

EQUITY
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Introducing the BlueStar[®] Online Gambling, Video Gaming and eSports Index

Leveling Up Modern Entertainment

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Introduction

As the force of digitization continues to exert its influence across a broad spectrum of sectors, two industries have evolved in unique ways: online gambling and video gaming & eSports. These two emerging segments are creating opportunities for investors while posing complex challenges for regulatory bodies. The blend of entertainment and technology is rapidly attracting a diverse global audience making them hotspots for innovation and investment.

The growth of the online gambling industry is largely attributable to technological innovations that enable immersive, convenient, and personalized experiences. Practices such as in-game betting, gamification, and promotional offers have sparked a shift in the gaming market, blurring the lines between entertainment and gambling. Moreover, online gambling companies are becoming an indispensable component of the sports media industry helping to draw and deepen engagement with a larger audience than ever before. These factors are leading to the widespread adoption of online gambling, with the number of global users expected to amount to 233.70m by 2027.¹

On the other hand, the video game and eSports industry has matured remarkably since its origin, transforming into a significant player in the worldwide multimedia entertainment sector. This evolution has been propelled by swift advancements in technologies related to graphics and user accessibility, enabling these interactive platforms to redefine the way we consume entertainment. Additionally, the incorporation of gambling facets within gaming has not only unlocked novel avenues for revenue generation but also introduced intricate regulatory challenges that must be navigated. Looking forward videogaming and eSports companies will have an important leading role to play in the development of the metaverse, which will broaden revenue sources and use cases of video game platforms.

The amalgamation of online gambling and video gaming is a development that has the potential to reshape the digital entertainment landscape. As we explore the [BlueStar® Global Online Gambling, Video Gaming, and eSports Index \(BVGOG\)](#), we will examine how the drivers behind this convergence may present opportunities in the sector.

¹ Statista. Online Gambling - Worldwide. Retrieved June 29, 2023.
<https://www.statista.com/outlook/dmo/eservices/online-gambling/worldwide>

Industry Growth and Drivers

Online Gambling

Market Growth and Potential

The online gambling industry's growth has been driven by innovations in networking and graphic processing as well as changes in consumer behavior. The widespread use of smartphones and the increasing acceptance of digital payments have set a strong foundation for consistent growth in this sector. With an expected compound annual growth rate (CAGR) of 8.54% from 2023 to 2027, worldwide revenue from online gambling is projected to escalate to USD 131.90 billion over the same period.²

Growth rates of this magnitude are in part attributable to recent developments in legislation and regulation worldwide that have opened previously untapped markets. For instance, the US, which once had stringent laws against online gambling, has seen a shift in the legal landscape with many states legalizing online casinos and sports betting. Changes in the regulatory environment are enabling online gambling websites and applications to capture market share in an industry that was once dominated by physical casinos.

In the US, since the legalization of sports betting and online gambling is primarily determined at the state level, the federal government's role in sports betting is mainly related to setting broad policy frameworks and overseeing specific areas of regulation. In other words, while the parties in power at the federal level do not have direct control over state-level decisions regarding sports betting and online gambling, they can indirectly influence the broader conversation.

As a result of the considerable demand for online gambling and sports betting, US states with legalized online betting markets are raking in substantial tax revenues for local municipalities. This financial windfall could potentially sway federal authorities to reconsider and possibly adjust their stance on regulations. To get a sense of the magnitude of sports betting tax revenues by state, from January to December of 2022, New York brought in about USD 690 million in tax revenue and Illinois realized close to USD 120 million.³ This substantial slice of state tax revenue may encourage other states to legalize online betting and help fund their state-level expenditures.

Sports Betting

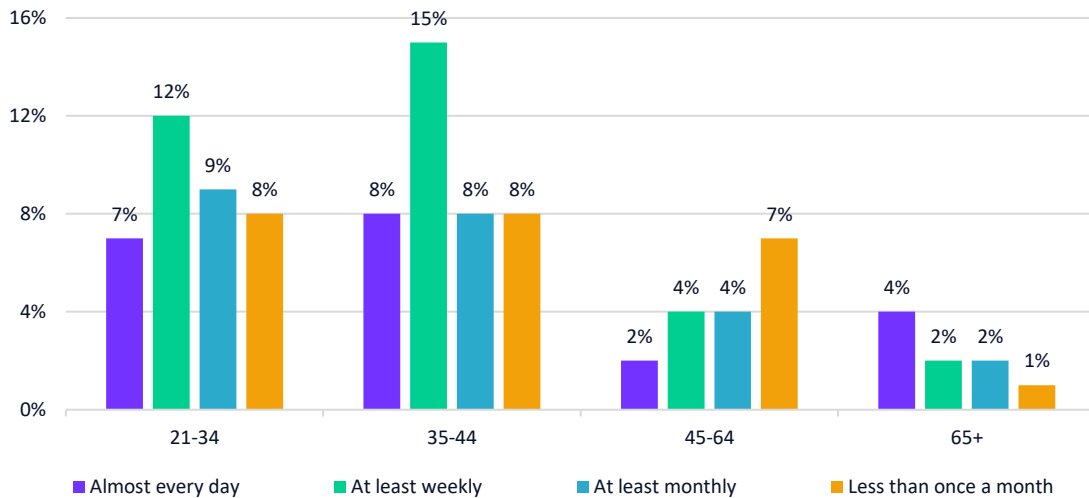
The latest surge in mobile sports betting is the most recent discernible consumer trend in the realm of online gambling. This is unlikely to be a fleeting trend, but an evolution of consumer preferences. The convenience and accessibility of mobile betting applications have altered the way individuals gamble and, as a result, changed the dynamics of the broader industry leading to increased competition and innovation, catering to the demands of the tech-oriented demographic.

² Statista. Online Gambling - Worldwide. Retrieved June 29, 2023.
<https://www.statista.com/outlook/dmo/eservices/online-gambling/worldwide>

³ Legal Sports Report. Sports Betting Revenue. Retrieved June 29, 2023.
<https://www.legalsportsreport.com/sports-betting/revenue/>

As consumer preferences and user-base demographics evolve, the gambling industry will also adapt. As depicted in **Exhibit 1**, younger generations are more likely to partake in online sports betting activities than older generations. Remarkably, 15% of the 35-44 age group said they place sports bets at least weekly.⁴

Exhibit 1: U.S. Sports Betting Participants by Age



Source: Retrieved from Statista. Data as of Dec 2021.

The cause of the high user penetration rate among younger generations can be explained by several leading factors. Drivers of industry growth and adoption include advancements in the fields of payment technology, video streaming qualities, and virtual reality (VR) and augmented reality (AR).

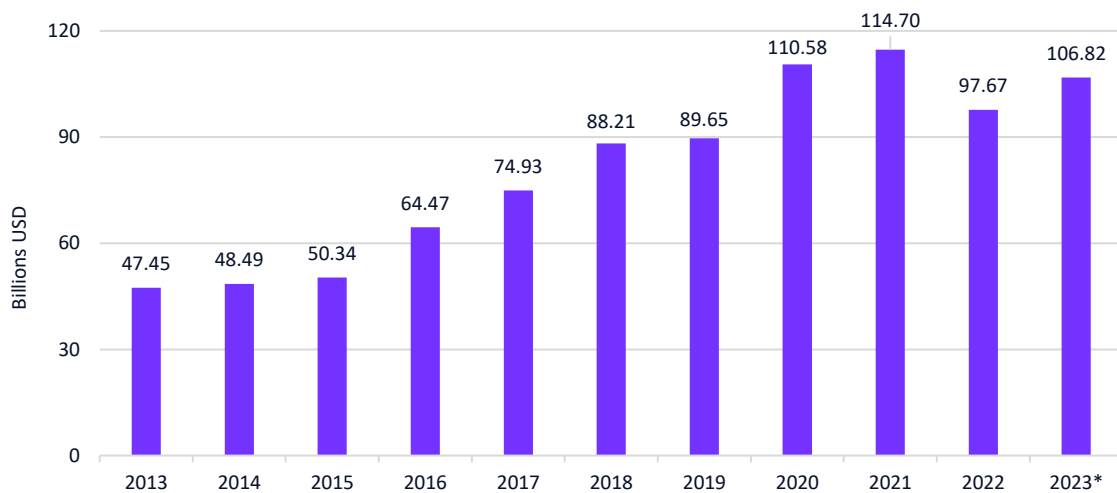
Mobile Technology	The ubiquity and improvement of smartphones have made it possible for users to gamble from anywhere, at any time. Mobile apps from online gambling providers offer an easily accessible platform for users to engage in betting activities, increasing participation rates.
Payment technology	Advancements in digital payment technology have made online transactions faster, safer, and more convenient, which is crucial for the online gambling industry. The adoption of diverse payment methods, including cryptocurrencies, has also widened the accessibility of online gambling platforms.
Video Streaming Quality	Improvements in video streaming quality have greatly enhanced the live dealer games experience, making it more immersive and engaging for players.
Virtual Reality and Augmented Reality	By enabling players to virtually step inside a simulated casino or interact with a digitized betting environment, these technologies can create a truly novel, more engaging, and personalized gaming experience, adding a new dimension to online gambling. The metaverse will be facilitated by progress in haptics and AR, creating additional possibilities for digital entertainment.

⁴ Statista. Share of Adults that Participate in Sports Betting in the US as of Dec. 2021, Retrieved June 29, 2023. <https://www.statista.com/statistics/1105293/sport-gambling-interest-age/>

Video games and eSports

Key industry developments in the video game and eSports industry have laid the foundation for tremendous growth across segments spanning from content streaming to game developers. With the common goal of enhancing consumer satisfaction, participants have invested significantly in technological capabilities, interactive gameplay, and creative content development. The market size of the global video game industry has certainly followed suit, which was estimated to be USD 195.65 billion USD in 2021, bolstered by the rise of eSports, in-game purchases, and virtual economies⁵. As revenue numbers grow, market size tends to follow suit, as demonstrated by **Exhibit 2**.⁶

Exhibit 2: Market Size of the U.S. Video Games Industry from 2013 to 2023



Source: Retrieved from Statista. Data as of January 2023.

The eSports industry has seen major transformations in recent years. The North American eSports market size was estimated to grow by about 12% to USD 387 million in 2021.⁷ Revenue streams also branch from sponsorships/advertising to include media rights, ticket sales, merchandising, in-game purchases, betting, and consumer subscription services. Along the lines, content viewership on eSports streaming platforms is growing, a rising contender for mainstream sports networks.

On a broad level, the video game industry has fostered a vibrant ecosystem that thrives on multiplayer games. This was made possible by leveraging the power and reach of the internet. In essence, developers have created virtual multiplayer-enabled arenas where players around the globe can connect and engage in gameplay. This widespread interconnectivity has significantly enriched the gaming experience, promoting social interaction and competitive spirit among players.

⁵ Grand View Research. Video Game Market Size, Share & Trend Analysis Report. Retrieved June 29, 2023. <https://www.grandviewresearch.com/industry-analysis/video-game-market>

⁶ Statista. Market Size of the Video Games Industry in the United States from 2013-2023. Retrieved June 29, 2023. <https://www.statista.com/statistics/246892/value-of-the-video-game-market-in-the-us/>

⁷ Fortune Business Insights. eSport Market Size. Retrieved June 29, 2023. <https://www.fortunebusinessinsights.com/esports-market-106820>

Video games and eSports alike have become mainstream entertainment options across a range of demographics, enabling a high-volume user penetration given the massive addressable market.

Video gaming companies are also able to leverage franchise games into other media channels. For example, Nintendo was able to bridge the gap between video gaming and cinema with The Super Mario Brothers Movie. Another notable example is Blizzard Entertainment's World of Warcraft series, which has inspired the creation of card games, tabletop games, novels, and comics. This diversification not only enhances brand visibility but also creates additional revenue streams, reinforcing the franchise's popularity and profitability.

Finally, based on the technological advancements already discussed, built in pursuit of a better user experience, video gaming, and eSports companies unexpectedly find themselves at the bleeding edge of emerging technologies like the metaverse. The metaverse refers to a virtual world where digital representations of individuals, businesses, or objects can interact in an unlimited, immersive environment. Roblox, for example, has established itself as a significant player in the evolution of the metaverse, providing a platform where users are engaged in a wide array of interactive experiences, such as purchasing in-game currency known as robux that can be spent on upgrades for avatars or converted to USD at a floating exchange rate. The company's user-generated content model encourages participants to design their virtual worlds, contributing to the development of a continuously expanding virtual universe.

Industry Leaders

Online Gambling

DraftKings is a U.S.-based digital sports entertainment and gaming company that provides users with a platform to engage in mobile sports betting and daily fantasy sports opportunities. It was launched in 2012 and quickly became a prominent name in the daily fantasy sports industry. According to a 2021 poll, 61% of U.S. adults who said they bet on sports reported using DraftKings as a sportsbook, while 78% said they are familiar with it.⁸

At its core, DraftKings operates online sportsbooks in several U.S. states that have legalized online sports betting. They are known for their innovative approach to digital sports, a robust mobile app, and partnerships with major sports leagues and media companies. One of the major drivers of growth is the ease in regulatory restrictions as more U.S. states legalize online sports betting and gambling.

⁸ Morning Consult, For U.S. Sports Bettors, It's FanDuel and DraftKings – and Then Everyone Else Retrieved June 29, 2023. <https://morningconsult.com/2022/01/20/sports-betting-brands-usage-fanduel-draftkings/>

The company has rapidly expanded its product offerings, allowing users to bet on individual player and team performances in five major American sports (MLB, NHL, NFL, NBA, and PGA), Premier League and UEFA Champions League soccer, NASCAR auto racing, Canadian Football League, the XFL, and Mixed Martial Arts (MMA). Users can also enter daily and weekly fantasy sports-related contests.

Although they are not the only sportsbook in the market to offer these services, the company is a leading player in the industry, with a distinctively “sticky” user base. The platform achieves this by encouraging social interaction, where users can compete against friends, track celebrity bets, and offer other social aspects that encourage continued use. In doing so, they have gamified sports betting by integrating elements, typically found in games, that make the betting process more engaging and gratifying. For example, they offer rewards and achievement programs, as well as rankings and leaderboards. Through these features, they turn what could be a simple transaction into an interactive experience that keeps users coming back.

Evolution Gaming Group is a leading provider of live casino solutions in the online gambling industry. Founded in 2006 and headquartered in Sweden, the company has revolutionized the live dealer casino market.

Evolution Gaming operates by setting up live casino studios where professional dealers host games that are streamed in real-time to players around the world. Their extensive portfolio includes a broad array of popular casino games such as Blackjack, Roulette, Baccarat, and Poker, as well as unique proprietary games.

These live dealer games aim to replicate the experience of being at a physical casino, blending the convenience of online gaming with the atmosphere and social interaction of a traditional casino. Through high-quality video streaming, players can place bets and interact with dealers from the comfort of their own homes.

Evolution Gaming continues to be a key player in the online gambling industry, providing services to many of the world's most successful online casino operators. One of their most interesting product offerings is the 3D MONOPOLY Live online variant of the familiar Hasbro board game. By intertwining elements of augmented reality, online gambling, and nostalgic board games, Evolution Gaming is redefining industry boundaries.

Video games and eSports

Activision Blizzard is a prominent video game and entertainment company that develops and distributes content and services on various gaming platforms including consoles, personal computers (PC), and mobile devices. The company was founded in 2008 through the merger of Activision, one of the largest console video game publishers, and Blizzard Entertainment, a leading PC game publisher. Some of the group's most successful franchises include Call of Duty, World of Warcraft, Overwatch, StarCraft, and Candy Crush Saga.

Activision Blizzard has played a significant role in the growth of the eSports industry. The company established the Overwatch League and the Call of Duty League, both of which are professional eSports leagues that follow a city-based franchise model similar to traditional sports. These leagues feature teams from across the globe and host high-stakes tournaments.

Activision Blizzard's eSports division also manages Major League Gaming, a leading eSports organization that operates MLG.tv, a streaming platform for broadcasting eSports events. Through these endeavors, Activision Blizzard has significantly contributed to the mainstream recognition and commercial success of eSports.

Ubisoft is a leading international video game development and publishing company headquartered in France. Founded in 1986, the company has made a significant mark in the gaming industry with a diverse portfolio of acclaimed and successful game franchises. Some of the well-known franchises developed by Ubisoft include Assassin's Creed, Far Cry, Just Dance, and Tom Clancy's Rainbow Six among others. These games span a wide variety of genres, catering to different player preferences and demographics.

Ubisoft operates through a network of studios across the globe, with games available on several platforms, including consoles, PCs, and mobile devices. They're known for having immersive gameplay, rich narratives, and innovative design. Ubisoft has a track record of being at the forefront of leveraging new technologies. For instance, they were one of the first major publishers to explore virtual reality (VR) gaming, with titles like "Eagle Flight" and "Star Trek: Bridge Crew". They're also involved in cloud gaming and are exploring the possibilities of AI and machine learning in game development. For example, Ubisoft announced plans to integrate generative AI dialogue into non-playable characters (NPCs) that they coin a "Ghostwriter" tool.

In terms of eSports, Ubisoft has made strides with games like Tom Clancy's Rainbow Six Siege, which has gained popularity in the competitive gaming scene. The game has a professional eSports league that hosts regional and international competitions, with teams competing for substantial prize pools. Ubisoft continues to support and grow its eSports community by hosting regular tournaments.

Holdings and Performance

As of the Q2 2023 review, the BlueStar® Global Online Gambling, Video Gaming, and eSports Index contain 50 components across 20 countries. Companies incorporated in the United States accounted for 28.56% of the weight. **Exhibit 3** contains the top 15 holdings with the last quarterly rebalanced weight.

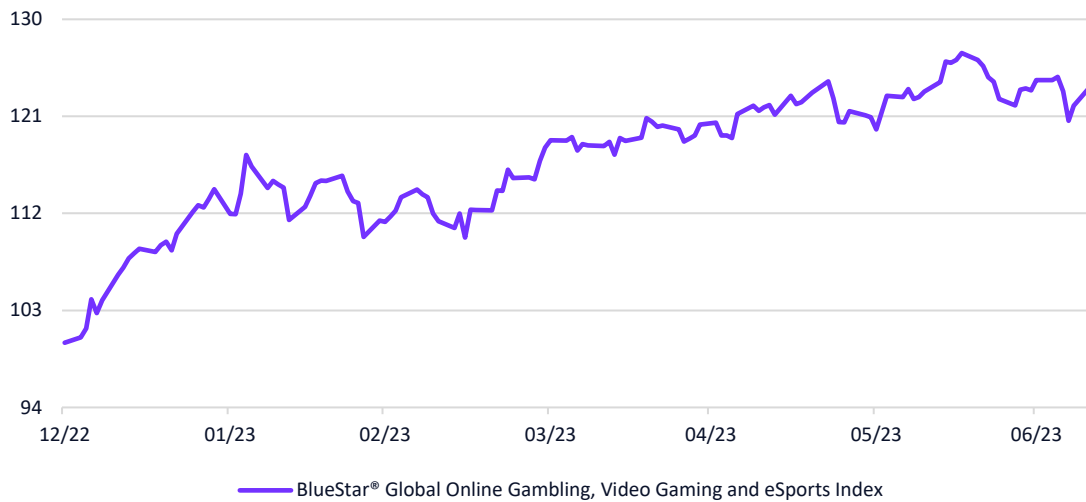
Exhibit 3: Top 15 Holdings as of Q2 2023

Name	Country	Weight	Subtheme
TENCENT HOLDINGS LTD	CAYMAN ISLANDS	8.00%	Video Gaming and eSports
FLUTTER ENTERTAINMENT PLC	IRELAND	8.00%	Online Gambling
EVOLUTION AB	SWEDEN	8.00%	Online Gambling
DRAFTKINGS INC	UNITED STATES	7.53%	Online Gambling
ENTAIN PLC	ISLE OF MAN	4.74%	Online Gambling
LA FRANCAISE DES JEUX SAEM	FRANCE	3.59%	Online Gambling
NVIDIA CORP	UNITED STATES	3.00%	Video Gaming and eSports
ADVANCED MICRODEVICES	UNITED STATES	3.00%	Video Gaming and eSports
ACTIVISION BLIZZARD INC	UNITED STATES	2.93%	Video Gaming and eSports
NINTENDO CO LTD	JAPAN	2.40%	Video Gaming and eSports
NETEASE INC-ADR	CAYMAN ISLANDS	2.37%	Video Gaming and eSports
ELECTRONIC ARTS INC	UNITED STATES	2.13%	Video Gaming and eSports
PLAYTECH PLC	ISLE OF MAN	2.06%	Online Gambling
SEA LTD	CAYMAN ISLANDS	1.83%	Video Gaming and eSports
KINDRED GROUP PLC	MALTA	1.75%	Online Gambling

Source: MarketVector, Data as of the Q2 2023 review.

Depicted in **Exhibit 4** is the year-to-date performance as of June 10, 2023, of the **BlueStar® Global Online Gambling, Video Gaming, and eSports Index**, indexed to 100 on the close of December 30th, 2022. The index is up 23.7% during this time frame. Additionally, the rolling 1 year annualized standard deviation is shown in **Exhibit 5**, using monthly data since inception.

Exhibit 4: BVGOGTR YTD Performance



Source: MarketVector. Data as of July 10, 2023. Values indexed to 100 on December 30, 2022.

Exhibit 5: BVGOGTR Rolling 1-Year Annualized Monthly Standard Deviation



Source: MarketVector. Data as of July 10, 2023.

Conclusion

The online gambling, video game, and eSports industries represent dynamic sectors that are continually evolving, driven by technological advancements, consumer trends, and regulatory developments. These sectors have demonstrated remarkable growth, offering unique and immersive experiences that attract a diverse range of participants worldwide.

The eSports industry has seen an expansion of professional leagues, tournaments, and streaming platforms attract millions of viewers and significant investment. This has not only legitimized eSports as a form of mainstream entertainment but has also opened new opportunities for revenue generation. Simultaneously, the video game industry has fostered a vibrant ecosystem that thrives on multiplayer games made possible through the deployment of the internet.

On the other hand, the online gambling industry experienced a significant shift towards mobile platforms and has embraced the rise of sports betting and live dealer games. Companies like DraftKings and Evolution Gaming have capitalized on these trends to deliver engaging and convenient social experiences, cementing their positions in this competitive landscape. Even today, a significant portion of bets are being placed with illegal bookmakers, which could eventually shift to a regulated and liquid marketplace.

These industries are poised to continue innovating and intersecting in new and exciting ways. As they do, stakeholders will need to navigate challenges related to regulation, technology, and consumer expectations. The potential rewards are significant: the opportunity to shape the future of entertainment and to create engaging experiences for millions of people around the world.

IMPORTANT DEFINITIONS AND DISCLOSURES

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