

Horizons Intl Developed Markets Equity Index ETF (HXDM; HXDM.U)

ETF Snapshot

Name:

Horizons Intl Developed Markets Equity Index ETF

Launch Date:*

September 27, 2017

Ticker:

HXDM; HXDM.U¹

Management Fee:²

0.20%

Swap Fee:

0.30%

Investment Manager:

Horizons ETFs Management (Canada) Inc.

Underlying Index:

Horizons EAFE Futures Roll Index (Total Return)

Bloomberg Index Ticker:

CMDYHXDM

Currency Hedge:

No

Eligibility:

All registered and non-registered investment accounts

¹Trades in U.S. Dollars.

²Plus applicable sales taxes.

Get the Total Return on International Equities

The Horizons Intl Development Markets Equity Index ETF ("HXDM") seeks to replicate, to the extent possible, the performance of the Horizons EAFE Futures Roll Index (Total Return) (the "Index"), net of expenses. The Index is designed to measure the performance of large- and mid-cap securities across 21 developed markets including Europe, Australasia and the Far East (excluding the U.S. and Canada).

The Index is designed to reflect the returns generated over time through long notional investments in a series of MSCI EAFE Index Futures that are in turn based on the performance of the MSCI EAFE Index.

Key Features of HXDM:

- **The Total Return Index Advantage:** HXDM is part of Horizons Total Return Index family of ETFs ("Horizons TRI ETFs"). HXDM uses a total return swap contract to replicate the performance of the Index. This structure typically reduces the tracking error associated with replicating an index and increases tax-efficiency
- **Tax Efficiency:** HXDM is not expected to make taxable distributions, making it advantageous for taxable accounts where foreign dividends are taxed at the marginal income tax rate of a Canadian resident
- **Automatic Reinvestment:** The reinvestment of index constituent distributions are reflected in HXDM's Net Asset Value ("NAV") on their ex-date, which can result in more efficient compounding than ETFs that compound only quarterly or monthly
- **Exposure to MSCI EAFE Index:** Gain exposure to some of the biggest companies in developed markets outside of North America

Total Return Index Structure[†]

HXDM 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.

Corporate Class ETFs - Tax Efficiency

HXDM 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. Distributions made by foreign companies are not eligible for the Canadian dividend tax credit and are taxed in the hands of Canadian residents as income at the marginal tax rate of the investor.

This makes the ETF particularly advantageous if it's held in a taxable account, where tax on foreign dividend distributions could potentially be in excess of 50%, depending on the marginal tax of the investor. With this ETF structure, investors can potentially defer incurring a tax liability until they sell the ETF, at which point proceeds from the sale of ETF units would likely be taxed as a capital gain. Foreign equity ETFs are also subject to withholding tax depending on the type of taxable account they are held in, which could potentially further erode the after tax return of a physically replicated ETF held in a taxable account. HXDM would not be subject directly to foreign withholding tax since it does not actually receive physical dividends.



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Taxation on Foreign Equities

The following hypothetical example shows the tax impact on the returns of a foreign equity ETF that pays an annual dividend 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. In this example, there is no application of the withholding tax on the dividends, which is another consideration that could increase the tax liability of a foreign equity ETF depending on the type of taxable account the ETF is held in.

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

	Physically-Replicated ETF	HXDM
Principal Investment	\$100,000	\$100,000
Market Return (0%)	\$0	\$0
Dividends Received (3%)	\$3,000	\$3,000
Pre-Tax Portfolio Value	\$103,000	\$103,000
Taxes on Foreign Dividends (47.97%)**	\$1,439.10	\$0
Total Tax Payable	\$1,439.10	\$0
Total After-Tax Portfolio Value	\$101,100.60	\$103,000
Difference in Return	-\$1,439.10	
Return Lost to Distributions	1.44%	0%

FOR ILLUSTRATIVE PURPOSES ONLY. The above illustrative example highlights the expected after-tax performance benefits of holding HXDM versus another Canadian domiciled physically replicated foreign equity ETF in a non-registered account, assuming both ETFs earned/reflected a net 3% dividend 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%, on international dividends, in 2020. It also assumes no change in the market value of the Index constituents.

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



*The Launch Date shown is the launch date of the predecessor ETF of the same name which was structured as a trust. On November 29, 2019, after receiving unitholder approval, the predecessor ETF merged into a class of shares of a corporate fund structure. In accordance with exemptive relief, any historical data of the ETF presented here includes the historical data of the predecessor ETF in order to provide full and transparent disclosure of the ETF's data.

†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. Some Horizons TRI ETFs use physically replication instead of the total return swap.

Commissions, management fees and applicable sales taxes all may be associated with an investment in the Horizons Intl Developed Markets Equity 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.**

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