



STOCKTRADES ETF SUMMARY

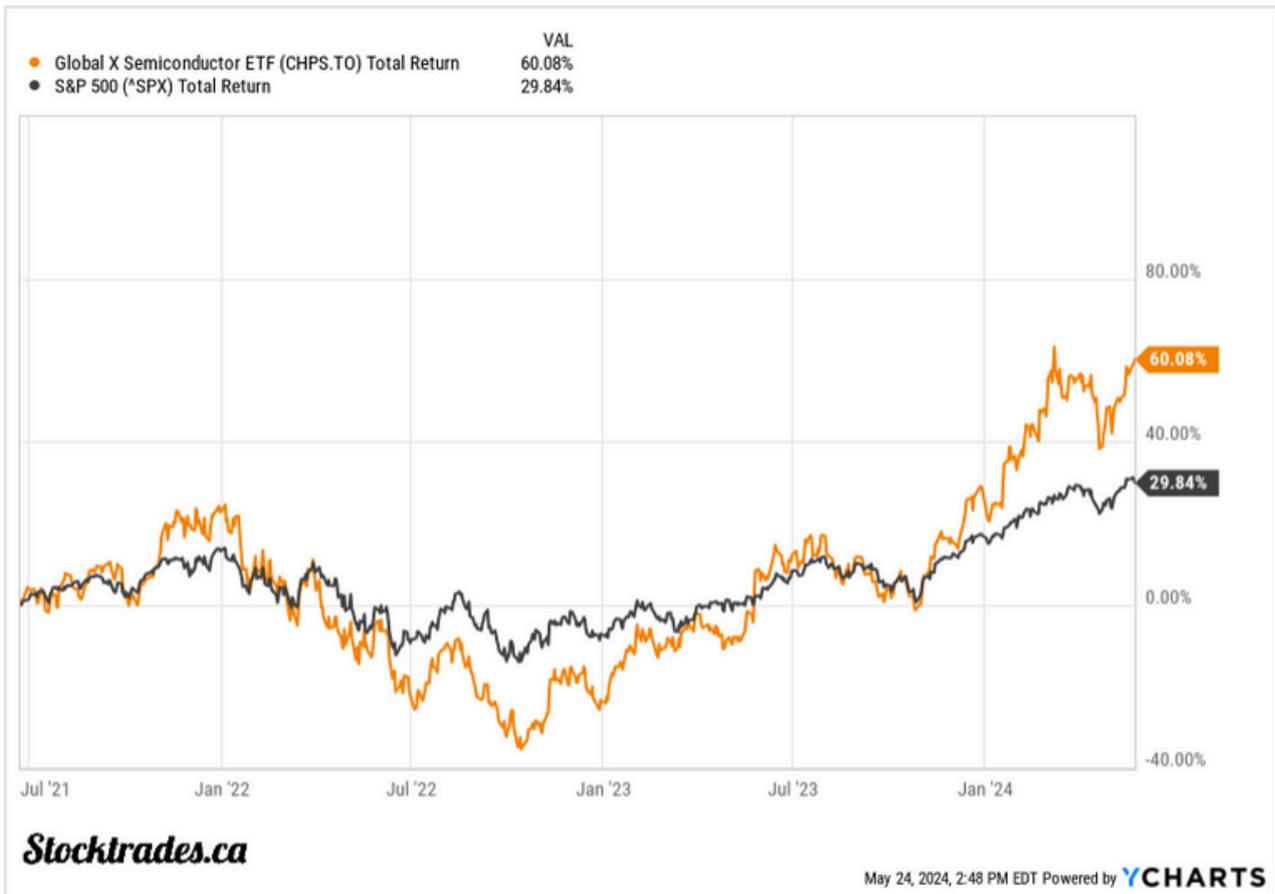
CHPS.TO

**GLOBAL X SEMICONDUCTOR
ETF**

UPDATED JUNE 8, 2024

WWW.STOCKTRADES.CA

Stocktrades ETF Insights



Performance (CAGR)	17.48%	★★★★★
Fees (MER)	0.65%	★★
Volatility (Beta)	N/A	N/A
Distribution (Yield)	0.42%	★
Valuation (Forward P/E)	26.36	★★
5 Year Earnings Growth	14.67%	★★★★★

Performance: The fund's 10-year annualized returns, or all-time annualized returns if the fund is less than 10 years old.

Fees: The fund's total fees, including the trading expense ratio. A lower star rating means higher fees. However, a high-fee fund could have a high fee rating if its performance has justified the fees.

Volatility: The historical volatility you can expect from the fund. A lower star rating means more volatile. We base this on a combination of the beta and max drawdown of the fund.

Distribution: The yield of the fund. A more tax-efficient ETF will get bonus stars.

Valuation: The overall valuation of the companies inside of the fund.

5 Year Earnings Growth: The expected earnings growth of the fund annualized over the next 5 years. A lower star rating means lower expected growth.

PROS

- One of the only Canadian-traded semiconductor ETFs on the index, allowing Canadian investors to keep their currency in CAD
- A strong mix of both U.S. and international semiconductor exposure
- Although fees are high, they've been relatively worth the performance
- The fund is hedged, allowing investors to avoid currency fluctuations. Depending on your situation, this can be a pro or a con

CONS

- Valuations are high. I would deem the AI space to be “priced to perfection,” meaning that earnings and revenue must grow inline or even above expectations or else we will see multiple contraction
- There are much cheaper alternatives south of the border when it comes to fees. However, this does require an exchange of currencies and opens investors up to foreign exchange fluctuations impacting returns

OBJECTIVE AND STRATEGY OF THIS ETF

The Global X Semiconductor ETF is a fund that aims to give investors global exposure to companies specializing in semiconductors and semiconductor equipment. Unlike many U.S.-based ETFs, this fund aims to track the global markets rather than just the United States market.

Because of this, U.S. allocations sit at just over 60% at the time of update. If we look to a U.S.-based semiconductor ETF like SOXX, this allocation sits above 80%. So, it is important to understand that you are getting a lot more global exposure with this fund, primarily in developed European markets and Taiwan.

The fund tracks the Solactive Capped Global Semiconductor Index. This index requires a minimum market capitalization of \$1B and a minimum of \$1M daily in trading volume. The fund can contain a maximum of 50 securities. If there are not more than 50 securities that meet its criteria, it will simply hold less.

The fund's capped nature means that a single holding cannot make up more than 10%. There will be times during pricing runups when it exceeds this rule; however, when it rebalances, it will sell off holdings and add to others to level out.

The fund is an ex-China fund, meaning it will not hold securities primarily listed on

Chinese exchanges. It is also a hedged fund, meaning you won't be exposed to currency fluctuations between the CAD and USD.

RISKS OF THIS ETF

One of the largest risks of this fund is valuation. I would view many semiconductor plays as “priced to perfection,” meaning the companies must continue to fire on all cylinders and likely exceed analyst expectations to keep valuations at current levels.

If they were to falter or show slowing growth, we would no doubt see multiple contraction, meaning the price-to-earnings ratios the market is willing to pay for these semiconductor companies would lower, ultimately lowering the price of CHPS. Many of the companies inside of CHPS are

Sector Risk	HIGH
Concentration Risk	LOW
Geographical Risk	HIGH
Liquidity Risk	LOW

trading at valuation multiples that require an extensive amount of growth, and there is not much margin of safety, if any. Although exposure to the sector is sought after for many due to the explosive growth potential, it is important to take a level-headed approach and realize the downside that is possible.

The fund will also rely on not only the U.S. semiconductor market but also the global markets to drive growth. There are particular regulatory risks that come with this, as investing in markets outside of North America does present a some added uncertainty.

HOLDINGS

Top Ten Holdings	Allocation
NVIDIA (NVDA)	11.97%
Taiwan Semiconductor (TSMWF)	11.12%
Broadcom (AVGO)	10.05%
ASML Holdings (ASML)	8.94%
Advanced Micro Devices (AMD)	6.46%
Qualcomm (QCOM)	4.17%
Applied Materials (AMAT)	4.05%
Texas Instruments (TXN)	3.25%
Intel (INTC)	3.15%
Micron Technology (MU)	3.15%

Although this is a global fund with anywhere from 30-40% exposure to international markets, we can see that it still heavily relies on the United States in its top 10 holdings. Taiwan Semiconductor is the only major international company inside the top 10, and most international holdings are near the bottom end of the fund in terms of allocation.

Although it has 50 holdings, the fund is relatively top-heavy, with the top 4 holdings making up over 42% of its assets. Make no mistake, this is a bigger play on the major semiconductor and AI companies at this point, with Taiwan Semiconductor, NVIDIA, Broadcom, and ASML Holdings.

A lot of these stocks are currently sitting at all-time highs in terms of allocations. There is no doubt they will need to put up outstanding results over the short to medium term to sustain these valuations. If they don't, the fund could undergo significant volatility. However, this wouldn't really be unique to CHPS, it would be most all semiconductor ETFs.

The holdings inside this fund give investors a nice mix and diversification across the industry. If a single company were to struggle, it likely wouldn't impact the overall portfolio all that much. However, don't get the idea that these holdings won't be extremely volatile. This is a fund that is best held by investors with a long time horizon and an appetite for risk.

COMPETING FUNDS



	CHPS	SOXX	SMH
Returns			✓
Diversification	✓		
Fees		✓	
Tax Efficiency		✓	
Distribution	✓		

If you look to the returns above, SMH is clearly the best option. However, what is important to note about these funds is that SMH is a much more concentrated play in two companies in particular, NVIDIA and Taiwan Semiconductor. At the time of update, the two stocks make up over 34% of SMH's entire assets. So, the outsized performance of NVIDIA and to a lesser extent Taiwan Semiconductor have driven most of its returns.

This could continue in the future, and SMH could continue to be the better performer, but there is no doubt the opposite could also happen. If these two companies recede in terms of performance, SMH will be impacted much more than something like CHPS.

If you're looking to grab the most tax-efficient fund and the one with the lowest fees, you'll likely want to head to SOXX. CHPS's fees are significantly higher, and ultimately its higher fees haven't been made up for by stronger performance.

However, owning SOXX does have the added step of needing to swap currencies from CAD to USD. This may be a deal-breaker for some Canadians for two reasons. For one, we're more comfortable with our home currencies, and secondly, there are fees that come with currency conversion. The one thing I will say about this is that if these two funds performed in line prior to ETF fees, it would only take about 3 years of holding CHPS to pay the same amount in fees as you would to transfer money to USD via Wealthsimple Trade.

So, yes, there are currency fluctuations that investors could be exposed to, but Canadian funds typically charge more of a premium in terms of fees to keep your money in CAD. One must weigh all the options.

Currency aside, one may choose to own CHPS over SOXX if they are bullish on the global semiconductor space rather than a pure-play United States fund like SOXX is.

I do like the international diversity the fund offers, but it is hard to deny that the mega-cap U.S. names have the infrastructure and cash flows to expand rapidly. Ultimately, the choice is up to each individual investor, depending on their unique situation.

DISTRIBUTION ANALYSIS

CHPS pays a sub-0.5% distribution. So, if you're looking for a fund that generates income, this likely isn't for you. Remember that because this is a Canadian fund that owns U.S. stocks, even if you tax-shelter this in an RRSP, you will be exposed to withholding tax on the dividend portion of the distribution. The distribution is small, but I figured I'd mention the withholding tax anyway.

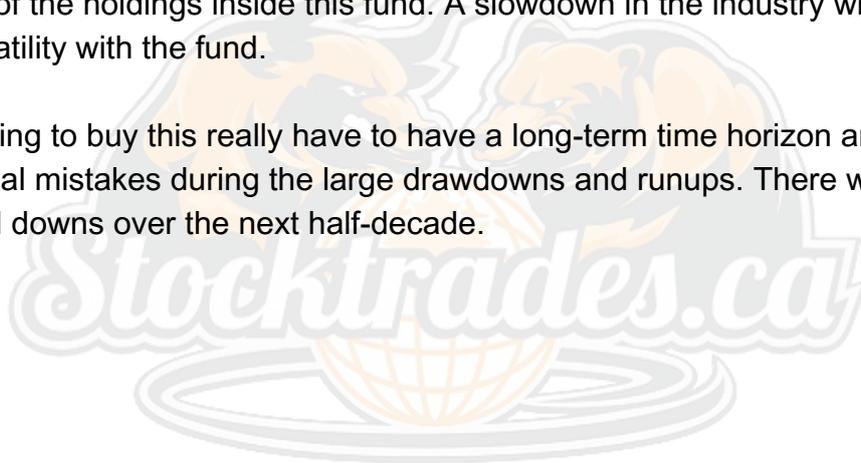
OUR OVERALL OPINION

If you're looking for a U.S. play on the semiconductor sector, I view SOXX as the better play. However, if you don't want to hyper-focus on the United States and instead want to take advantage of the global space, I believe CHPS is about the best option you're going to get in Canada.

The fund is top-heavy but does contain 50 holdings. This allows investors to benefit from the success of the mega-cap companies like NVIDIA, Broadcom, and Taiwan Semiconductor while taking on a bit more risk to hold large-cap international players that potentially have more upside as they are generally cheaper, being somewhat out of the spotlight.

Regardless of the exposure the fund holds, one thing is certain: the AI/semiconductor space needs to continue growing at a rapid pace to be able to justify the valuations of practically all of the holdings inside this fund. A slowdown in the industry will result in significant volatility with the fund.

Investors looking to buy this really have to have a long-term time horizon and the ability to avoid emotional mistakes during the large drawdowns and runups. There will no doubt be many ups and downs over the next half-decade.



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