

# Horizons Equal Weight Canada REIT Index ETF (HCRE)

## ETF Snapshot

**Name:**

Horizons Equal Weight Canada REIT Index ETF

**Launch Date:**

January 23, 2019

**Ticker:**

HCRE

**Management Fee:<sup>1</sup>**

0.50%

**Investment Manager:**

Horizons ETFs Management (Canada) Inc.

**Underlying Index:**

Solactive Equal Weight Canada REIT Index (Total Return)

**Bloomberg Index Ticker:**

SOLCREW

**Currency Hedged:**

No

**Eligibility:**

All registered and non-registered investment accounts

## 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<sup>2</sup>. 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<sup>3</sup> 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.

<sup>1</sup>Plus applicable sales taxes.

<sup>2</sup>Source: NAREIT "Canada's REIT Industry Turns 25", July 19, 2018.

<sup>3</sup>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.



# Horizons Equal Weight Canada REIT Index ETF (HCRE)

## Tax Implications for Canadian REIT ETFs – Illustrative Example Only

	Physically Replicated ETF	HCRE
Principal Investment	\$100,000	\$100,000
Market Return (0%)	\$0	\$0
Distribution Received (5.00%) <sup>4</sup>	\$5,000	\$5,000
Pre-Tax Total Portfolio Value	\$105,000	\$105,000
Taxes on Dividends (21.20%) <sup>5</sup>	\$1,060	\$0
Total After Tax Portfolio Return	\$103,940	\$105,000
<b>Return Lost to Tax on Distributions</b>	<b>-1.06%</b>	<b>0%</b>

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/reflected 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.

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

<sup>5</sup>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](http://www.HorizonsETFs.com/HCRE)



Commissions, management fees and expenses all may be associated with an investment in the Horizons Equal Weight Canada REIT Index ETF (the "ETF") managed by Horizons ETFs Management (Canada) Inc. 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.**

\*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<sup>®</sup> 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.

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

The financial instrument is not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Index and/or Index trade name or the Index Price at any time or in any other respect. The Index is calculated and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards the Issuer, Solactive AG has no obligation to point out errors in the Index to third parties including but not limited to investors and/or financial intermediaries of the financial instrument. Neither publication of the Index by Solactive AG nor the licensing of the Index or Index trade name for the purpose of use in connection with the financial instrument constitutes a recommendation by Solactive AG to invest capital in said financial instrument nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in this financial instrument.