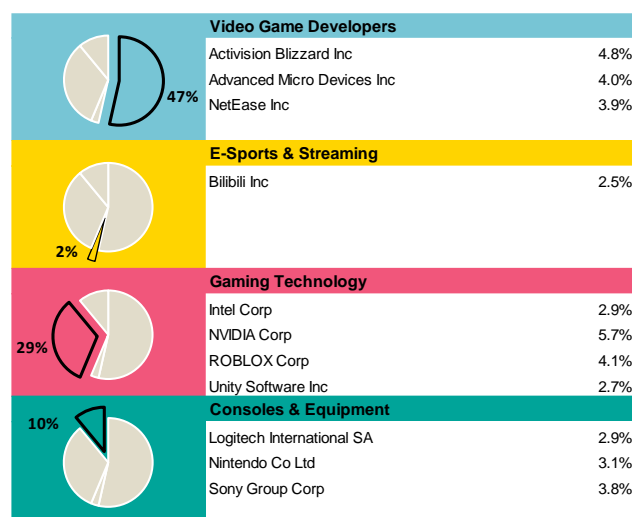
The growth of the new PS5 and Xbox X video game consoles has been negatively impacted by the continued limited availability of console hardware and the delays of numerous AAA titles, many of which have been pushed back to 2023. However, these technologies remain a game changer and will have a lasting positive impact on the entire market. Demand for these new

consoles remains incredibly high and when they are available in a shop, it doesn't take long for them to sell out.

Numerous technology trends are now being exploited by game developers. These are designed to drive innovation and improve gameplay. VR and AR have great potential here and are seen as the beacons of hope in the industry. They can massively improve gameplay with photo-realistic graphics that are almost indistinguishable from real life. VR/AR gaming platforms also allow players to interact with each other and socially in virtual spaces.

The introduction of the fifth generation of mobile communications (5G) will have a positive impact on the metaverse/gaming market. This is mainly because 5G networks will significantly improve the performance and reliability of connected devices.



**Graphic 4: Portfolio excerpt**



Source: Vontobel, data as of 30.06.2022

Strategic Certificate on Vontobel E-Sports & Gaming Index		
Reference Currency	ISIN	Index Fee
CHF	CH0573944482	1.25%
EUR	DE000VP9VJV9	1.25%
USD	CH0573915953	1.25%

Table 1: Transactions in Q2 2022

PURCHASED POSITIONS 	
Bilibili Inc	<ul style="list-style-type: none"> <li>• Its platforms offer a wide array video-based content, including videos, live broadcasting, mobile games, animations and comics</li> <li>• Strong user growth indicates long- term potential intact</li> <li>• Greater monetization of its video platform will likely drive sales growth in the coming 2-3 years.</li> </ul>
Capcom Co Ltd	<ul style="list-style-type: none"> <li>• Gaming developer with strong franchises in a wide range of genres, including Street Fighter, Resident Evil, and Monster Hunter</li> </ul>
Gree Inc	<ul style="list-style-type: none"> <li>• The new “Heaven Burns Red” &amp; “Tensura: ISEKAI Memories” are off to a strong start, and future trends will be watched as an upside factor to earnings</li> <li>• Solid start to the metaverse business</li> </ul>
Intel Corp	<ul style="list-style-type: none"> <li>• Intel is the largest semiconductor maker in the world by revenues. The company is the leading maker of CPUs for the PC and server markets.</li> <li>• The company is increasingly investing in the cloud segment, which will help the growth of data centers.</li> </ul>
ironSource Ltd	<ul style="list-style-type: none"> <li>• It is a key partner for mobile app developers (84% of large customers are gaming) offering mission-critical services for user acquisition, in-app monetization, publishing, and analytics.</li> <li>• Advertising budgets continue shifting rapidly intomobile in-app channel</li> </ul>
Kakao Games Corp	<ul style="list-style-type: none"> <li>• Kakao Games is a South Korean video game publisher and a subsidiary of Kakao. It specializes in developing and publishing games on PC, mobile, and VR platforms.</li> <li>• Building on the success of Odin: Valhalla Rising last year, the company is expected to make an active foray into new businesses related to the metaverse and NFTs</li> </ul>
Kingsoft Corp Ltd	<ul style="list-style-type: none"> <li>• Kingsoft owns a strong game franchise in the JX Online series from its Westhouse game studio.</li> <li>• Gaming business to become a cash-cow; improving fundamentals in Kingsoft Cloud; and secular growth story for WPS on a low paying ratio</li> </ul>
Krafton Inc	<ul style="list-style-type: none"> <li>• Krafton has a unique competitiveness due to the game &lt;PUBG&gt;, which is one of the most representative titles in the global gaming market.</li> <li>• Positive expectations for the game "The Callisto Protocol" in 2H22.</li> </ul>
NCSOFT Corp	<ul style="list-style-type: none"> <li>• Is a South Korean company specialising in the development and distribution of massively multiplayer online role-playing games.</li> <li>• Lineage W (for the tier-2 market), TL (PC/console), and Blade &amp; Soul 2 (Asia) are all slated for release in 4Q22.</li> </ul>
Netmarble Corp	<ul style="list-style-type: none"> <li>• The company's strength lies in the fact that it accounts for more than 80% of overseas sales and has a diverse games portfolio.</li> <li>• The competitiveness and long-term growth potential of Netmarble's blockchain business, supported by the MBX ecosystem, remains intact.</li> </ul>
Pearl Abyss Corp	<ul style="list-style-type: none"> <li>• Crimson Desert is a console-based big new game that has been receiving favorable reviews following the release of several game-related videos. In addition, the metaverse concept based DokeV is slated to be rolled out in 2023.</li> </ul>
Square Enix Holdings Co	<ul style="list-style-type: none"> <li>• Sale of the overseas studios should minimize earnings volatility in the HD game business, a long-standing issue, and lead to improved returns on development</li> <li>• The pipeline is strong from FY2023-2024, and profitability of HD game business is expected to improve significantly.</li> </ul>
SOLD POSITIONS 	
AfreecaTV Co., Ltd.	<ul style="list-style-type: none"> <li>• Pace of growth slowing due to the high base (platform and ad sales were strong in 2Q21) and the domestic economic slowdown</li> <li>• On top of this, a delay in the launch of the firm's live commerce platform service</li> </ul>
Meta Platforms Inc	<ul style="list-style-type: none"> <li>• Privacy changes and Metaverse investments could weigh on near-term revenue growth and profitability</li> <li>• Higher competition in social media (TikTok, etc.)</li> </ul>

NHN Corporation	<ul style="list-style-type: none"> <li>Despite the prospect of increasing sales of web board games in the second half of the year, there is growing uncertainty about earnings, with costs related to subsidiaries also tending to rise.</li> </ul>
Playtika Holding Corp	<ul style="list-style-type: none"> <li>Competition as new forms of entertainment become available and as AAA publishers continue to release mobile versions of key IP</li> <li>Headwinds in the casino games business</li> </ul>
Qualcomm Inc	<ul style="list-style-type: none"> <li>The shift in OEM share at the premium level has reduced Qualcomm's near-term chances of selling integrated chipsets on the Snapdragon platform.</li> </ul>
Sea Ltd	<ul style="list-style-type: none"> <li>In the gaming sector, both the active and paying user base continued to decline, resulting in lower revenues.</li> <li>E-commerce growth loses momentum, but cost efficiencies cushion the decline</li> </ul>
Stillfront Group AB	<ul style="list-style-type: none"> <li>Current negative organic growth and the risk that margin pressure caused by user acquisition will continue to cloud the longer-term upside potential of a turnaround.</li> <li>Large goodwill position and earn out commitments from acquisitions, dependence on key employees in game studios and weak growth in selected parts of game portfolio are some risks</li> </ul>

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