STOCKTRADES ETF SUMMARY

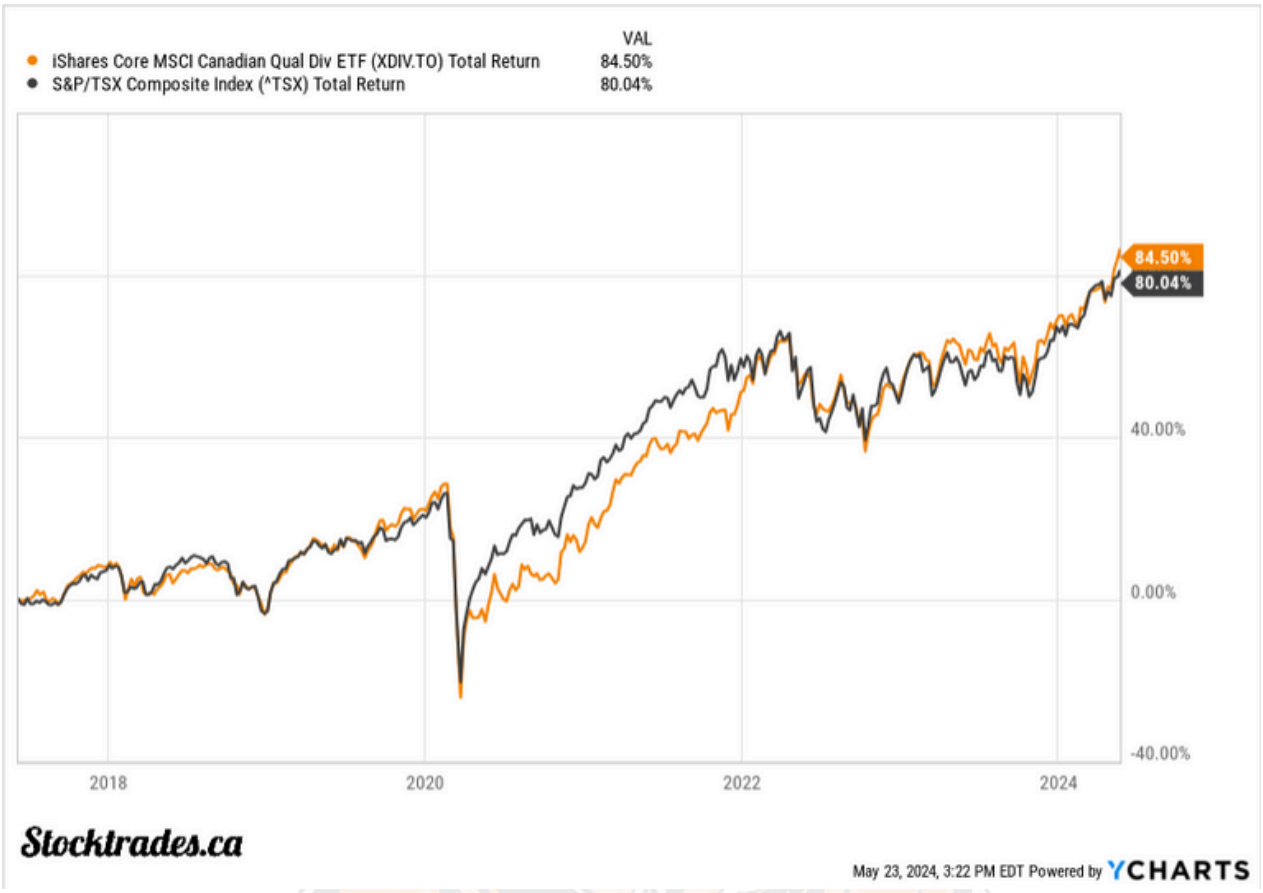
XDIV.TO

ISHARES CORE MSCI CANADIAN DIVIDEND ETF

UPDATED JUNE 9, 2024

WWW.STOCKTRADES.CA

Stocktrades ETF Insights



Performance (CAGR)	**10.14%**	★★★
Fees (MER)	**0.11%**	★★★★
Volatility (Beta)	**0.86**	★★★★★
Distribution (Yield)	**4.78%**	★★★★
Valuation (Forward P/E)	**12.15**	★★★
5 Year Earnings Growth	**5.89%**	★★

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

- The best-performing Canadian dividend equity ETF over the long-term
- Could be set to rebound in a falling rate environment, as many of its holdings will be the net beneficiaries of a decline in interest rates
- The Canadian market offers more attractive valuations than the U.S. market
- The fund has some of the lowest fees for a high dividend fund. Fund managers typically prey on niche funds like this in the form of higher fees, knowing investors will pay them to get a stream of income

CONS

- Heavy concentration in the Canadian energy and financial sectors
- Because of the blue-chip, slow-growing nature of this fund, it is likely to underperform most major indexes outside of the TSX and possibly even the TSX itself

OBJECTIVE AND STRATEGY OF THIS ETF

Canadians love their dividends dearly. This is likely because the vast majority of our country's major companies are slower-growing, high-yielding stocks, and we tend to gravitate toward what we know.

As a result, there are many dividend ETFs available in Canada. For the most part, they're high-fee, sub-par investments. The vast majority of them have underperformed the TSX 60, and investors would have been better off simply buying the index and selling shares to generate income.

However, the iShares Canadian Quality Dividend ETF, created in mid-2017, has held its own over its short existence. The fund is a concentrated portfolio of just 20 or so holdings, unlike something like Vanguard's High Dividend ETF, which contains just under 60.

Typically, I would choose the ETF that provides the larger diversification if returns are equal, which they are (VDY and XDIV have returned almost the same amount annually since inception). However, with relatively scarce quality names in Canada, I like the fund's concentrated approach.

It is an index fund that tracks the MSCI Canada High Dividend Yield Capped Index. Its cap weight is 10%, meaning no position can make up more than 10% of the index.

The index will then screen companies based on fundamentals and overall dividend safety. What I like about this fund over something like VDY is how much stricter the index is about including or removing stocks. While VDY casts a wider net and is more yield-focused, XDIV is a more concentrated fund that is fundamental-focused.

Overall, the fund's main objective is to screen for quality fundamentals and then take positions in companies that provide safe and growing dividends.

RISKS OF THIS ETF

One of the primary risks of this fund, along with any other Canadian dividend fund, is that it is heavily concentrated in the financial and energy sectors. This isn't all that surprising, considering the bulk of our blue-chip income-paying names come from these two sectors. However, U.S.-based dividend funds naturally have a bit more diversification because they have a much broader economy and more large-scale blue-chip corporations. As a result, by buying a Canadian dividend fund, you rely heavily on the strength of the Canadian economy and the price of crude oil, natural gas, and other fossil fuels.

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

I feel this fund has more high-quality names than VDY. However, the concentration of it does add a risk that if a single company were to struggle, there would be a larger impact on the fund as a whole over something with a more diverse portfolio. The capped nature of the fund (10% maximum holding) mitigates a bit of this risk but doesn't completely eliminate it. VDY has 57 total holdings versus 19 of XDIV. VDY does not have an allocation cap, so the top 5 holdings in VDY still account for more of the entire portfolio than that of XDIV's top 5 holdings.

Another added element of risk is policy rates. XDIV is highly rate sensitive. This isn't unique to XDIV; it's a risk present in pretty much all Canadian dividend ETFs. With many of our blue-chip income payers being heavily indebted companies in the telecom, energy, and utility sectors, higher interest rates ultimately impact earnings, lowering valuations.

One of the reasons I'm particularly bullish on XDIV is that if rates fall, most of the companies in the portfolio stand to benefit. However, if inflation were to get sticky and rates stayed elevated, there would be continued pressure on these companies, particularly concerning their earnings. This could impact stock price growth and dividend growth.

HOLDINGS

Top Ten Holdings	Allocation
Suncor (SU)	10.2%
Pembina Pipeline (PPL)	9.65%
Royal Bank of Canada (RY)	9.2%
Manulife Financial (MFC)	9.11%
Fortis (FTS)	8.75%
Sunlife Financial (SLF)	8.07%
Toronto Dominion Bank (TD)	8.05%
Emera (EMA)	6.56%
Great-West Lifeco (GWO)	5.5%
Lundin Mining (LUN)	5.2%

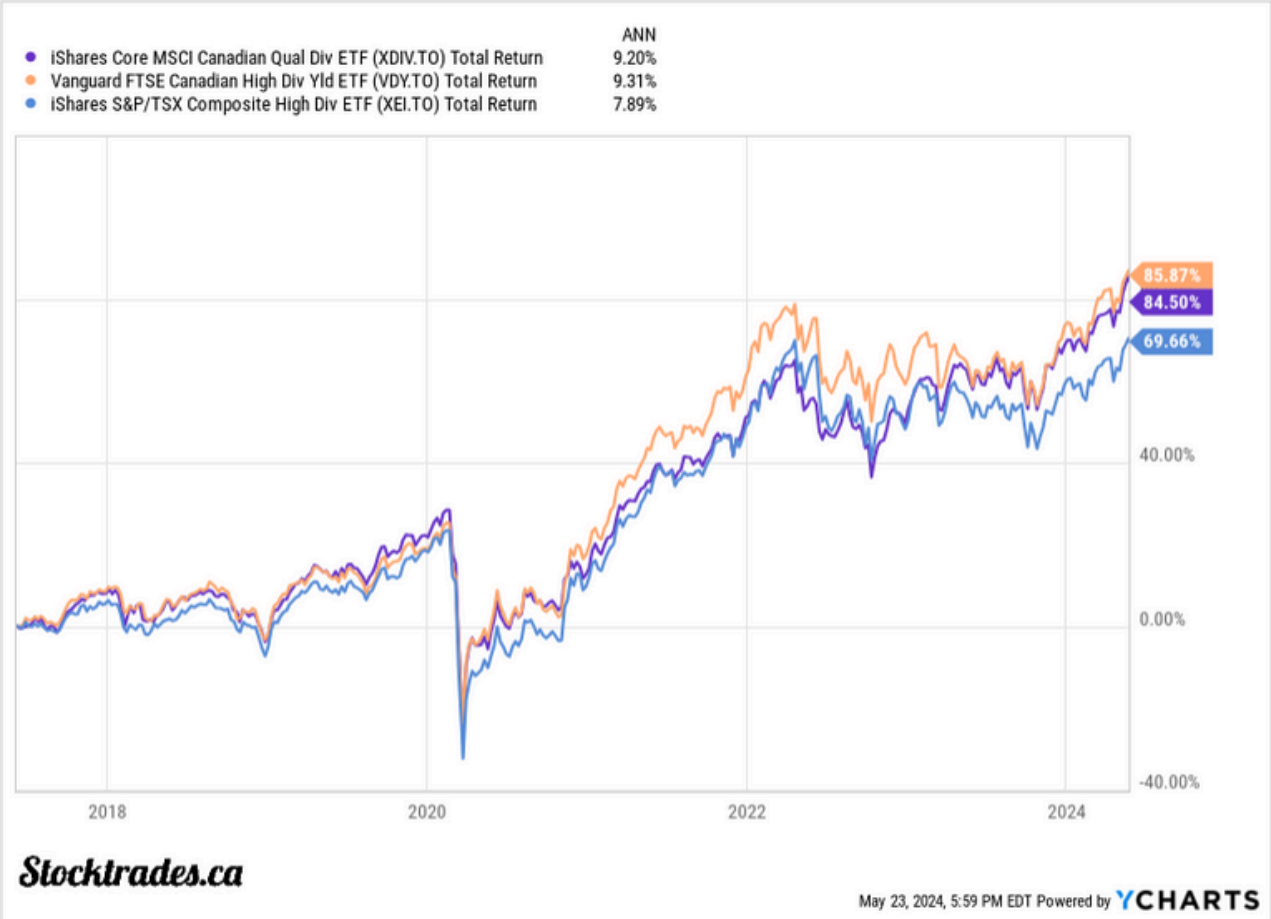
The overall makeup of XDIV is fairly interesting. While many Canadian dividend ETFs are heavily allocated to financials in their top 10, particularly the Big 6 Banks, XDIV takes a bit more of a blended approach and focuses on the energy sector first, followed by a few banks and some life insurers.

One thing I'd like the fund to do, and I'm not sure why they don't have the company inside the portfolio, is add Intact Financial (IFC). Although the fund contains some of the best life insurers in the country in Manulife, Sunlife, and Great West, I feel it could probably use a property and casualty insurer as well. Intact has grown its dividend every year since its IPO and has been one of the best insurers in the country over the years.

When we compare XDIV to something like VDY, VDY is much more bank-heavy at the top end of things. Inside its top 10 holdings, we have 5 Big Banks, which ultimately make up more than 41% of the entire fund. With XDIV, it focuses on two of the largest banks in Royal and Toronto Dominion, making up only about 17% of the portfolio.

In addition to this, I'd like to see Canadian Natural make an appearance in the portfolio. Not only is it not in the top 10 holdings, but it isn't in the portfolio at all. The index seems to indicate that Suncor is the better opportunity in terms of yield and fundamentals. In terms of pipelines, I'm happy to see Pembina in place of companies like Enbridge and TC Energy, as I view Pembina as the best pipeline stock in the country.

COMPETING FUNDS



	XDIV	VDY	XEI
Returns		✅	
Diversification		✅	
Fees	✅		
Tax Efficiency	✅	✅	✅
Distribution	✅		

The return difference between a fund like XDIV and VDY has been practically negligible since its inception, with the funds having a 0.1%~ annualized return difference. Because VDY has much higher fees, the underlying portfolio of stocks is performing better to make up the difference. However, this isn't guaranteed in the future. I do like XDIVs prospects for future returns a little bit better than VDY, primarily due to the concentration of XDIV in higher quality names rather than the broader approach of VDY. In terms of XEI, the fund is too yield-focused, which has resulted in many struggling companies being given higher allocations. The fund has struggled quite a bit over the years to keep up.

In regards to fees, it's not really a contest. XDIV has half of the fees of VDY and XEI, and although VDY's performance over the last bit has made up for the added fees, it's never guaranteed to do so in the future.

On a tax efficiency basis, it's pretty much a wash. For the most part, the funds pay eligible dividends, which is a tax-friendly form of income for Canadians. Looking back to historical distribution payouts, there have been times when they were known to issue one-off capital gains payments at the end of the year. There is really no fund here that stands out from a taxation perspective as being the "better" fund.

And finally, the distribution. XEI has the highest distribution of the three funds, but unfortunately, it has come at the cost of returns over the last 8 years. Although XDIV pays about 50 basis points (0.5%) less, I personally view it as the more attractive fund from a holdings and distribution perspective.

DISTRIBUTION ANALYSIS

As mentioned above, for the most part, you're going to receive monthly distributions in the form of eligible dividends from XDIV and, depending on the performance of the underlying portfolio at the end of the year, a one-time capital gains distribution. In 2023, the fund's total distribution comprised around 61% eligible dividends and 39% capital gains.

In the event of a flat or down market, we're likely to see yields fall and smaller capital gains distributions, while eligible dividend distributions should remain relatively steady. It is important to understand this as it could impact yield if the company chooses not to pay out as much. Alternatively, it could also issue a return of capital distribution to keep the yields in line with what it historically pays out.

Overall, the dividend is a relatively tax-friendly one for Canadians.

OUR OVERALL OPINION

Let me make one thing clear: I'm not a huge fan of Canadian dividend ETFs. I believe they charge a little higher fees than justified relative to the performance, and I think exposure to these funds isolates a lot of Canadians from some of the stronger, lower-yielding companies in Canada today. A few examples off the top of my head would be Alimentation Couche-Tard, Dollarama, Waste Connections, and TFI International.

Ultimately, these funds expose Canadians to the higher-yielding, slower-growing sector of the Canadian market, which is heavily impacted by policy rates. From the Financial Crisis of 2008 to the end of the COVID-19 pandemic, these companies did relatively well. However, in a higher policy rate environment, many have struggled. By struggled, I don't necessarily mean they've gone down in price or anything. But relative to market returns, they've underperformed.

That said, I understand the attractiveness from an income standpoint for those looking to generate cash flows from their portfolios and are willing to accept that the returns likely won't be as high as simply buying the market. In that particular case, I believe XDIV is in one of the better positions at this point in time as it doesn't cast as wide of a net as something like VDY and instead holds a more concentrated portfolio of companies.

As I've mentioned, VDY is more top-heavy than something like XDIV. It's at the lower end of the portfolio that we see a multitude of low, single-digit allocations to a wider variety of companies with VDY. We don't get that with XDIV. Instead, it invests in fewer but higher-quality companies.

It has the lowest fees of the bunch, in fact, 50% less, and its lesser focus on the top end of the fund when it comes to Canadian Big Banks diversifies it a bit.

In my opinion, these Canadian dividend ETFs are more to supplement an income portfolio and not meant to be large positions in terms of allocations. They're too concentrated on a select few sectors. If this does make up a large portion of your portfolio, you may be over-exposed to not only the Canadian economy but particularly the financial and energy sectors.

That said, if I were to choose a Canadian dividend ETF to own in my portfolio, I'd probably opt for XDIV at this point.

DISCLAIMER

By utilizing this report, you agree that you are a Stocktrades ETF Insights member, and you agree to our terms and conditions and privacy policy. You acknowledge that any distribution of this report outside of Stocktrades ETF Insights could result in the immediate cancellation of your subscription. You also agree to the following:

This report is solely for informative purposes, and does not represent a buy or sell recommendation. The information expressed in this report is the opinion of the analyst about the subject fund and our database of funds in general. The information the analyst used to compile this report comes from sources we believe are reliable. Stocktrades Ltd however makes no warranties of any kind as to the completion or correctness of the information within this document.

All information in this report is accurate as of the date of this report, and all data contained within this report of the subject fund is of the analyst's best judgement at the date of the report. The information contained in this report is subject to change without notice. The information provided in this report is provided for informational purposes by Stocktrades Ltd and Stocktrades Ltd assumes no legal responsibility or liability. Anyone using this report assumes full responsibility for whatever decision is arrived at by using the details of this report.

Stocktrades Ltd. assumes no liability or legal responsibility for the resulting actions and or consequences of using outdated information. No version of this report outside of the original located at www.stocktrades.ca is to be considered to contain live, or accurate information. It is the users responsibility to insure they have the most recent updated version.

You may not alter or distribute this report in any way without the full consent of Stocktrades Ltd.

The decision to purchase or sell a security depends on a multitude of individual factors such as but not limited to risk tolerance, financial situation, and investment objectives.