

Market Review

Canadian equity markets finally retraced some gains after eight consecutive positive quarters. The S&P/TSX 60 Index (Index) returned -13.58% during the second quarter ended June 30, 2022 (Q2). This was the second largest quarterly decline in the Index since the global financial crisis in 2008 (the largest was following the pandemic in March 2020). The Russia-Ukraine conflict has helped drive inflation higher globally and has forced central banks to tighten monetary policy and raise interest rates. The Bank of Canada (BoC) first started raising its interest rates in Q1 by 25 basis points (bps), ahead of the U.S. Federal Reserve (Fed) but has now been playing catchup, and this has quickly been followed by an additional 100 bps in hikes during Q2. Investors fear that such quick tightening by the central banks, at a time when household debt levels are near record highs, will only further dampen an already cautious consumer. Financials, one of the larger sectors in the Index, declined by 13.11% during Q2. Even the energy sector, which had so far been the driver of Canadian equity gains, was only marginally higher in Q2, after a steep selloff in June.

Quarter in Review

Canadian stocks did not react well with all but one of the 30 Canadian large capitalization stocks trading lower during Q2. Suncor Energy (SU) was the only stock that traded higher in Q2, returning more than 10% as oil prices continue to be elevated with West Texas Intermediate (WTI) prices maintaining their levels above the key \$100 level at the end of Q2. For the second consecutive time, Shopify Inc. (SHOP) was the worst performer, decreasing more than 50% during Q2. Former top-performing technology growth stocks such as SHOP have significantly underperformed year-to-date. This was the second consecutive quarterly decline of over 50% for SHOP.

Option volatilities for many Canadian companies were already elevated but climbed further during Q2. Uncertainty over virus-related lockdowns in China, the conflict in Ukraine, as well as uncertainty over the direction of inflation and interest rates continue to provide a floor on volatility levels. Higher volatility allows for higher option premiums on the call options sold in the portfolio, potentially benefiting the strategy.

At the end of the Q2 period, unitholders of the Horizons Enhanced Income Equity (HEX) approved a name change to the Horizons Canadian Large Cap Equity Covered Call ETF (CNCC) and a change in the investment objective for the ETF. The ETF will now seek to invest in large capitalization Canadian stocks or ETFs that seek exposure to such stocks.

Outlook and Positioning

With fears of a recession, higher inflation, and the ongoing conflict in Europe, more volatility is expected. Central banks will likely face a fine line between containing rising price levels and sending the economy into a recessionary slowdown. With consumer and investor sentiment near decade lows, it will be a difficult task, but could also lead to sharp moves higher should the situation improve. Rising rates could also have an impact on the housing market in Canada, which would further add volatility for Canadian banks.

During each month, options are dynamically written on the equities in the portfolio of the ETF. The ETF's monthly distributions are not fixed, but vary as the premiums generated from covered call writing are earned and passed through, and will change with changes in implied volatility and time to option expiration. Distributions also vary based on the timing of the dividends received from the underlying securities in the ETF's portfolio during the period.

CNCC Quarterly Commentary

Horizons Canadian Large Cap Equity Covered Call ETF

Q2 2022



Effective June 24, 2022, the investment objectives of the Horizons Canadian Large Cap Equity Covered Call ETF (CNCC) (formerly Horizons Enhanced Income Equity ETF ("HEX")) were changed following receipt of the required unitholder and regulatory approvals. The ETF began to trade under its new fund name and ticker symbol on June 27, 2022. For more information, please refer to the disclosure documents of CNCC on www.HorizonsETFs.com

Commissions, management fees and expenses all may be associated with an investment in Horizons Canadian Large Cap Equity Covered Call ETF ("CNCC" or 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 relevant prospectus before investing.**

Certain statements may constitute a forward-looking statement, including those identified by the expression "expect" and similar expressions (including grammatical variations thereof). The forward-looking statements are not historical facts but reflect the author's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking statements. These forward-looking statements are made as of the date hereof and the authors do not undertake to update any forward-looking statement that is contained herein, whether as a result of new information, future events or otherwise, unless required by applicable law.

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