Gain Tax-Efficient Exposure to Canadian-listed Real Estate Investment Trust Equity Securities

According to the National Association of Real Estate Investment Trusts (“NAREIT”), the Canadian real estate investment trust (“REIT”) industry was valued at approximately $60 billion in 2018. The Horizons Equal Weight Canada REIT Index ETF (“HCRE”) provides exposure to real estate securities through a diversified portfolio of REITs. A REIT is a publicly traded equity representing pools of money invested in real estate properties such as office buildings, apartment complexes, warehouses and shopping centres. REITs own and manage such properties and through their structure, investors receive rental income and income from capital appreciation if a property is sold for a gain.

HCRE seeks to replicate, to the extent possible, the performance of the Solactive Equal Weight Canada REIT Index (Total Return) (the “Index”), net of expenses. The Index is an equal-weight index of Canadian-listed real estate investment trust equity securities.

Key Features of HCRE:

- **The Horizons TRI advantage:** HCRE is part of Horizons ETFs Total Return Index family of ETFs (“Horizons TRI ETFs”). HCRE uses a total return swap contract to replicate the performance of the Index. This structure typically reduces the cost and tracking error associated with replicating an index and increases tax-efficiency.
- **Tax-efficient access:** HCRE is not expected to make taxable distributions.
- **Automatic reinvestment:** The reinvestment of index constituent distributions are reflected in HCRE’s net asset value (“NAV”) on their ex-date – which can result in more efficient compounding than ETFs that compound only quarterly or even monthly.

More about HCRE’s Horizons TRI Structure

HCRE 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.

Tax Advantages

HCRE does not directly receive any distributions from Index constituents and is therefore not expected to make any distributions. Investors who hold HCRE still get full exposure to the total return of the Index through its Horizons TRI structure, where the value of dividends is reflected in the ETF’s NAV rather than being received into the ETF as cash and then paid out as taxable distributions.

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1. Plus applicable sales taxes.
3. Compared to other Canadian physically replicated ETFs in the “Real Estate Equity” Morningstar category. HCRE holds the third-lowest management fee among a total of 11 ETFs, as at January 16, 2019.
The above hypothetical illustrative example highlights the expected after-tax performance benefits of holding a Horizons TRI structure (HCRE) versus another physically replicated Canadian REIT ETF in a non-registered account, assuming both ETFs earned/recognized a hypothetical 5.00% distribution yield and track the exact same universe of securities. The example does not contemplate the sale of the ETF units or any tax liability that would result. It also assumes no change in 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.

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

4 The 5.00% distribution yield is a weighted average of the Index constituents’ trailing 12-month distribution yields, as at December 31, 2018.

5 Both ETFs are assumed to be held by an Ontario resident investor in the fourth-highest tax bracket, who would have a marginal tax rate of 46.41% and 23.20% on ‘other income’ and capital gains, respectively. A hypothetical blended tax rate of 21.20% is used to reflect the average tax characterization of returns for a basket of REIT securities (which assumes approximately 9.73% other income, 11.47% capital gains). The blended marginal tax rate applicable to the constituents of the S&P TSX Capped REIT Index is for the calendar year 2017. This is not meant to be a precise representation of the tax characterization that would actually be realized by the returns of the underlying securities of the Solactive Equal Weight Canada REIT Index. Since the weightings and performance of the underlying constituents of the Solactive Equal Weight Canada REIT Index frequently, the blended marginal tax rate will vary greatly.

To learn more, please visit www.HorizonsETFs.com/HCRE