Horizons Cdn Select Universe Bond ETF (HBB)

ETF Snapshot

Name:
Horizons Cdn Select Universe Bond ETF

Launch Date:
May 8, 2014

Ticker:
HBB

Management Fee:[1]
0.09% (does not include 0.15% swap fee included in TER)

Investment Manager:
Horizons ETFs Management (Canada) Inc.

Underlying Index:
Solactive Canadian Select Universe Bond Index (Total Return)

Bloomberg Index Ticker:
SOLHBB

Currency Hedge:
No

Eligibility:
All registered and non-registered investment accounts

[1] Plus appplicable sales taxes.

Get the Total Return of Investment Grade Canadian Bonds

The Horizons Cdn Select Universe Bond ETF ("HBB") seeks to replicate, to the extent possible, the performance of the Solactive Canadian Select Universe Bond Index (the "Index"), net of expenses.

The Solactive Canadian Select Universe Bond Index is designed to measure the performance of the Canadian investment grade fixed income market by selecting a representative group of bonds offering similar duration, yield and return characteristics to the universe of eligible government & corporate bond securities.

Key Features of HBB

- **The Total Return Index Advantage:** HBB is a part of the Horizons Total Return Index family of ETFs ("Horizons TRI ETFs"). HBB uses a total return swap contract to replicate the performance of the Index. This structure typically reduces the tracking error associated with replicating an index and increases tax efficiency
- **Investment-Grade Bonds:** HBB provides exposure to an index, where the constituents must have a minimum credit rating of BBB
- **Tax Efficiency:** HBB is not expected to make taxable distributions
- **Automatic Reinvestment:** The reinvestment of Index constituent distributions are reflected in HBB's Net Asset Value ("NAV") on their ex-date – which can result in more efficient compounding than ETFs that compound only quarterly or monthly

Total Return Index Structure†

HBB does not physically hold the underlying constituent securities of the Index. Instead, its return is delivered via swap agreements with acceptable counterparties: Schedule 1 Canadian banks with a minimum A credit rating. The swap agreement is a binding contractual obligation to deliver the daily returns of the Index to the ETF, which is marked-to-market each day based on the change of the Index. Counterparties are legally obligated to deliver the exact Index returns, before fees.

Corporate Class ETFs - Tax Efficiency

HBB shares are a series of shares within a corporate class structure that allows the ETF to deliver its returns in a tax-efficient manner. Combined with the total return swap-based portfolio, investors are only expected to receive the total return of the Index, which is reflected in the ETF's unit price. Investors are not expected to receive any taxable distributions directly. This makes the ETF particularly advantageous if it's held in a taxable account, where tax on bond income distributions could potentially be in excess of 50%, depending on the marginal rate tax of the investor. With this ETF structure, investors can potentially defer incurring a tax liability until they sell the ETF, at which point proceeds from the sale of ETF units would likely be taxed as a capital gain.

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Taxation on Canadian Bond ETFs

The following hypothetical example highlights the after-tax performance of holding HBB versus a physically replicated Canadian bond ETF in a non-registered account. The example assumes both ETFs reflect a net yield of 3%. Both ETFs are held by an Ontario resident investor in the third-highest marginal tax bracket, who would have an income tax rate of 47.97% in 2020.

It is important to note that neither HBB, nor any other Horizons TRI ETFs, re-characterize investment income as capital gains.

	Physically-Replicated ETF	HBB
Principal Investment	$100,000	$100,000
Market Return (0%)	$0	$0
Net Distributions of Constituents (3%)	$3,000	$3,000
Pre-Tax Total Portfolio Value	$103,000	$103,000
Taxes on Distributions (47.97%)**	$1,439.10	$0
Total Taxes Payable	$1,439.10	$0
Total After Tax Portfolio Return	$101,560.90	$103,000
Difference in Return	$1,439.10	
Return Lost to Tax on Distributions	**-1.43%**	0%

FOR ILLUSTRATIVE PURPOSES ONLY. The above illustrative example highlights the expected after-tax performance benefits of holding HBB versus another Canadian domiciled physically replicated Canadian bond ETF in a non-registered account, assuming both ETFs earned/reflected a net 3% distributions (in CAD) and track the exact same universe of bonds and assumes no changes to the market value of the Index constituents. This example does not take into account any fees or expenses of the ETFs, or any commissions, fees or expenses that would be associated with a purchase or sale of ETF units/shares. The example does not contemplate the sale of the ETF units/shares or any tax liability that would result.
** Both ETFs are held by an Ontario resident investor in the third-highest tax bracket, who would have a marginal tax rate of 47.97% in 2020. It also assumes no change in the market value of the Index constituents.

To learn more, please visit **www.HorizonsETFs.com/HBB**

HORIZONS ETFs
by Mirae Asset

†Horizons Total Return Index ETFs ("Horizons TRI ETFs") are generally index-tracking ETFs that use an innovative investment structure known as a Total Return Swap to deliver index returns in a low-cost and tax-efficient manner. Unlike a physical replication ETF that typically purchases the securities found in the relevant index in the same proportions as the index, most Horizons TRI ETFs use a synthetic structure that never buys the securities of an index directly. Instead, the ETF receives the total return of the index through entering into a Total Return Swap agreement with one or more counterparties, typically large financial institutions, which will provide the ETF with the total return of the index in exchange for the interest earned on the cash held by the ETF. Any distributions which are paid by the index constituents are reflected automatically in the net asset value (NAV) of the ETF. As a result, the Horizons TRI ETF receives the total return of the index (before fees), which is reflected in the ETF's share price, and investors are not expected to receive any taxable distributions. Certain Horizons TRI ETFs (Horizons Nasdaq-100 ® Index ETF and Horizons US Large Cap Index ETF) use physical replication instead of a total return swap. The Horizons Cash Maximizer ETF and Horizons USD Cash Maximizer ETF use cash accounts and do not track an index but rather a compounding rate of interest paid on the cash deposits that can change over time

Commissions, management fees and applicable sales taxes all may be associated with an investment in the Horizons Cdn Select Universe Bond ETF (HBB) managed by Horizons ETFs Management (Canada) Inc. ("the ETF"). The ETF is not guaranteed, its value changes frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. **Please read the prospectus before investing.**

The information contained herein reflects general tax rules only and does not constitute, and should not be construed as, tax advice. Investors' situations may differ from those illustrated. Investors should consult with their tax advisors before making any investment decisions.

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