STOCKTRADES ETF SUMMARY

XIT.TO

ISHARES S&P/TSX CAPPED INFO TECH ETF

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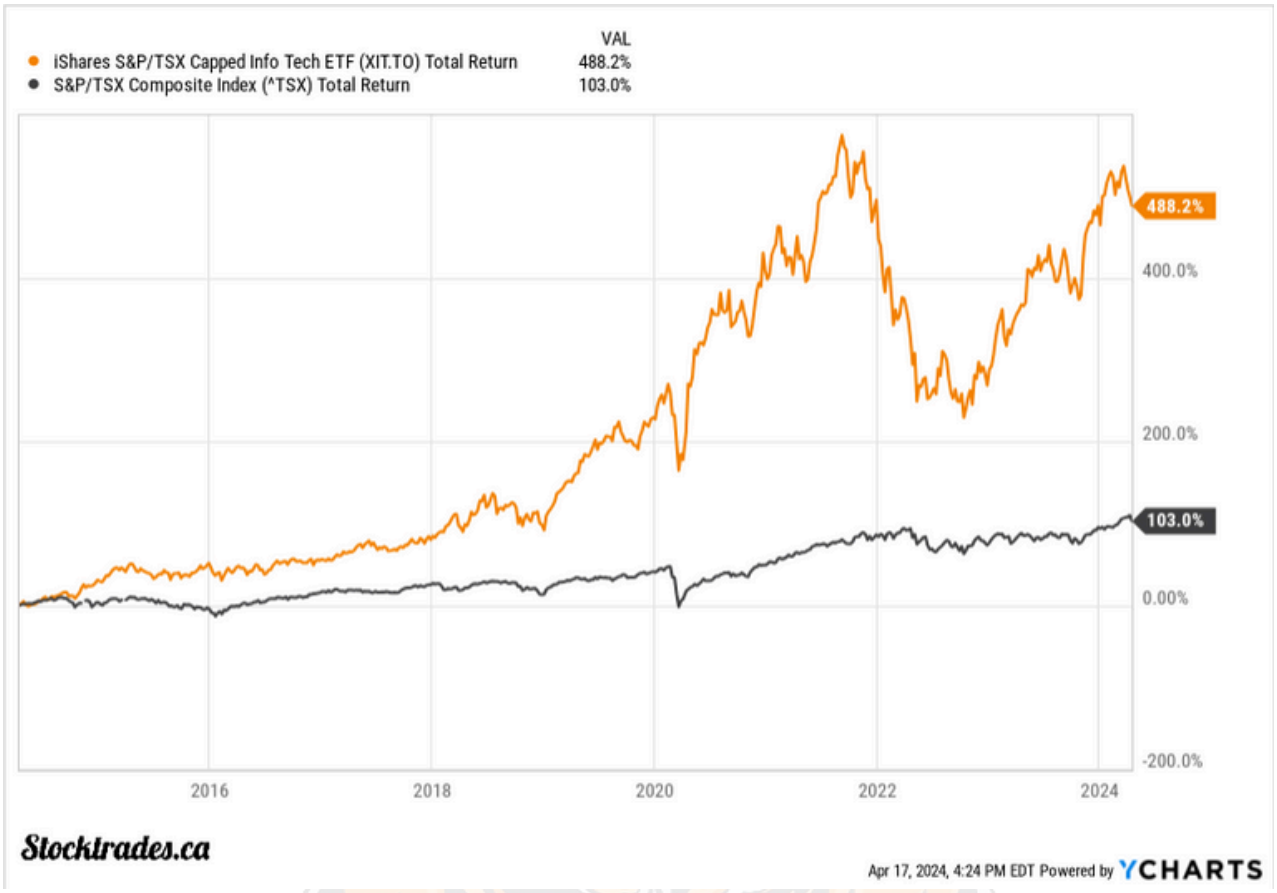
Stocktrades ETF Insights



Performance (CAGR)	**19.73%**	★★★★★
Fees (MER)	**0.6%**	★★★
Volatility (Beta)	**1.32**	★★
Distribution (Yield)	**0%**	★
Valuation (Forward P/E)	**25.52**	★★
5 Year Earnings Growth	**9.34%**	★★★★★

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 best-performing ETFs in the country
- Exposure to some of the fastest-growing technology companies in Canada
- Canada’s technology sector is starting to create some high-quality corporations
- The fund’s prospective growth rates are similar to many U.S. technology options, primarily because of its concentration in the highest quality names

CONS

- Although Shopify and Constellation Software are the highest quality names in Canada, there is concentration risk here, with over half the portfolio being allocated to them
- The funds beta of 1.3 and max drawdown of 51.3% make it extremely volatile
- With Canada's lack of high-quality names, this fund relies heavily on its top 5 holdings. A lack of performance from them would result in the fund lagging the market

OBJECTIVE AND STRATEGY OF THIS ETF

XIT seeks to provide long-term capital growth by replicating the performance of the S&P/TSX Capped Information Technology Index. In layperson's terms, it is an index fund that aims to track an index of technology companies in Canada.

The "capped" portion of the name just means that the amount of any single stock in the portfolio is capped at a particular percentage. In XIT's case, this is 25%. That means no company holding inside this ETF can make up more than 25% of the fund. You'll often see companies inside ETFs trend over the maximum allowable weighting. However, they'll adjust this downwards when it is time to rebalance the fund.

The main objective of the fund is to give you the best exposure possible to a basket of high-quality Canadian technology names. It does this through what is called a "modified market cap weighting" system. This means XIT will prioritize the larger companies in Canada, investing more of its total assets within them, while the smaller companies will be lower weighted.

RISKS OF THIS ETF

There are a multitude of risks involved with XIT, primarily for risk-averse investors. First off, technology stocks are well-known for their high volatility. During bear markets or even market crashes, maximum drawdowns (the largest level of decline in ETF prices over a specific period) can be exceptionally high. It is not uncommon to see technology ETFs experience 50% or greater maximum drawdowns. This is primarily because the stocks are often more expensive on a valuation basis than many blue chip holdings due to their fast-growing nature. In a market crash or bear market situation, they're often the first positions sold by panicking investors, while more stable blue chips are held on to.

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

An additional risk would be the concentration risk present in the fund. Although Constellation and Shopify are two of the premiere technology stocks in North America, it must be considered that they make up over half the fund. The fund will likely significantly lag the other broad-based technology indexes if their performance lags.

In addition, this fund is a pure Canadian technology ETF. This isn't as large of a risk as people think, as many of the companies inside of the ETF have plenty of global operations. However, it is still something that investors need to consider. If this is your only technology exposure, your portfolio is exposed to 100% Canadian technology stocks and zero U.S.-based and international technology stocks.

Overall, volatility is one of the main risks of this fund, and investors who decide to purchase it need to be able to withstand large swings in price. This isn't your typical blue-chip ETF; it is a highly concentrated ETF that is heavily dependent on just a few names.

HOLDINGS

Top Ten Holdings	Allocation
Shopify (TSE:SHOP)	25%
Constellation Software (TSE:CSU)	25%
CGI Inc (TSE:GIB.A)	19%
Open Text (TSE:OTEX)	8.5%
Descartes Systems (TSE:DSG)	6.7%
Celestica (TSE:CLS)	4.73%
Kinaxis (TSE:KXS)	2.78%
Lightspeed Commerce (TSE:LSPD)	1.64%
Blackberry (TSE:BB)	1.43%
Enghouse Systems (TSE:ENGH)	0.83%

As mentioned previously, this fund has a high degree of concentration risk, with Shopify and Constellation Software taking up nearly half the portfolio. However, we'd view this as a bullish element of this fund, not a bad thing.

Yes, there is some added risk that if these two companies run into difficulties, the fund would struggle significantly. However, in the case of Constellation Software, it has been one of the best-performing technology stocks not just in Canada but in North America.

It has continually made rock-solid acquisitions to grow cash flow. It does this by purchasing what are called "vertical market software" companies. VMS companies typically provide niche software offerings to clients. Because the pieces of software are so specific and almost mandatory in the industries they serve, retention rates are sticky and as such, cash flows are stable.

I would consider Constellation the best blue-chip technology stock in the country. Because of this, as an owner of XIT, I wouldn't necessarily be concerned that it makes up more than 25% of the portfolio.

Shopify, on the other hand, will be a bit more volatile and prone to much larger swings in price. Case in point, the stock is still trading nowhere near peaks witnessed in 2021 and often undergoes large corrections in price. Make no mistake, Constellation is still a fast-growing company, but they are doing so by acquiring cash flow-positive companies. Shopify, although profitable, is trading at a much higher valuation due to its potential

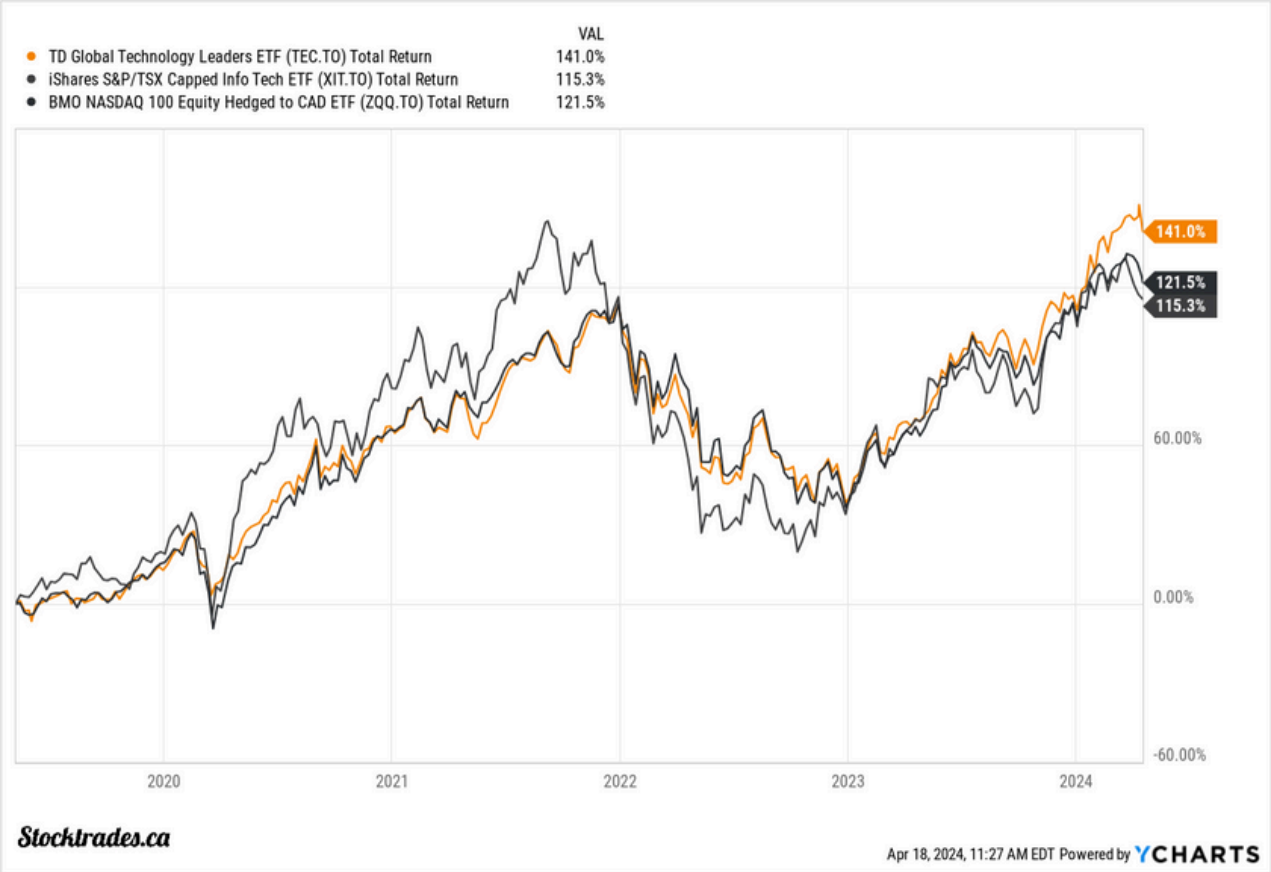
growth prospects and has less of a history of reliable cash flow generation.

The reward for a 25%~ holding in Shopify in this portfolio is higher, but it also adds an element of risk if the company's growth slows and valuations come down.

The third largest holding is CGI Group. The company is primarily an IT service provider, but it has arguably given Canadians the highest quality exposure to the AI sector. The stock is a high-quality name, and it has been buying back shares and growing cash flow steadily over the last decade. To be completely honest, I would like the ETF a bit more at this point if the two largest holdings were Constellation and CGI instead of Shopify. However, because this fund is market cap weighted, this is unlikely to happen unless we see some significant growth over the next bit from CGI.

Overall, I like the makeup of holdings in this ETF. My primary focus was the top three holdings, which makes sense as they make up 70%~ of the portfolio. Outside of this, the only name I don't like inside the portfolio is Blackberry. However, with only a mid-1% allocation, it is far from a deal breaker.

COMPETING FUNDS



	XIT	TEC	ZQQ
Returns		✅	
Diversification		✅	
Fees		✅	
Tax Efficiency	✅		
Distribution			✅

It is difficult to compare competing funds with XIT because it is the only Canadian-focused technology ETF that exists. To provide some context in relation to other ETFs, I've pulled in some popular Canadian-traded funds that track the U.S. technology sectors: TEC, being TD Banks Technology Leaders ETF, and ZQQ, a BMO product that tracks the NASDAQ and is hedged to the Canadian dollar.

The above table highlights my thoughts over the last five years. This is primarily because TEC has only existed for roughly 5 years. XIT has lagged both TEC and ZQQ on a returns basis over the last five years, and this is due mainly to the large drawdown in Shopify's share price. If we look to the returns chart, we can see XIT outperformed both

funds significantly up until late 2021 and took a big hit to its share price after that.

This should highlight the concentration risk I've been speaking on. If Shopify didn't undergo a significant drawdown in price from 2021 peaks, XIT is likely the best-performing technology fund in North America over the last 5 years. If Shopify or Constellation were to undergo another correction, we would likely see the fund have similar results in forward years. If they were to excel, however, the reverse would be true. It would likely outperform these two broader-based U.S. ETFs that are not as concentrated in the top holdings.

Overall, if you're looking for a concentrated fund when it comes to Canadian technology options, there is only one that exists: XIT. If you're looking for a broader technology ETF that tracks global technology plays with a heavy focus on the United States (about 87% of its holdings), TEC is one to look at.

DISTRIBUTION ANALYSIS

XIT chooses to reinvest all distributions paid by the underlying holdings back into the fund, so it pays no distribution.

OUR OVERALL OPINION

XIT is a solid fund. Although the fees are high, at 0.6%, it has provided strong enough returns to more than justify that fee. Its performance over the last decade makes it one of the best-performing technology ETFs in Canada and North America. This is impressive, considering how large and fast-growing the U.S. tech sector is.

However, I would imagine this large-scale outperformance isn't likely to continue moving forward. The fund has benefited from large-scale growth in one of the most successful IPOs in Canadian history, Shopify. Although it is still expected to grow rapidly, the 3000%~ returns from the company since its IPO are unlikely to turn into 3000%~ returns moving forward.

That said, the focus on Constellation, Shopify, and, to a certain extent, CGI Group positions anyone who owns this fund to take advantage of three of the highest quality names in the country, ones that should continue to grow at an elevated pace. One just needs to understand that the risk exists that if they don't perform well, the fund will likely

underperform.

Constellation Software propped this fund up significantly during the technology drawdown in 2022, and the fund's performance could have been much worse if it hadn't. This is the strength of a reliable, blue-chip play like Constellation.

And, speaking of Constellation, its expensive share price is typically an obstacle for many Canadians, particularly those with smaller portfolios, who don't have access to fractional share purchasing. Although only 25% of the portfolio is Constellation, XIT does give a unique angle for those who want exposure to the company but don't have the $3500+ to allocate toward a single share.

If I could sum up the fund in a single sentence, it would be a heavy bet on the success of the three largest technology options in the country.

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