Horizons Emerging Markets Equity Index ETF (HXEM)

ETF Snapshot

Name:
Horizons Emerging Markets Equity Index ETF

Launch Date:
August 5, 2020

Ticker:
HXEM

Management Fee:[1]
0.25%

Swap Fee:
0.35%

Investment Manager:
Horizons ETFs Management (Canada) Inc.

Underlying Index:
Horizons Emerging Markets Futures Roll Index (Total Return)

Bloomberg Index Ticker:
CMDYHXEM

Currency Hedge:
No

Eligibility:
All registered and non-registered investment accounts

[1] Plus applicable sales taxes.

Gain Tax-Efficient Exposure to International Stocks

The Horizons Emerging Markets Equity Index ETF ("HXEM") seeks to replicate, to the extent possible, the performance of the Horizons Emerging Markets 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 26 emerging markets countries.

The Index reflects the returns generated over time through long notional investments in a series of MSCI Emerging Markets Index Futures that are in turn based on the performance of the MSCI Emerging Markets Index.

Indirect Liquid Exposure to MSCI Emerging Markets Index:

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries*. With 1,404 constituents, this MSCI Index covers approximately 85% of the free float-adjusted market capitalization in each country. For investors globally, this is considered to be the most widely followed benchmark for Emerging Market equities in the world.

The use of futures contracts reduces this liquidity risk and therefore the cost of Horizons ETFs being able to offer an index solution that equates to the MSCI EM Index.

*Source: MSCI as at July 2020.

Key Features of HXEM:

- **Exposure to Emerging Markets Equities:** Gain exposure to some of the biggest companies in rapidly developing markets, which are increasingly accounting for a larger proportion of economic growth globally
- **The Total Return Index Advantage:** HXEM is part of Horizons Total Return Index family of ETFs ("Horizons TRI ETFs"). HXEM uses a total return swap contract to replicate the performance of the Index. This structure typically increases tax-efficiency
- **Tax Efficiency:** HXEM 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 HXEM's Net Asset Value ("NAV") on their ex-date, which can result in more efficient compounding than ETFs that compound only quarterly or monthly

Total Return Index Structure†

HXEM 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.

Horizons Emerging Markets Equity Index ETF (HXEM)

Corporate Class ETFs - Tax Efficiency

HXEM is a class of 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 share's net asset value. 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 regular 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 rate of the investor. With this ETF structure, investors can potentially defer incurring a tax liability until they sell shares of the ETF, at which point proceeds from the sale of such ETF shares would likely be treated as a capital gain or loss. Canadian domiciled Foreign Equity ETFs are also subject to withholding tax on distributions they receive, which could potentially further erode the after-tax return of a physically replicated ETF regardless of the type of account it is held in. HXEM would not be subject directly to foreign withholding tax since it does not actually receive physical dividends.

Taxation on Foreign Equities

The following hypothetical example shows the tax impact on the returns of a Canadian domiciled, 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 distributions received, which is another consideration that could impact the overall tax liability associated with holding a Canadian domiciled physically replicated Foreign Equity ETF, regardless of the type of account the ETF is held in. It is important to note that neither HXEM, nor any other Horizons Total Return Index ETFs, re-characterize investment income as capital gains.

Tax Implications on Dividend Income for Foreign Equity ETFs – Illustrative Example Only

	Physically-Replicated ETF	HXEM
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	$0
Return Lost to Distributions	1.44%	0%

FOR ILLUSTRATIVE PURPOSES ONLY. The above illustrative example highlights the expected after-tax performance benefits of holding HXEM 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/HXEM**

HORIZONS ETFs
by Mirae Asset

† 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.

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

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.