

# Horizons US 7-10 Year Treasury Bond ETF (HTB; HTB.U)

## ETF Snapshot

**Name:**

Horizons US 7-10 Year Treasury Bond ETF

**Launch Date:**

April 8, 2015

**Ticker:**

HTB; HTB.U<sup>1</sup>

**Management Fee:<sup>2</sup>**

0.15% (0.05% swap fee)

**Investment Manager:**

Horizons ETFs Management (Canada) Inc.

**Underlying Index:**

Solactive US 7-10 Year Treasury Bond Index (Total Return)

**Bloomberg Index Ticker:**

SOLUTB

**Currency Hedge:**

No

**Eligibility:**

All registered and non-registered investment accounts

<sup>1</sup>Trades in U.S. dollars.

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

<sup>3</sup>Compared to other Canadian physically replicated ETFs in the "Global Fixed Income" Morningstar category. HTB shares the lowest management fee among a total of 35 ETFs, as at October 23, 2018.

## Tax-Efficient Access to Mid-Term U.S. Treasuries

The Horizons US 7-10 Year Treasury Bond ETF ("HTB") seeks to provide tax-efficient exposure to an index comprised of U.S. treasury bonds with maturities between seven and ten years.

Taxes charged on interest income from U.S. bond exposure can often erode returns, especially when interest rates are low. However, by investing in mid-term U.S. treasuries using HTB, investors are receiving the total compounded return of the Index, without the usual tax consequences that can occur from investing in the asset class directly.

## Key Features of HTB

- **The TRI advantage:** HTB is part of Horizons Total Return Index ("TRI") family of ETFs<sup>3</sup>. HTB uses a total return swap contract to replicate the performance of the Solactive US 7-10 Year Treasury Bond Index (Total Return). This structure typically reduces the cost<sup>3</sup> and tracking error associated with replicating an index and increases tax efficiency
- **Tax-efficient access:** HTB is not expected to make taxable distributions
- **Automatic Reinvestment:** The reinvestment of index constituent distributions are reflected in HTB'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 HTB's TRI Structure

HTB does not physically hold the underlying constituent bonds 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

Generally, all interest income earned on U.S. bonds is taxed at the investor's full marginal tax rate in the year paid. Since HTB does not directly receive, and is not expected to pay taxable distributions, unitholders should not expect any tax liability related to the income stream of the underlying constituents of its Index. The only anticipated tax liability would be if HTB is sold and a capital gain is realized. HTB is designed to be a more efficient way for investors to get exposure to the U.S. treasury bonds market.



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## Taxation on U.S. Bond ETFs

The after-tax yield of a bond portfolio is a crucial component of total return, particularly in an environment of low interest rates and tight spreads between government and corporate debt. The following hypothetical example highlights the after-tax performance of holding HTB versus a physically replicated bond ETF in a non-registered account. The example assumes both ETFs reflect a net yield of 3%.

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

## Tax Implications for Holding U.S. Bond ETFs in Non-Registered Accounts - Illustrative Example Only

	Physical ETF	HTB
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 (46.41%)**	\$1,392.30	\$0
Total Taxes Payable	\$1,392.30	\$0
Total After Tax Portfolio Return	\$101,607.70	\$103,000
Difference in return	-\$1,392.30	
<b>Return Lost to Tax on Distributions</b>	<b>-1.39%</b>	<b>0%</b>

The above illustrative example highlights the expected after-tax performance benefits of holding a TRI structure ETF (HTB) versus another Canadian domiciled physically replicated 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. The example does not contemplate the sale of the ETF units or any tax liability that would result.

\*\* Both ETFs are held by an Ontario resident investor in the fourth-highest tax bracket, who would have a marginal tax rate of 46.41% in 2018.

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



Commissions, management fees and expenses all may be associated with an investment in Horizons US 7-10 Year Treasury Bond ETF managed by Horizons ETFs Management (Canada) Inc. (the "ETF"). 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.**

\*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.

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