



STOCKTRADES ETF SUMMARY

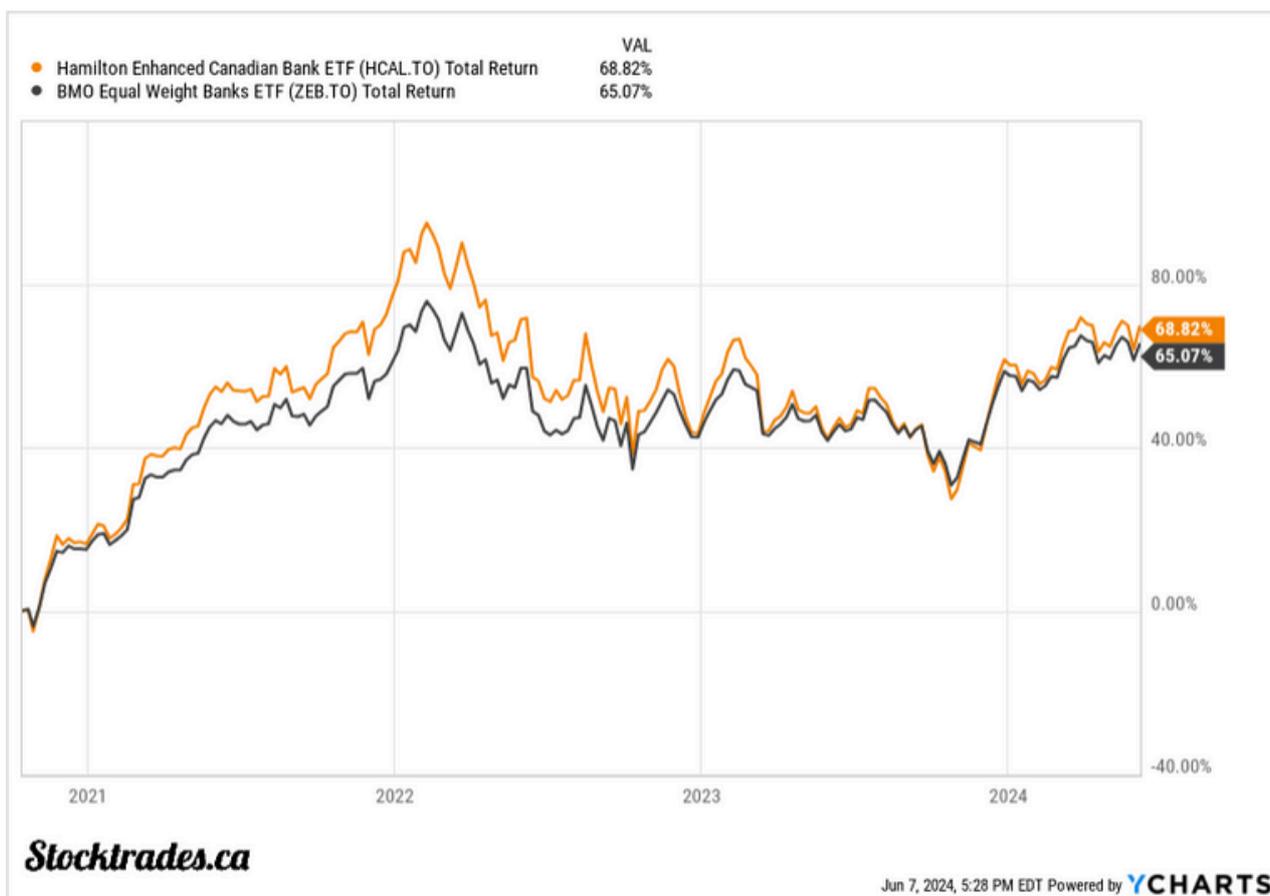
HCAL.TO

HAMILTON ENHANCED CANADIAN BANK ETF

UPDATED JUNE 7, 2024

WWW.STOCKTRADES.CA

Stocktrades ETF Insights



Performance (CAGR)	4.08%	★★
Fees (MER)	2.16%	★★
Volatility (Beta)	N/A	
Distribution (Yield)	7.2%	★★★★★
Valuation (Forward P/E)	10.50	★★★★★
5 Year Earnings Growth	6.8%	★★★

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

- Exposure to the six largest banks in Canada, with a leveraged component for those who are comfortable. The leverage allows the fund to generate high yields
- Fees seem extremely high, however this is due to the leverage component. This is cheaper than retail investors would get leveraged exposure for
- Rate declines could be the start of a pickup in economic activity in Canada, which will ultimately benefit the banks

CONS

- Canadian banks have had a rough go over the last few years, particularly a few weaker ones like Bank of Nova Scotia. This fund owns all of them, and doesn't allow you to isolate the ones you don't want
- Leverage is risky, and not for everyone. It is important you understand if it is within your risk tolerance before buying
- No exposure to challenger or alternative banks like Equitable Bank or Goeasy Ltd.

OBJECTIVE AND STRATEGY OF THIS ETF

HCAL is a Canadian bank ETF from Hamilton that aims to provide investors exposure to the Big 6 banks while introducing a leveraged component to the fund that will not only amplify its returns in a bull market, but increase the amount of income the fund can generate for its holders.

Let me make one thing clear: Although leverage amplifies returns, it also amplifies losses. HCAL utilizes 25% leverage, meaning for every \$100,000 in assets under management, it will take \$25,000 in leverage. If you have a low tolerance for risk, leveraged funds are likely not going to be something you want to look at.

I am usually not a fan of leveraged funds. However, the bigger banks are generally lower volatility and as such, this is one fund that I would personally be comfortable owning, but is ultimately one you need to figure out if you are comfortable owning yourself.

The fund simply owns its own ETF in the Hamilton Canadian Bank Equal Weight Index (TSE:HEB), which is the lowest-fee Big Bank ETF on the market today.

It aims to not only utilize this leverage to boost returns during a bull market, but also uses it to be able to generate higher distributions for its shareholders. The fund typically yields anywhere from 7.5%-8%, much higher than a traditional banking ETF. However, we'll discuss that more in the distribution section.

RISKS OF THIS ETF

First, I'll speak on the particular risks associated with this fund specifically. From there, I'll tackle some risks of the banks. First, this fund is a leveraged fund. When one simply buys a holding with capital available, they are exposed to the price movements of that fund on a 1:1 basis. If the fund gains 2%, you will gain 2%; when it loses 2%, you will lose 2%.

However, when we start to introduce leverage, returns and losses are amplified. In the case of HCAL, because it utilizes 25% leverage, when the underlying holdings of HCAL gain 1%, it will gain 1.25%, and vice versa. This will result in higher volatility. Gains will be more

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

pronounced and losses will be larger than if you simply held the underlying holdings on a 1:1 basis. The added element of risk in terms of leverage is the idea that the banks are highly leveraged themselves. In a way, we're adding leverage to a company that already utilizes a high amount of leverage in the form of fractional banking.

When we look at the risks from a holdings perspective, this fund is highly concentrated in the Big 6 Banks. Its success, or lack thereof, will be directly related to the success of Canada's 6 largest financial institutions. Although they have generally posted strong returns historically, there is no guarantee they'll be able to do so going forward.

Although many of these institutions have international exposure, they are still heavily exposed to the Canadian economy. If we were to continue to struggle here in Canada, we could see flat or declining prices in terms of Canadian bank stocks. In the case of flat movement, leverage costs will eat away at returns, and in the case of declining prices, the leverage will amplify the losses.

HOLDINGS

Top Ten Holdings	Allocation
Hamilton Canadian Bank Equal Weight ETF (HEB)	125.3%

The holdings of HCAL are relatively simple, they just hold the Hamilton Canadian Bank Equal Weight ETF. This is Hamilton's main competition to something like ZEB, which would be the BMO Banking ETF. It contains 6 holdings, all equal weight, and those 6 holdings are simply the 6 largest institutions in Canada.

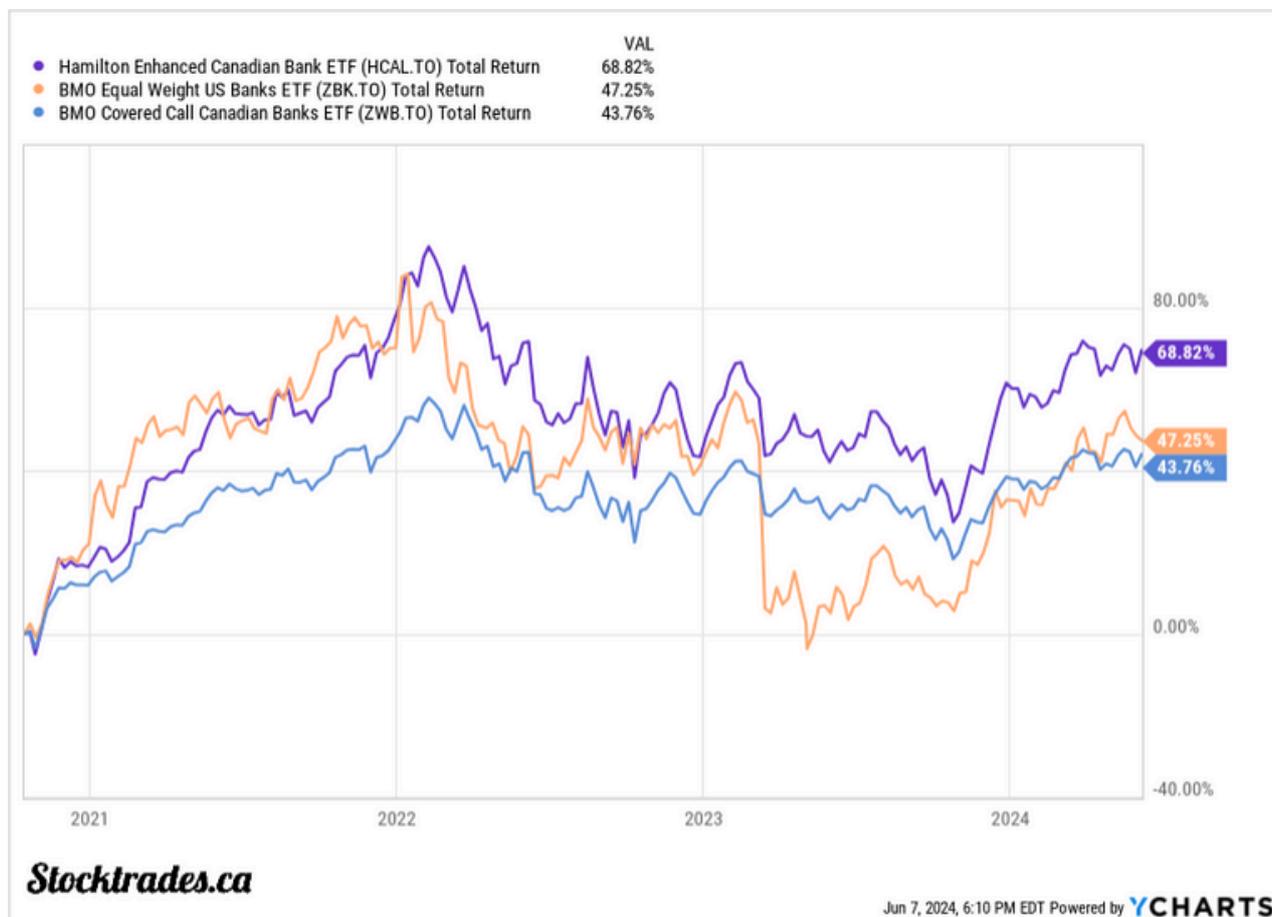
One of the main knocks I have on the holdings in a Big Bank ETF is the fact it holds two institutions I'm not a huge fan of, that being Scotiabank and Canadian Imperial Bank of Commerce. For Scotia, it has primarily been some operational issues the company has been caught up in for years now, and with CIBC, it is mainly the heavy Canadian exposure.

Overall though, for someone who simply wants a set and forget holding for the Big 6 banks, it's not a bad makeup.

You'll notice that the top holding makes up 125% of the total portfolio. This is the leveraged component of this fund.

Overall, there isn't much to discuss in this regard. It holds Canada's Big 6 Banks, National, CIBC, TD, BMO, Royal Bank, and Scotiabank, and it holds equal weight positions in all of them.

COMPETING FUNDS



	HCAL	ZBK	ZWB
Returns	✓		
Diversification	✓	✓	✓
Fees		✓	
Tax Efficiency		✓	
Distribution	✓		

It is hard to compare HCAL to a lot of funds, as it is truly one of a kind. There are no other Canadian banking ETFs that utilize leverage. So, I compared a popular Canadian equal-weight banking ETF in BMO's ZBK and then another income-based banking ETF in BMO's Covered Call Banking ETF in ZWB.

Although I gave ZBK the checkmark when it comes to fees, ultimately HCAL's fees up to this point have been more than worth it. We have to understand as well that the bulk of HCAL's fees are coming from the leveraged element and the costs associated with that leverage. Hamilton is going to be able to utilize cheaper leverage than practically all retail

investors, so this fee in a way is a money saver if you're looking to grab the leverage yourself.

In terms of returns, we can clearly see where HCAL started to outperforming, and it was during the bank bull run in 2021. From there, it started to give up some of its outperformance during the drawdown but has since regained it during the runup in late 2023.

For ZWB, the performance has significantly lagged, primarily due to the covered call nature of the fund. Which, is primarily why when I note all income funds are not the same, this is what I mean. Although they yield the same, the performance hasn't been close at all.

DISTRIBUTION ANALYSIS

HCAL's distribution is going to vary wildly in terms of what it is made up of. For example, in 2021, the majority of the distribution was via capital gains due to the run-ups in the banks. In 2023, however, it needed to pay the vast majority of it back as return of capital, likely due to flatter prices.

Overall, you're going to get a mid-7% yielding fund that is relatively tax-friendly but is also going to be one that is going to vary in tax impacts on a year-to-year basis. During banking bull runs, you are likely going to realize a lot of capital gains, whereas during slower times, you may see more return of capital.

It is one of the highest yielding and best performing banking ETFs on the Canadian markets today, there is no doubt about that.

OUR OVERALL OPINION

For the most part, I would advocate people avoid leverage personally. However, with Hamilton doing the work for you and likely getting a better interest rate in the process, I don't see this as a bad option for those who are comfortable holding a leveraged fund, but again, you must be comfortable with the leverage.

The leveraged component allows the fund to generate more income for shareholders, and income that is relatively tax-friendly at that. You'll collect the eligible dividends from the banks, along with amplified capital gains in the event there is a banking bull run.

During downturns in terms of bank prices, it will likely utilize return of capital, a tax-friendly form of income.

At some point, the Canadian economy will begin to grow again and when it does, the Big 6 institutions should stand to benefit. If this is the situation, HCAL should be able to drive the strongest returns out of any Canadian banking ETF on the market today.

Its fees seem high, but what one must understand is that the bulk of this fee is coming from the leverage. Hamilton will be able to access lower cost leverage than you would, and as a result, the fee is quite reasonable.



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