HAZ Quarterly Commentary

Horizons Active Global Dividend ETF

Q2 2022

Market Overview

Rising interest rates, inflation, geopolitics, and supply chain issues have caused market volatility since early this year and continued throughout the second quarter. Concerns surrounding growth and the possibility of recession amid tightening monetary conditions led to a further pullback in equities globally. In June, the U.S. Federal Reserve (Fed) raised its benchmark Fed funds rate by 75 basis points (bps), and, with inflation expected to rise, the Fed has penciled in further hikes in the months to come.

Given the higher sensitivity to interest rates for growth stocks, which historically tend to be negatively impacted by rising interest rates, earnings multiple compression has contributed to some of the most significant declines for growth stocks seen in recent history. At the same time, this has brought dividend equities back into focus. The most cyclical factors, such as high beta, high volatility, and stocks with negative earnings underperformed during the quarter, while the top-performing factors were more value factors, dividend factors, and dividend growth.

Quarter in Review

On the sector level, the Consumer Discretionary sector was the largest contributor to relative performance, with a positive stock selection effect coming from the mandate's positions in McDonald's and Home Depot. There was also a positive allocation effect due to the mandate's underweight to the Consumer Discretionary sector. The mandate's positions in the Energy sector led to a positive stock selection effect, with relative outperformance coming from Total Energy Services and Shell. Overweight in this sector also led to a positive allocation effect.

The ETF's more defensive, high-quality positioning in the Information Technology sector gave a positive stock selection effect as positions in MasterCard, Accenture, CDW and Microsoft had relative outperformance. In the Industrials sector, positions in Republic Services, Waste Management, and Wolters Kluwer led to a positive stock selection effect.

Weight was added to the Telecommunications Services this quarter (TELUS, Verizon, and BCE) and all positions led to a positive stock selection effect. The mandate's positions in AstraZeneca, United Health Group, Novo Nordisk, and Johnson & Johnson, all led to a positive stock selection effect for the Health Care sector. In the Materials sector, the positive stock selection came from the mandate's position in Air Products. In the Financials sector, positions in RBC and Allianz led to a positive stock selection effect.

In the Consumer Staples sector, a negative stock selection effect came from the mandate's positions in Costco and Nestlé.

Outlook and Positioning

With slowing growth and earnings per share (EPS) expectations, and as purchasing manager's index (PMIs) move lower, cash flow visibility has become more important, as the market is rewarding businesses with stable earnings and cash flow growth, an environment we feel that is much more favorable to those businesses that tend to pay growing dividends over time.

Weakness in data across major areas of the economy, such as housing data, consumer data and PMI data, has contributed to rising fears of a recession in the markets during the quarter. When PMIs are under pressure and growth slows, increased volatility, wider credit spreads, deteriorating financial conditions, the underperformance of high beta companies and fewer positive EPS revisions is typically seen. Multiple indicators suggest a challenging outlook over the next several months amid evolving monetary policies and rising interest rates, and it is anticipated that multiple compression seen so far this year could continue, as long as risks continue rising. With valuations under pressure, earnings will be critical to supporting equities and generating further gains.

Against this backdrop, portfolio managers believe that the focus on "AI" model predictions for earnings growth and dividend growth will be even more important going forward. Machine learning algorithms aim to forecast earnings and dividend growth one year forward. Over the next 12 months, the artificial intelligence model is currently projecting earnings growth to decline in most sectors globally, and this decline is the most pronounced in Europe. The strongest conviction for dividend stocks is in Energy, while greater uncertainty will be within the Financials and Consumer Discretionary sectors. Although the Energy sector has recently started to decline as well, due to fears of recession and dislocation of supply and demand dynamic of the sector, it still stands out as the sector with the highest predicted earnings growth, coupled with strong dividend yields. Despite the earnings

slowdown, the trend for dividend growth should hold up reasonably well.

In this environment, Managers believe that careful selection of companies that can sustain cash flows and grow dividends is paramount. The portfolio is well positioned during this market cycle. To provide additional downside protection, the ETF added resilient companies in the Consumer Staples and Health Care sectors during the quarter and exited companies with higher valuations and potential earnings disappointments. Managers believe that this will help the portfolio to potentially provide a higher yield and fare better during periods of volatility, and at the initial stages of tightening cycles.

However, the ETF does not invest in companies based on yield alone. With the market uncertainties putting pressure on corporate earnings, high-yielding companies that don't have financial strength and discipline may not be able to sustain future payout and could be prone to dividend cuts and suspensions. At the same time, high-quality stocks that have sustainable and growing dividends may provide greater income over time, therefore buffering against market volatility and addressing some of the risks of rising rates and inflation. The portfolio aims to invest in a combination of both dividend payers and dividend growers.

The ETF's long-term investment approach focuses on finding high-quality companies with robust growth prospects and secure streams of cash flows that will continue to sustain earnings and dividend growth. Managers continue to focus on high-quality companies with strong fundamentals, visible cash flows, sustainable and growing earnings, and dividends – defined as the Growth, Payout, and Sustainability (GPS) of dividends. Using algorithms, which aim to forecast earnings, dividend growth, and dividend and earnings cuts enables the assessment the risk of the overall portfolio and focus on owning companies with lower downside risk, while remaining well positioned for potential upside.

Commissions, management fees and expenses all may be associated with an investment in Horizons Active Global Dividend ETF ("HAZ" 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.

This communication is intended for informational purposes only and does not constitute an offer to sell or the solicitation of an offer to purchase exchange traded products (the "Horizons Exchange Traded Products") managed by Horizons ETFs Management (Canada) Inc. and is not, and should not be construed as, investment, tax, legal or accounting advice, and should not be relied upon in that regard. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies. These investments may not be suitable to the circumstances of an investor.

All comments, opinions and views expressed are generally based on information available as of the date of publication and should not be considered as advice to purchase or to sell mentioned securities. Before making any investment decision, please consult your investment advisor or advisors.