



August 2023

# Investing in Technology

## Through the Evolve NASDAQ Technology Index Fund (TSX: QQQT)

WHITE PAPER

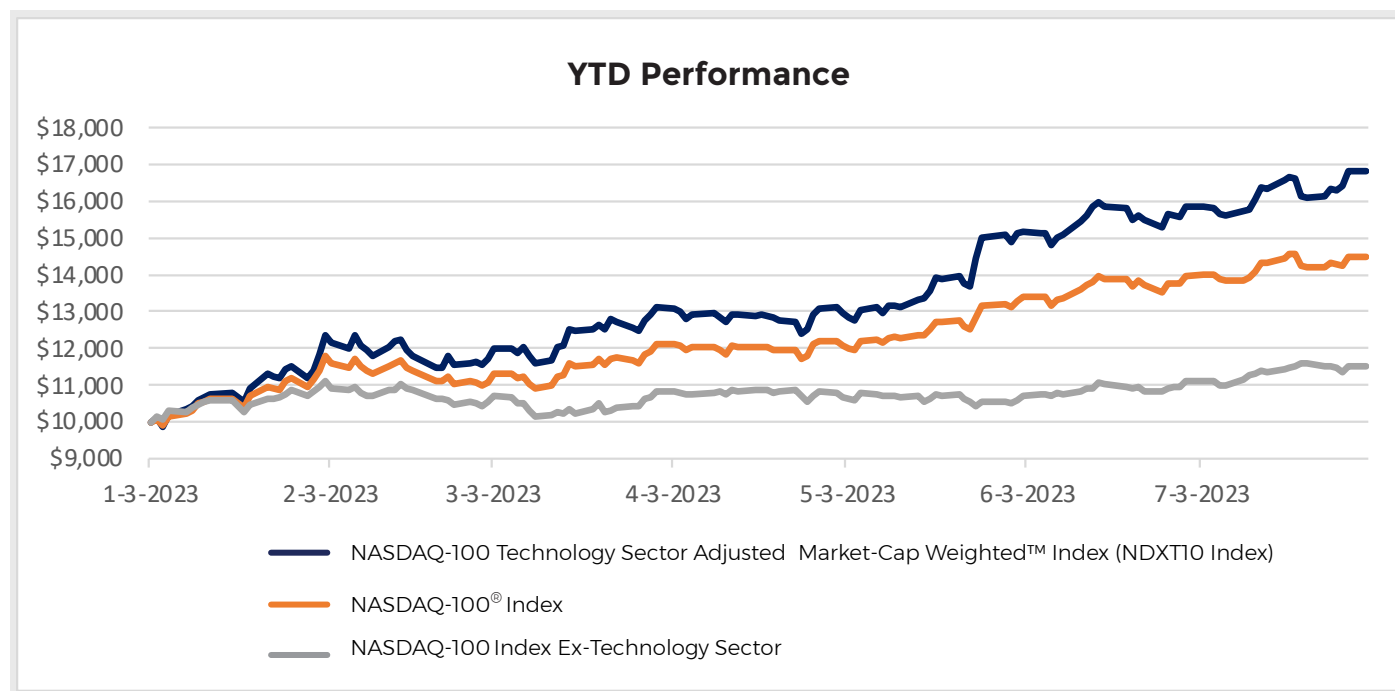
When it comes to investing in technology, the Nasdaq-100 Index® (NDX) often emerges as the go-to benchmark for most investors. As the pioneering electronic stock exchange, Nasdaq® has cultivated a brand that appeals to both emerging startups and established giants in the tech industry. This was evident in 2022, when a staggering 93% of technology IPOs opted to list on the Nasdaq®<sup>1</sup>. Given its tech-centric reputation, many investors are surprised to discover that the Nasdaq-100 Index® is not solely comprised of technology companies; in fact, just 37 of the 100 listed companies fall under the technology category.

Catering to those looking to invest specifically in the tech sector, the **Evolve NASDAQ Technology Index Fund** (QQQT) tracks the Nasdaq-100 Technology Sector Adjusted Market-Cap Weighted™ Index (NDXT10), which consists exclusively of the technology constituents within the Nasdaq-100®.

## How QQQT Outperforms Broader Indices

Technology companies make up just 50-60% of the weight in the Nasdaq-100 Index®, with names like Costco, Marriott, and Kraft Heinz rounding out the remaining 40-50%. While technology does not make up the entirety of the index, it has been the top contributor to performance this year on the back of breakthroughs in Artificial Intelligence. Nasdaq-100 Technology Sector Adjusted Market-Cap Weighted™ Index is up over 60% so far this year, outperforming the Nasdaq-100® by roughly 20%.

FIGURE 1



Source: Bloomberg, as at August 31, 2023. NASDAQ-100 Technology Sector Adjusted Market-Cap Weighted™ Index (NDXT10 Index), NASDAQ-100 Index® (NDX Index), NASDAQ-100 Ex-Tech Sector Index (NDXM Index).

**Not only has the technology sector displayed stellar performance in 2023, but it has also been the key driver of growth for the Nasdaq-100 Index® over the past decade.**

Over the past 10 years, NDXT10 has outperformed the Nasdaq-100 Index® through every major period. In fact, the non-technology holdings of the index have caused a drag on performance of the Nasdaq-100®, which is especially significant for investors using the Nasdaq-100 Index® for their technology allocation. To put these stellar returns into perspective, a \$10,000 investment in the NDXT10 in 2013 would have grown to \$63,695 today.

# Evolve NASDAQ Technology Index Fund

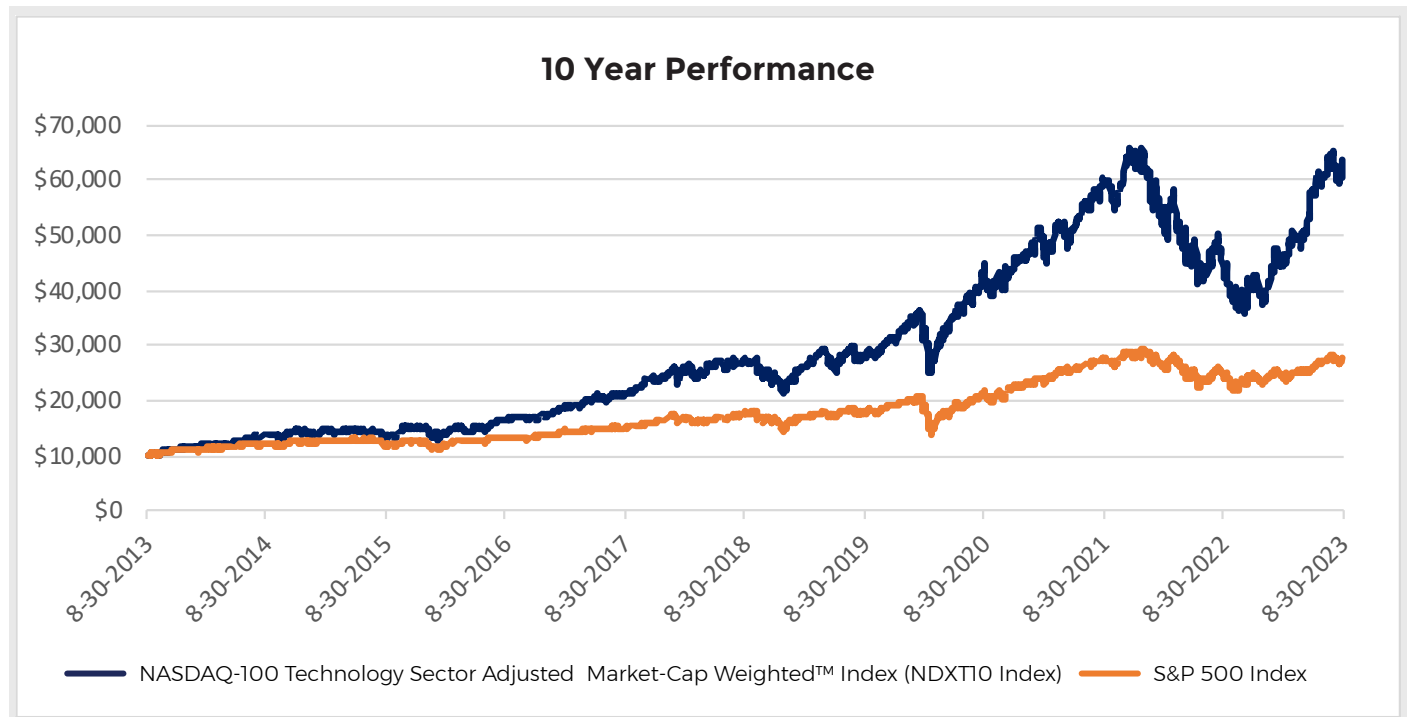


TOTAL RETURN PERFORMANCE						
NAME	YTD	1Y	2Y	3Y	5Y	10Y
Nasdaq-100 Technology Sector Adjusted Market-Cap Weighted™ Index	64.45	45.57	3.35	13.71	18.19	20.34
Nasdaq-100 Index®	42.53	27.44	0.57	9.44	16.18	18.78
<b>Value Added</b>	<b>21.92</b>	<b>18.12</b>	<b>2.77</b>	<b>4.27</b>	<b>2.01</b>	<b>1.56</b>
Nasdaq-100® Ex-Tech Sector Index	11.90	14.57	-1.31	8.00	11.25	12.00

Source: Bloomberg, as at August 31, 2023.

NDXT10's performance is even more striking when compared to the S&P 500®, outperforming by approximately 45% year-to-date and 300% over the past decade. The outperformance is mainly driven by technology companies that have undergone exponential growth.

FIGURE 2



Source: Bloomberg, as at August 31, 2023.

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## TOTAL RETURN PERFORMANCE

NAME	YTD	1Y	2Y	3Y	5Y	10Y
Nasdaq-100 Technology Sector Adjusted Market-Cap Weighted™ Index	67.35	37.36	6.54	18.30	19.75	20.49
S&P 500® Index	20.64	12.99	3.79	13.69	12.17	12.64
<b>Value Added</b>	<b>46.71</b>	<b>24.37</b>	<b>2.75</b>	<b>4.61</b>	<b>7.58</b>	<b>7.85</b>

Source: Bloomberg, as at August 31, 2023.

Because of QQQT's concentration to technology companies – which frequently carry higher valuations—it might be assumed that the fund would exhibit elevated valuation multiples compared to other indices. As seen in the chart below, the valuation metrics for NDXTIO don't diverge considerably from those of the Nasdaq-100® and are only modestly higher than those of the S&P 500®. The only valuation metric that stands out is the Price to Sales ratio due to higher profit margins across the tech sector.

## VALUATION RATIOS

TICKER	DIVIDEND YIELD	P/E RATIO	P/B RATIO	P/S RATIO	EV/EBITDA
NDXTIO INDEX	0.66	29.34	6.95	7.25	18.61
NDX INDEX	0.87	29.70	6.28	4.14	16.34
SPX INDEX	1.61	20.05	3.95	2.46	13.53

Source: Bloomberg, as at August 31, 2023.

Given that technology companies are generally more volatile, it's not surprising that QQQT would exhibit a higher level of risk when measured by standard deviation. However, the index's strong Sharpe ratio indicates that its outsized returns have more than compensated for this elevated risk profile. The risk metrics below highlight that QQQT should serve as a technology or growth-oriented position in investors' portfolios.

## RISK RETURN METRICS

TICKER	1Y SD	3Y SD	1Y SHARPE	3Y SHARPE
NDXTIO INDEX	32.92%	27.08%	1.13	0.68
NDX INDEX	26.55%	23.49%	0.86	0.59
SPX INDEX	20.59%	18.19%	0.63	0.75

Source: Bloomberg, as at August 31, 2023. Sharpe ratios are calculated assuming the risk-free rate is 0%.

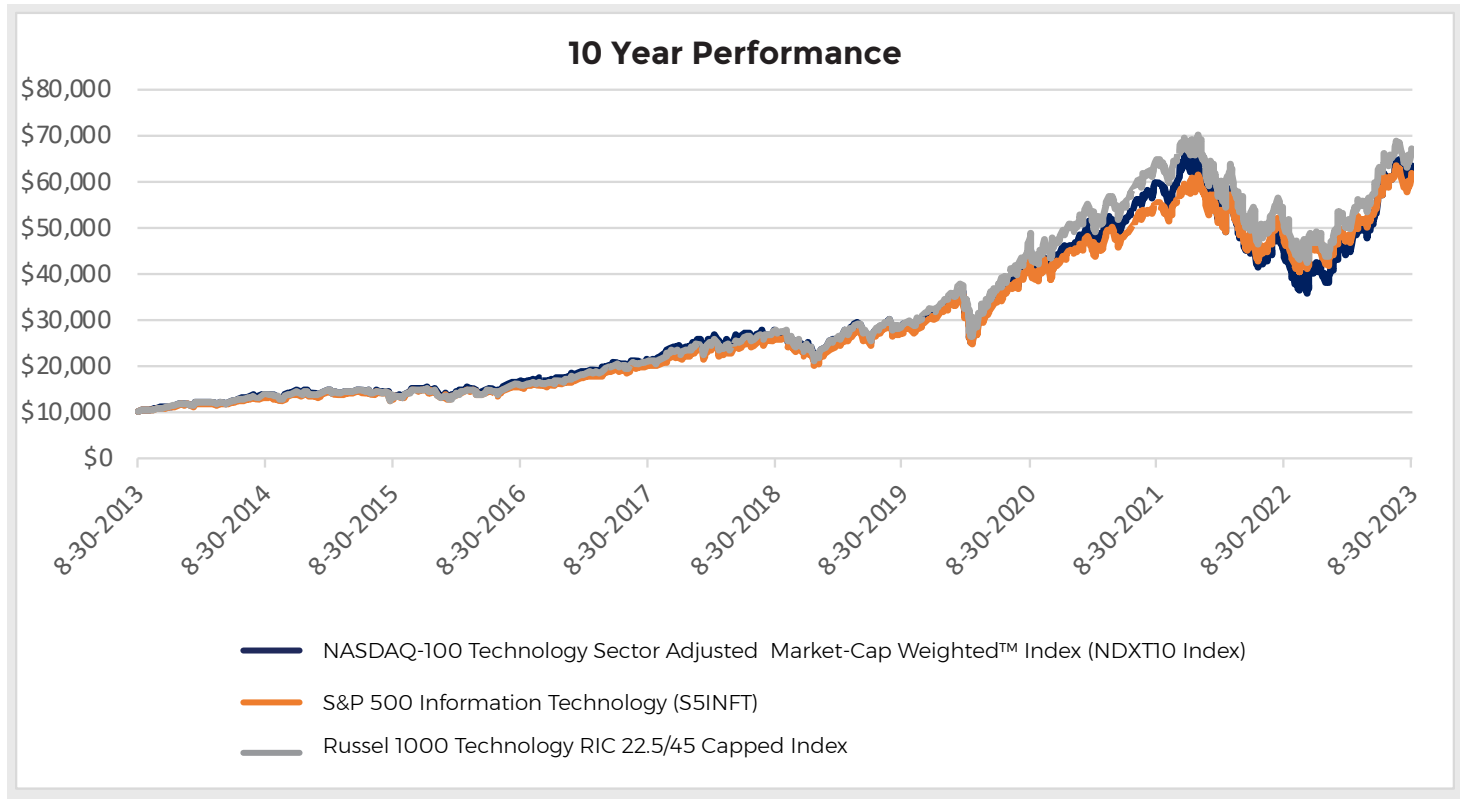
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## How QQQT Compares to other Technology Indices

Technology companies have had exceptional returns over the last 10 years. The Nasdaq-100 Technology Sector Adjusted Market-Cap Weighted™ Index (NDXT10) had total returns of 549% compared to a 615% return from the S&P 500 Information Technology Index (S5INFT) and 587% from the Russell 1000 Technology RIC 22.5/45 Capped Index (RIYWC).

FIGURE 3

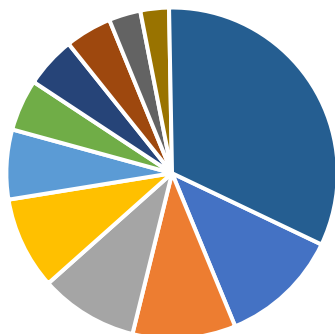


Source: Bloomberg, as at August 31, 2023.

One of the key differences between NDXT10 and S5INFT is the classification methodology. NDXT10 uses the Industry Classification Benchmark (ICB) which classifies Meta and Alphabet as Technology companies. S5INFT services uses Global Industry Classification Standard (GICS) which classifies both as Communication Services. Due to this classification difference, comparing the long-term track record of NDXT10 and S5INFT may be misleading. Meta Platforms (then Facebook) and Alphabet were reclassified by S&P Dow Jones from Information Technology to Communication Services in 2018, in an overhaul of the Global Industry Classification Standard (GICS). Therefore, S5INFT participated in significant upside from Meta and Alphabet up to 2018 but did not participate in their drawdown in 2022.

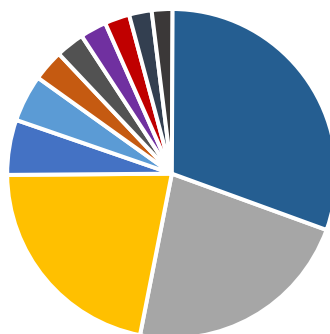
QQQT is noticeably more diversified than other funds tracking similar indices given specific weighting methodologies. NDXT10 has a 10% cap on single issuers whereas S5INFT has no single position cap. RIYWC specifies that all companies that have a weight greater than 4.5% in aggregate are no more than 45% of the index, and no individual company in the index has a weight greater than 22.5% of the index<sup>2</sup>. S5INFT and RIYWC therefore have significantly higher concentration risk as Apple and Microsoft make up about 45% and 34% of the index, respectively. In comparison, NDXT10 has a 19% weight to those two names.

**NDXT10**



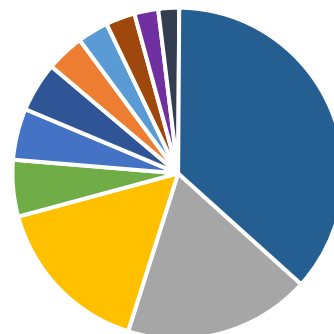
1. NVDA (11.7%)
2. META (10.1%)
3. AAPL (9.6%)
4. MSFT (9.0%)
5. AVGO (6.8%)
6. GOOGL (5.0%)
7. GOOG (5.0%)
8. ADBE (4.6%)
9. AMD (3.1%)
10. TXN (2.8%)

**S5INFT**



1. AAPL (22.5%)
2. MSFT (21.8%)
3. NVDA (5.4%)
4. AVGO (4.6%)
5. ADBE (3.1%)
6. CSCO (2.8%)
7. CRM (2.6%)
8. CAN (2.4%)
9. ORCL (2.2%)
10. AMD (2.0%)

**RIYWC**






1. AAPL (18.2%)
2. MSFT (15.9%)
3. GOOGL (5.5%)
4. NVDA (5.0%)
5. GOOG (4.8%)
6. META (3.7%)
7. AVGO (3.0%)
8. ADBE (2.3%)
9. CRM (2.3%)
10. ORCL (2.0%)

Source: Estimates calculated based on holdings from QQQT, XLK and IYW on August 31, 2023.



## Key Areas Driving Growth in the Technology Sector

 <p><b>ARTIFICIAL INTELLIGENCE</b></p>	<p><b>NVIDIA CORP.</b></p> <ul style="list-style-type: none"> <li>Nvidia has transitioned from a focus on gaming graphics chips to becoming a dominant force in the artificial intelligence industry, under CEO Jensen Huang.</li> <li>Major tech giants like Alphabet, Amazon, and Meta rely on Nvidia's next-gen AI accelerators, cementing its influential role in the tech sector.</li> <li>The company recently shattered earnings expectations, reporting \$13.51 billion in revenue and \$2.70 per share in adjusted earnings, largely driven by its data center business which includes AI chips.<sup>3,4</sup></li> </ul>
 <p><b>DIGITAL MEDIA</b></p>	<p><b>META PLATFORMS</b></p> <ul style="list-style-type: none"> <li>Meta Platforms, with its diverse offerings including Facebook, Instagram, WhatsApp, Oculus, and Threads, is a dominant player in the digital media landscape.</li> <li>The company's stock has rebounded impressively, tripling since its multi-year low in October 2022, driven by sustained growth and effective cost-saving measures.</li> <li>Meta outperformed in its Q2 earnings, achieving double-digit revenue growth for the first time since 2021, and announcing more efficient capital expenditure forecasts for 2023.<sup>5</sup></li> </ul>
 <p><b>SEARCH</b></p>	<p><b>META PLATFORMS</b></p> <ul style="list-style-type: none"> <li>Google, Alphabet's most notable subsidiary, has monopolized the search engine landscape for over a decade, offering a vast array of services including YouTube, Google Cloud, and Android.</li> <li>Despite emerging challenges from large language models like ChatGPT, Google remains an industry leader in AI innovation with its own generative AI chatbot, Bard, and has turned its Cloud division profitable, reporting a Q2 operating income of \$395 million.</li> <li><i>Note:</i> Alphabet appears twice in QQQT because of the company's dual class shareholder structure, both Class A and Class C shares are in the portfolio. Due to this nuance QQQT has 38 holdings for 37 companies. Similarly, the Nasdaq-100 Index has 101 holdings.<sup>6</sup></li> </ul>

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## Sources:

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