

# Horizons Active Ultra-Short Term Investment Grade Bond ETF (HFR)

## ETF Snapshot

**Name:**

Horizons Active Ultra-Short Term Investment Grade Bond ETF<sup>1</sup>

**Launch Date:**

December 10, 2010

**Ticker:**

HFR

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

0.40%

**Investment Manager:**

Horizons ETFs Management (Canada) Inc.

**Sub-Advisor:**

Fiera Capital Corporation

**Distribution Frequency:**

Monthly

**Duration:**

Generally maintained at less than two years

**Eligibility:**

All registered and non-registered investment accounts

### Stay Ahead of Canadian Interest Rates

The Horizons Active Ultra-Short Term Investment Grade Bond ETF ("HFR") is a high-grade corporate bond ETF designed to pay a higher yield as interest rates rise. By doing so, the market value of the ETF is less impacted by the effects, either negative or positive, of interest rate fluctuations.

HFR is expected to generate a yield that will reflect any changes to key short-term lending rates, so that when interest rates change, the yield on the ETF is also expected to change. HFR invests in an actively managed portfolio of high-investment-grade Canadian corporate bonds. The ETF then enters into an interest rate swap agreement where a fixed rate is paid by the ETF in exchange for a floating rate that increases as interest rates rise.

By doing this, the ETF can potentially offer investors the higher yields associated with corporate bond investing, with some downside price protection from rising interest rates.

### Key Features:

- Sub-advisor, Fiera Capital Corporation ("Fiera Capital"), is an experienced corporate fixed income manager
- Offers a floating rate of income linked to short-term interest rates
- Seeks to mitigate the negative impact of interest rate increases on a bond portfolio
- Keeps duration short
- Generally offers a higher yield than GICs and money market funds

### Understanding HFR's Yield

HFR invests primarily in a portfolio of Canadian corporate bonds and will hedge the portfolio's interest rate risk to generally maintain a portfolio duration of less than one year. HFR uses an interest rate swap overlay to deliver a floating rate of income, which is estimated to be equivalent to the Canadian Dealer Offering Rate ("CDOR"), plus the current corporate bond spread.

### Putting It All Together

As the CDOR rises, the value of the underlying bonds in the portfolio is expected to decline. However, the value of the swap is expected to increase; meaning the market value of the ETF is expected to see minimal change. Nevertheless, the yield of the ETF should increase. Conversely, if the CDOR drops, the opposite is expected to happen with the yield of HFR: ultimately declining – but the value of the bond it holds would increase.

<sup>1</sup>Previously named Horizons Active Floating Rate Bond ETF until January 24, 2020.

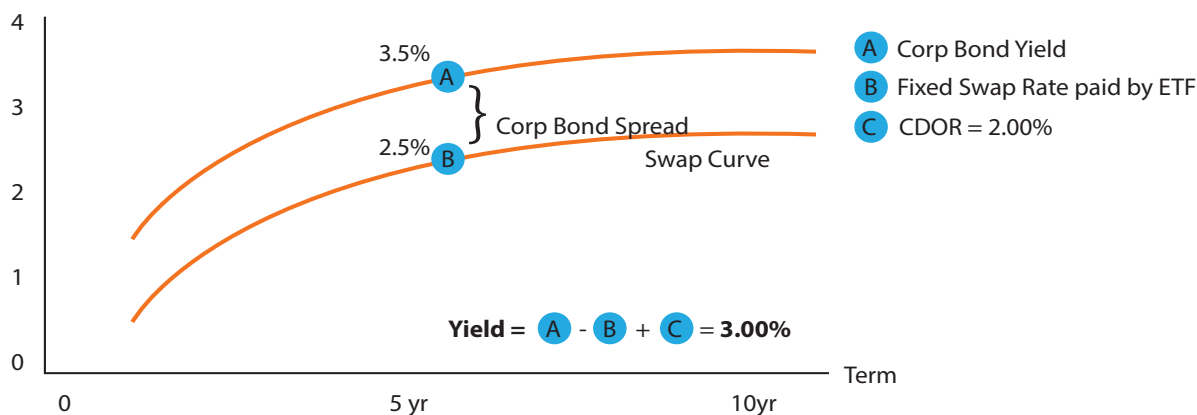
<sup>2</sup>Plus applicable sales taxes.



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## The Illustrative example below uses the following assumptions:

- The CDOR is 2.00%.
- The corporate bond portfolio is earning 3.5 %.
- The spread earned by the ETF portfolio in this example would be 3.5%, minus the fixed amount paid to secure the swap – in this example 2.5%.
- The resulting corporate spread then would be 1.00%.



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The combined yield of the ETF portfolio in this example would therefore be the combination of CDOR plus the corporate bond spread, which would have result in a portfolio yield of 3.05%. Due to the fact that the net asset value (“NAV”) tends to be market neutral regardless of prevailing interest rates, the NAV tends to stay relatively close to the initial unit price of \$10.00 (the NAV of HFR when it first launched).

## Reducing Portfolio Duration:

A powerful benefit of HFR is that investors can use it in combination with existing bond holdings to lower the overall interest rate sensitivity of their portfolios. Consider this hypothetical example:

- HFR has a duration of nine months with a yield of 3.00%
- A separate bond strategy involves a high-investment-grade bond with a yield of 3.50%, and a duration of seven years

HFR	Investment-Grade Bond Strategy	Duration (Years)	Yield (%)
20%	80%	5.8	3.4
40%	60%	4.5	3.3
50%	50%	3.9	3.3
60%	40%	3.3	3.2
80%	20%	2.0	3.1

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To learn more, please visit [www.HorizonsETFs.com/HFR](http://www.HorizonsETFs.com/HFR)



Commissions, management fees and expenses all may be associated with an investment in the Horizons Active Ultra-Short Term Investment Grade Bond ETF (the “ETF”) managed by Horizons ETFs Management (Canada) Inc. The ETF is not guaranteed, its values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. **Please read the prospectus before investing.**

The sub-advisor and investment manager have a direct interest in the management fees of the ETF, and may, at any given time, have a direct or indirect interest in the ETF or its holdings.