Horizons S&P/TSX Capped Composite Index ETF (HXCN)

ETF Snapshot

Name: Horizons S&P/TSX Capped Composite Index ETF
Launch Date: February 6, 2020
Ticker: HXCN
Management Fee: 0.05%
Investment Manager: Horizons ETFs Management (Canada) Inc.
Underlying Index: The S&P/TSX Capped Composite Index (Total Return)
Bloomberg Index Ticker: T00CAR
Currency Hedged: No
Eligibility: All registered and non-registered investment accounts

Get the Index Advantage with the S&P/TSX™ Capped Composite
Horizons S&P/TSX Capped Composite Index ETF (HXCN) seeks to replicate, to the extent possible, the performance of the S&P/TSX Capped Composite Index (Total Return) (the “Index”), net of expenses. The Index is designed to measure the performance of the broad large-cap market segment of the Canadian equity market, with a capped weight of 10% on all constituent issuers.

Key Features of HXCN

- **Total Return Index Advantage**: HXCN is part of the Horizons Total Return Index family of ETFs ("Horizons TRI ETFs"). HXCN uses one or more total return swap contracts to seek to replicate the performance of the Index. This structure typically reduces tracking error associated with physically replicating an index and increases tax efficiency.
- **Competitive Management Fee**: At 0.05%, HXCN is tied with five other ETFs offering the second-lowest management fee of 46 Canadian-listed ETFs that provide exposure to the Canadian equity market*
- **Tax Efficiency**: HXCN is not expected to make taxable distributions.
- **Automatic Reinvestment**: The reinvestment of Index constituent distributions are reflected in HXCN's net asset value ("NAV") on their ex-date – which can result in more efficient compounding than ETFs that compound only quarterly or monthly.
- **Low Tracking Error**: The tracking error of HXCN to its underlying Index is expected to only be equal to the management fee plus HST.

Total Return Index Structure
HXCN 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. A 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
HXCN is a corporate class ETF, meaning its shares represent a specific class within a corporate structure. 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 its shares are held in a taxable account, where tax on Canadian eligible dividend distributions could potentially be in excess of 30%, depending on the marginal tax rate of the investor. With this ETF structure, investors can potentially defer incurring a tax liability until they sell their shares of the ETF, at which point they may realize a taxable capital gain.

*Compared to other Canadian-listed ETFs in the "Canadian Equity" Morningstar category, HXCN tied with five other ETFs with the second-lowest management fee among a total of 46 ETFs, as at February 6, 2020.
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Taxation on Canadian Equity ETFs
The following hypothetical example shows the potential tax impact on the returns of a Canadian equity ETF that earns annual dividends of 3%. This example does not take into account any management or operating fees, or expenses that would be associated with an ETF purchase. 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 HXCN, nor any other Horizons TRI ETFs, re-characterize investment income as capital gains.

Tax Implications for Canadian Equity ETFs – Illustrative Example Only

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<tr>
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<th>Physically Replicated ETF</th>
<th>HXCN</th>
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<tbody>
<tr>
<td>Principal Investment</td>
<td>$100,000.00</td>
<td>$100,000.00</td>
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<tr>
<td>Market Return (0%)</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Dividend Received (3%)</td>
<td>$3,000.00</td>
<td>$3,000.00</td>
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<tr>
<td>Pre-Tax Total Portfolio Value</td>
<td>$103,000.00</td>
<td>$103,000.00</td>
</tr>
<tr>
<td>Taxes on Dividends (31.67%)**</td>
<td>$950.10</td>
<td>$0.00</td>
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<tr>
<td>Total Tax Payable</td>
<td>$950.10</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total After Tax Portfolio Return</td>
<td>$102,049.90</td>
<td>$103,000.00</td>
</tr>
<tr>
<td>Difference in Return</td>
<td>$950.10</td>
<td>0%</td>
</tr>
</tbody>
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Return Lost to Tax on Distributions  -0.95%

FOR ILLUSTRATIVE PURPOSES ONLY. The above illustrative example highlights the potential after-tax performance benefits of holding HXCN versus another Canadian domiciled physically replicated Canadian Equity ETF in a non-registered account, assuming both ETFs earned/reflected a net 3% dividend (eligible Canadian Dividends) and track the exact same universe of stocks. 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 the purchase or sale of the ETF units/shares. The example also does not contemplate any 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%, and an effective tax rate of 31.67% on eligible Canadian Dividends, in 2020. It also assumes no change in the market value of the index constituents.

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

Commission, management fees and expenses all may be associated with an investment in Horizons S&P/TSX Capped Composite Index 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.

1 Horizons Total Return ETFs (“Horizons TRI ETFs”) are generally index-tracking ETFs that use an innovative investment structure known as a Total Return Swap to deliver the returns of an underlying benchmark in a low-cost and tax-efficient manner. Unlike a physical replication ETF that typically purchases the securities found in the relevant benchmark in the same proportions as the benchmark, most Horizons TRI ETFs use a synthetic structure that never buys the securities of a benchmark directly. Instead, the ETF receives the total return of the benchmark 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 benchmark in exchange for the interest earned on the cash held by the ETF. Any distributions which are paid by the Benchmark’s 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 benchmark (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 use physical replication instead of a total return swap. The Horizons Cash Maximizer ETF does not track a traditional benchmark but rather a compounding rate of interest paid on a cash deposit 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. Investors’ situations may differ from those illustrated. Investors should consult with their tax advisors before making any investment decisions.

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