



AN INTRODUCTION TO ACTIVELY MANAGED ETFs

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HORIZONS ETFs
by Mirae Asset

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UNDERSTANDING ACTIVELY MANAGED ETFs

An exchange traded fund (“ETF”) provides the best of both worlds when it comes to mutual funds and stocks. Like a mutual fund, ETFs are open-ended, meaning that new units of the fund can be created or existing units redeemed at a price per unit that reflects the market value of the underlying securities the fund holds less the liabilities of the fund. Like a stock, ETFs trade on a stock exchange and can be purchased or sold throughout normal trading hours (9:30 a.m. to 4:00 p.m.) at or near its current market value.

The first ETFs launched were designed to seek to replicate a broad index of securities, such as the S&P/TSX 60™ Index or the S&P 500® Index, just to name two well-known examples. Since there is no expectation of trying to outperform these asset class benchmarks, these ETFs are called “passively managed”. Cost is a key component of passive index investing – it needs to be as low as possible since there is no expectation of achieving additional returns beyond the benchmark index but they are expected to return as close to the returns of their respective index as possible. Since ETFs are a cost-effective and flexible way to gain index exposure, the rise in the use of indexing amongst the investing public coincided with the rise of ETF usage.

Although ETFs have traditionally been associated with passive indexing, this doesn’t mean they can’t be actively managed like a typical mutual fund using a portfolio management team to seek better risk-adjusted returns. In fact, ETFs are an excellent vehicle to offer actively managed investment strategies, which is why Horizons ETFs is one of the largest providers of actively managed ETFs in Canada¹. Our suite of actively managed ETFs offer the benefits of ETF investing, combined with the advantages of active management – which we believe offers the potential to deliver better risk-adjusted returns in many asset classes.

UNIQUE FEATURES OF ACTIVELY MANAGED ETFs IN CANADA

A major reason that actively managed ETFs or “active ETFs” have been more successful in Canada than other developed ETF markets – representing about 20% of Canadian ETF assets² – is due to the regulatory environment of the Canadian investment industry. The majority of active ETFs are regulated under National Instrument 81-102. This means that ETFs are governed under the same laws that govern most mutual funds.

In Canada, the disclosure for ETFs and mutual funds is generally the same. In the case of Horizons ETFs for example, the top 10-holdings of our actively managed ETFs are disclosed publicly on a monthly basis, our top-25 holdings are disclosed quarterly and our full portfolios are disclosed semi-annually. We view this as a suitable level of transparency.

¹ Source: Strategic Insight, ETF and Index Funds report - Canada, as at December 31, 2018.

² Source: Morningstar Direct, as at January 2019.



A key feature of ETFs is their liquidity – as units can be bought and sold throughout the business day on an exchange. In order to ensure the units trade at (or very near) their current net asset value (“NAV”), an institutional capital markets trader, known as the “market maker”, holds an inventory of ETF units to facilitate their trading. The lead market maker acts to ensure the unit price at which the investor can buy or sell their ETF units, is close to the NAV of the ETF.

This process has worked well for actively managed ETFs, many of which now trade at bid/ask spreads equivalent to spreads observed on comparable index ETFs.

THE IMPORTANCE OF LOW FUND MANAGEMENT FEES*

A central appeal of ETFs is their typically low management fees* compared to regular mutual funds (see below). Fees can have a significant impact on investment performance, since they create an additional hurdle for the investment to overcome in order to be profitable. Simply put, the higher the fee on an investment fund, the better the fund needs to perform in order to generate a higher return than its benchmark.

We believe the single-largest obstacle to the performance of Canadian actively managed mutual funds is high fees. The cost disparity between Canadian actively managed ETFs and Canadian actively managed mutual funds can be dramatic. The average management fee of an actively managed Canadian ETF is approximately 0.57% versus 0.81% for Canadian actively managed F-class mutual funds.

Type of Canadian Fund	Average Management Fee
All ETFs	0.49%
Actively Managed ETFs	0.57%
Actively Managed Mutual Funds (F class)	0.81%

Source: Morningstar Direct as at March 12, 2019. Based on the Canadian universe of 780 ETFs, the average management fee is 0.49%. Based on the Canadian universe of 323 active ETFs, the average management fee is 0.57%. Based on the Canadian universe of F-class mutual funds, the average management fee is 0.81%.

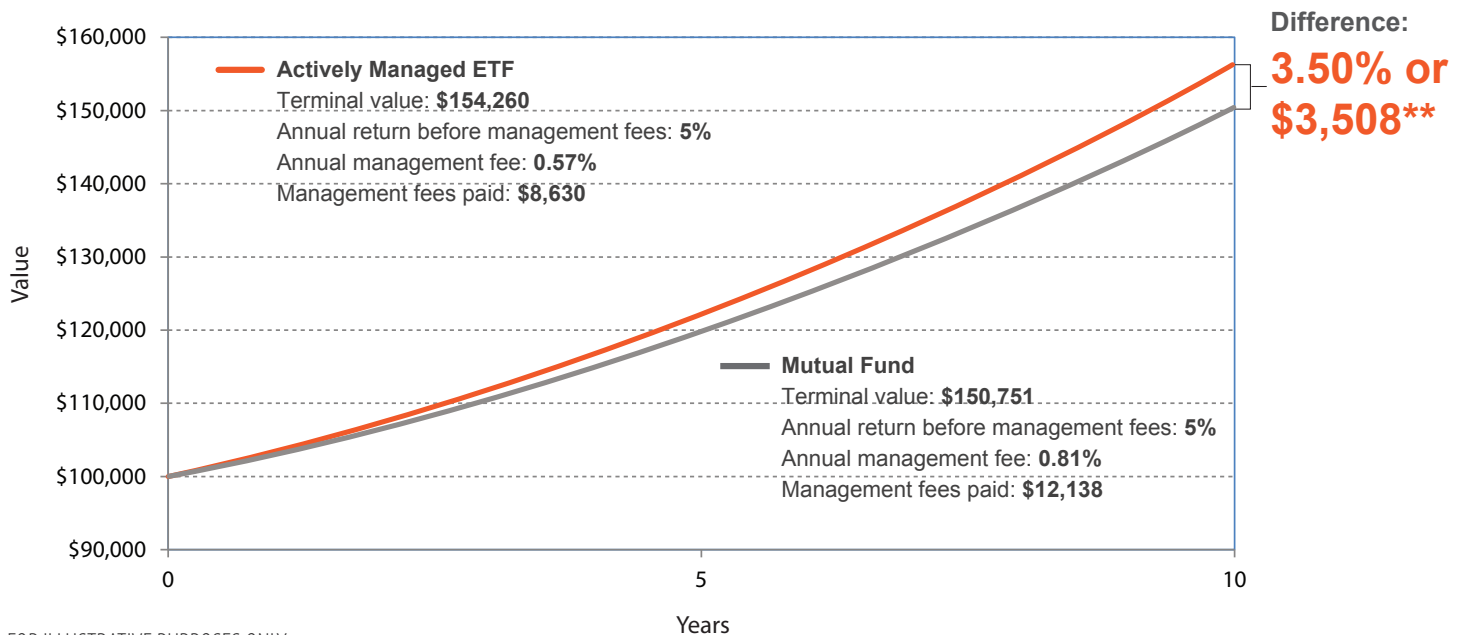
*Relative to the typical MER of regular mutual funds. In Canada, the average management fee for F class mutual funds is 0.83% and 0.50% for ETFs, source: Morningstar Direct as at October 2018.





HYPOTHETICAL \$100,000 INVESTMENT IN FUNDS WITH DIFFERENT FEES

The cost savings on ETFs can add significant value to the long-term returns of the fund, as highlighted in the chart below which uses a modest return trajectory of only 5%. The longer the time horizon and the larger the cumulative return, the more of the return that is lost to fees.



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**Assumes investment held for 10 years with no performance fees or distributions.

Source: Morningstar Direct as at March 12, 2019. Based on the Canadian universe of 780 ETFs, the average management fee is 0.49%. Based on the Canadian universe of 323 active ETFs, the average management fee is 0.57%. Based on the Canadian universe of F-class mutual funds, the average management fee is 0.81%.

Active management presents opportunities to enhance returns and reduce risk through:

Independent valuation analysis:

Can conduct independent research on portfolio holdings, including cash flow analysis, risk analysis and earnings forecasts.

Institutional access:

Fixed income managers generally obtain favorable execution costs for bonds.

Not forced to buy/sell:

Actively managed ETFs can opt out of buying securities with questionable valuations or liquidity. They are not forced to buy or sell issues blindly when an index rebalances.

Independent credit analysis:

With fixed income investing, active managers will undertake full independent credit analysis of the underlying holdings of the portfolio. Credit analysis is a key determinant of the risk/return profile of fixed income investing and the likelihood of an issuer meeting its debt obligations.



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Fixed Income

		Advised by:	Mgmt Fee ³
HAB	Horizons Active Corporate Bond ETF	Fiera Capital Corporation	0.50%
HAD	Horizons Active Cdn Bond ETF	Fiera Capital Corporation	0.42%
HAF	Horizons Active Global Fixed Income ETF	Fiera Capital Corporation	0.45%
HEMB	Horizons Active Emerging Markets Bond ETF	Fiera Capital Corporation & Mirae Asset Global Investments (USA) LLC.	0.55%
HFP	Horizons Active Floating Rate Preferred Share ETF	Fiera Capital Corporation	0.55%
HFR	Horizons Active Floating Rate Bond ETF	Fiera Capital Corporation	0.40%
HMP	Horizons Active Cdn Municipal Bond ETF	Fiera Capital Corporation	0.29%
HPR	Horizons Active Preferred Share ETF	Fiera Capital Corporation	0.55%
HUF	Horizons Active US Floating Rate Bond ETF *	Fiera Capital Corporation	0.40%
HYI	Horizons Active High Yield Bond ETF	Fiera Capital Corporation	0.60%
HSL	Horizons Active Floating Rate Senior Loan ETF	AlphaFixe Capital Inc.	0.75%

Equity Income

HAI	Horizons Active Emerging Markets Dividend ETF	Guardian Capital LP	0.65%⁴
HAL	Horizons Active Cdn Dividend ETF	Guardian Capital LP	0.55%⁵
HAU	Horizons Active US Dividend ETF *	Guardian Capital LP	0.55%⁵
HAZ	Horizons Active Global Dividend ETF	Guardian Capital LP	0.65%⁴

Covered Call

HEA	Horizons Enhanced Income US Equity ETF *	Horizons ETFs (Canada)	0.65%
HEE	Horizons Enhanced Income Energy ETF	Horizons ETFs (Canada)	0.65%
HEF	Horizons Enhanced Income Financials ETF	Horizons ETFs (Canada)	0.65%
HEJ	Horizons Enhanced Income International Equity ETF	Horizons ETFs (Canada)	0.65%
HEP	Horizons Enhanced Income Gold Producers ETF	Horizons ETFs (Canada)	0.65%
HEX	Horizons Enhanced Income Equity ETF	Horizons ETFs (Canada)	0.65%
HGY	Horizons Gold Yield ETF	Horizons ETFs (Canada)	0.60%
HNY	Horizons Natural Gas Yield ETF	Horizons ETFs (Canada)	0.85%



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Currency		Advised by:	Mgmt Fee ¹
HARC	Horizons Absolute Return Global Currency ETF	CIBC Asset Management Inc.	0.95%
Strategic			
HAC	Horizons Seasonal Rotation ETF	Horizons ETFs (Canada)	0.75% ⁶
HGM	Horizons Managed Global Opportunities ETF	Forstrong Global Asset Management Inc.	0.50% ⁷
HRA	Horizons Global Risk Parity ETF	ReSolve Asset Management Inc.	0.65% ⁸
MIND	Horizons Active A.I. Global Equity ETF	Mirae Asset Global Investments	0.55%

One-Ticket Solutions

HBAL	Horizons Balanced TRI ETF Portfolio	Horizons ETFs (Canada)	0.00%
HCON	Horizons Conserative TRI ETF Portfolio	Horizons ETFs (Canada)	0.00%
HGRO	Horizons Growth TRI ETF Portfolio	Horizons ETFs (Canada)	0.00%

HCON, HBAL, and HGRO are subject to the fees of their underlying ETFs. Horizons ETFs currently anticipate that the management expense ratio of HCON, HBAL, and HGRO will be approximately 0.15%, 0.16% and 0.17%, respectively and will not exceed 0.17%, 0.18%, and 0.19%, respectively. While the aggregate trading expense ratio of the portfolio of Horizons TRI ETFs held by HCON, HBAL, and HGRO will be approximately 0.20%, 0.23%, and 0.28%, respectively. As trading expense ratios include expenses outside of the Manager's control, the trading expense ratio of HCON, HBAL, and HGRO is subject to change at any time.

*Also has a U.S. dollar trading option.

³Plus applicable sales tax. Each ETF may be subject to additional operating expenses as outlined in its applicable prospectus. ⁴Annual management fee reduced from 0.80% to 0.65%, effective December 1, 2018. ⁵Annual management fee reduced from 0.70% to 0.55%, effective December 1, 2018. ⁶Horizons HAC pays to the Manager a Performance Fee, if any, equal to 20% of the amount by which the performance of Horizons HAC, at any date on which the fee is payable, (i) exceeds the High Water Mark and (ii) is greater than an annualized return of five percent (5%). ⁷Annual management fee reduced from 0.85% to 0.50%, effective December 1, 2018. ⁸Annual management fee reduced from 0.85% to 0.65%, effective December 1, 2018.



OUR ACTIVELY MANAGED PARTNERS



AlphaFixe Capital Inc. Founded in 2008, AlphaFixe Capital is a leading investment manager specializing in fixed income and senior loans. Its portfolio management team has extensive experience in managing senior loan assets, serving primarily institutional clients. 100% employee owned, AlphaFixe Capital has a true entrepreneurial approach towards investing, which includes a flexible approach and capital preservation focus.



CIBC Asset Management, Inc. The asset management subsidiary of CIBC, provides a range of high-quality investment management services and solutions to retail and institutional investors. Offerings include: a comprehensive platform of mutual funds, strategic managed portfolio solutions, discretionary investment management services for high-net-worth individuals and portfolio management for institutional clients. CIBC Asset Management is one of Canada's largest asset management firms.



Fiera Capital Corp. Publically traded with offices across the U.S. and Canada, Fiera Capital Corp. has become a leader in the realm of non-traditional investment solutions. It has vast experience and expertise in Canadian fixed income, North American preferred shares, Canadian and foreign equities, asset allocation and alternative strategies.



Forstrong Global Asset Management strives to deliver unbiased stewardship – the careful and responsible management of client assets entrusted to its care. The firm is committed to providing improved value to clients through its discretionary investment management services. Forstrong Global advocates a goals-based investment approach, while nurturing a philosophy of prudent portfolio management to grow and protect clients' wealth.



Guardian Capital LP is one of Canada's leading asset managers which has been managing institutional assets since 1962. In partnership with Horizons ETFs, it has successfully implemented its "GPS" approach that focuses on three key fundamental drivers: growth of dividend payout; payout of cash flow; and sustainability of the payout. Having a portfolio of stocks that offers a combination of these three factors gives Guardian an excellent track record and future in dividend investing.



ReSolve Asset Management Inc. ReSolve Asset Management Inc. is a Toronto-based investment management firm that delivers ETF Managed Portfolio Solutions focused on global asset allocation. In serving advisors, institutions and individual investors in both Canada and the United States, ReSolve puts research and education at the centre, with abundant resources at its research blog (GestaltU.com) and risk parity education portal (RiskParity.ca). The firm offers its strategies via Separately Managed Accounts, an Accredited Investor Fund, and now, an ETF.



Mirae Asset Global Investments Co., Ltd. Horizons ETFs was acquired by Mirae Asset in 2011. Headquartered in Seoul, South Korea, Mirae Asset is one of the world's largest investment managers in emerging market equities with offices located in Australia, Brazil, Canada, China, Colombia, Hong Kong, India, South Korea, Taiwan, the U.K., the United States and Vietnam. The firm manages assets globally through a diversified platform to offer market-leading franchises in traditional equity and fixed income products, ETFs and alternative strategies, such as real estate, private equity and hedge funds. Mirae Asset Global Investments is focused on providing equity and fixed income investment advisory services to mutual funds, foreign investment trusts, and institutions.



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Commissions, management fees and expenses all may be associated with an investment in exchange traded products managed Horizons ETFs Management (Canada) Inc. (the “Horizons Exchange Traded Products”). The Horizons Exchange Traded Products are not guaranteed, their values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the Horizons Exchange Traded Products. **Please read the relevant prospectus before investing.**

Certain statements contained in this news release constitute forward looking information within the meaning of Canadian securities laws. Forward-looking information may relate to a future outlook and anticipated distributions, events or results and may include statements regarding future financial performance. In some cases, forward-looking information can be identified by terms such as “may”, “will”, “should”, “expect”, “anticipate”, “believe”, “intend” or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Horizons ETFs undertakes no obligation to update publicly or otherwise revise any forward-looking statement whether as a result of new information, future events or other such factors which affect this information, except as required by law.