

November 2023

OSFI Decision on HISA ETFs – FAQ

Background

What is happening?

On October 31, 2023, the Ontario Superintendent of Financial Institutions (OSFI) published new guidelines for deposit-taking institutions about High Interest Savings Account (HISA) ETFs.

This FAQ was prepared to help answer and educate advisors and investors on OSFI's decision as it relates to our HISA ETFs, based on ongoing and future questions.

Key Information

FAQ for responding to expected questions from advisors/investors related to OSFI's HISA ETF guidance and its impacts on Horizons ETFs' HISA ETFs

ETFs in Focus:

ETF	Ticker	Gross Yield as at October 31, 2023	Mgmt Fee*	Investment Objective
Horizons High Interest Savings ETF	CASH	5.40% <i>Last change as of October 19, 2023</i>	0.10%	CASH seeks to maximize monthly income for unitholders while preserving capital and liquidity by investing primarily in high interest deposit accounts with Canadian banks.
Horizons Cash Maximizer ETF ¹	HSAV	5.50% <i>Last change as of July 13, 2023</i>	0.18%	HSAV seeks to generate modest capital growth by investing primarily in high interest deposit accounts with Canadian banks. While any decision to pay dividends or other distributions is within the discretion of the Manager, HSAV is not currently expected to make any regular distributions.
Horizons USD Cash Maximizer ETF ²	HSUV.U	5.70% <i>Last change as of July 27, 2023</i>	0.18%	HSUV.U seeks to generate modest capital growth by investing primarily in high interest U.S. dollar deposit accounts with Canadian banks. While any decision to pay dividends or other distributions is within the discretion of the Manager, HSUV.U is not currently expected to make any regular distributions.

*Plus applicable sales tax

Key Summary

- **Clarity allows for growth and innovation:** The clarity from OSFI reinforces the longevity of HISA ETFs, as they look to ensure that the products can potentially grow to be much larger and allow for innovation in the space.
- **Solid yields can continue:** Although there may be rate impacts, HISA ETFs can still provide competitive returns and operational benefits to a variety of investors.
- **More competition:** The recent OSFI guidance will likely introduce more deposit counterparties, which is good for the products and investors.

Q & A General

I heard there was an OSFI decision that impacted high-interest savings account exchange-traded funds (HISA ETFs). What exactly does that mean?

- After originally announcing a public consultation on HISA ETFs and similar products on May 10, 2023, on October 31, 2023, the OSFI published long-awaited guidelines on the liquidity treatment of HISA ETFs.
- OSFI set new liquidity guidelines for deposits from HISA ETFs, which mandates that these deposits be carried with a 100% Liquidity Coverage Ratio (LCR) runoff factor by January 31, 2024.
- OSFI's decision allows ETF issuers like Horizons ETFs to carry on product planning cycles and continue to innovate within the HISA ETF space with regulatory certainty.
- Horizons ETFs is currently working with our bank partners to assess the effects of OSFI's decision on our HISA ETFs.

Why did OSFI do this?

- OSFI's decision was more about the liquidity and stability of Canada's Banks and their deposits than about HISA ETFs themselves.
- HISA ETFs have been on the market for over ten years and have become a very popular category, particularly among advisors and investors.
- Despite the significant retail ownership in these ETFs, OSFI has determined that institutional investors may invest in HISA ETFs. OSFI believes these deposits to be less 'sticky' than regular retail deposits, which could create an issue for the banks' liquidity and stability.
- A number of Canada's major banks work with ETF issuers like Horizons ETFs, providing the high-interest savings accounts that the HISA ETFs offer exposure to.
- Over the coming weeks, ETF providers and these banks will continue to work together to assess the effects of the OSFI decision on these products.
- Ultimately, the OSFI decision regulates and confirms the ongoing viability of HISA ETFs, ensuring these ETFs are here to stay and will continue to be a viable investment option.

Q & A General

Will there be an impact on the yields offered by HISA ETFs?

- It's too early to say by anyone. Given the decision was just published, fund providers like Horizons ETFs are currently working with bank partners to assess the effects of OSFI's decision.
- It's important to note that OSFI's decision is not required to be in effect until January 31, 2024, so any potential yield impacts may not be in effect until then.
- Ultimately, any changes may be specific to each fund provider, based on individual circumstances or business decisions in conjunction with bank partners.
- If there are any anticipated yield changes to Horizons ETFs' products, we will proactively communicate those as soon as we can do so.
- In addition to the competitive yields, our HISA ETFs offer significant other advantages, including monthly income, liquidity, and simplicity for statements. As well, Horizons High Interest Savings ETF (CASH) has the lowest permanent management fee among all HISA ETFs (as at October 31, 2023).
- It is important to note that the yields offered by these ETFs will continue to rise and fall with the prevailing interest rate.
- Since the Bank of Canada began raising interest rates in March 2022, HISA ETF investors have enjoyed progressively higher yields resulting from the rate hike campaign.

Will there be any change in the spreads on these ETFs?

- We do not expect the spreads to change.
- Our designated brokers (market makers) are obligated to provide bids at/very close to Net Asset Value (NAV).
- We do not foresee a liquidity issue as investors will continue to be able to buy and sell these at very close to NAV. We urge investors to monitor as we cannot guarantee future results or outcomes.
- The market makers can buy all the inventory and simply redeem it to us if needed.

I'm invested in HSAV/HSUV.U – will the OSFI decision have any impact on the tax advantages offered by these ETFs?

- We do not anticipate the OSFI guidance will impact certain tax advantages offered by Horizons Cash Maximizer ETF (HSAV) or Horizons USD Cash Maximizer ETF (HSUV.U). These ETFs will continue to work, as intended.
- We are currently working with our bank partners to assess the effects of OSFI's decision, including on yields. Currently, HSAV and HSUV.U offer competitive yields in conjunction with their certain tax advantages.
- If there are any anticipated yield changes, we will proactively communicate those as soon as we can do so.

Q & A General

What are some reasons to consider using HISA ETFs in my portfolio?

There are several features to HISA ETFs, including CASH, that make them attractive investments for many different kinds of investors.

- HISA ETFs, like CASH, offer certain benefits versus other cash and cash management alternatives, including better liquidity relative to GICs, competitive levels of yield, monthly income, statement simplicity, and more.
- In addition, CASH has the lowest permanent management fee among HISA ETFs (as at October 31, 2023), and is lower-cost or very competitive relative to many other money market ETF alternatives.
- If you are seeking to maintain a cash position, whether for portfolio management purposes or you're looking to wait in cash due to an economic outlook, CASH and HISA ETFs can be an attractive option for cash management.

Does Horizons ETFs offer any alternatives to HISA ETFs?

- In addition to our HISA ETFs, Horizons ETFs offers several cash alternative ETFs that can provide the benefits of cash management through ETFs for your portfolio.
- In April 2023, Horizons ETFs launched Canada's first short-term T-Bill ETFs, the Horizons 0-3 Month T-Bill ETF (CBIL) and Horizons 0-3 Month U.S. T-Bill ETF (UBIL.U).
- These ETFs provide exposure to Government of Canada 0-3-month T-Bills in Canadian dollars and U.S. Government 0-3-month T-Bills in U.S. dollars, respectively. T-Bills are backed by the credit of the Government of Canada and the U.S. Government, respectively.
- CBIL is yielding 5.40% and UBIL.U at 5.64% as at October 31, 2023. These ETFs and their respective yields are not impacted by the OSFI decision.

ETF	Ticker	Annualized Distribution Yield as at October 31, 2023	Mgmt Fee*	Investment Objective
Horizons 0-3 Month T-Bill ETF	CBIL	5.40%	0.10%	CBIL seeks to provide interest income through exposure to Government of Canada Treasury Bills with remaining maturities generally less than 3 months.
Horizons 0-3 Month U.S. T-Bill ETF	UBIL.U	5.64%	0.12%	UBIL.U seeks to provide interest income through exposure to U.S. Treasury Bills with remaining maturities generally less than 3 months.

*Plus applicable sales tax

Should I continue to invest in CASH and other HISA ETFs?

- Depending on your individual investment requirements and portfolio strategy, CASH and other HISA ETFs can still be an attractive and viable cash management ETF solution for Canadian investors.
- All of Horizons ETFs' HISA ETFs, including CASH, will continue to invest in deposits with our partners, which are members of Canada's Big Six Banks.
- Horizons ETFs has not changed the mandates of its HISA ETFs to invest in other securities, such as money market or commercial paper.
- With our HISA ETFs, investors receive exposure exclusively to high-interest savings accounts deposited in Canada's Big Six Banks.
- We believe that transparency is an important part of the investment process for all Canadians.

DISCLAIMERS

Commissions, management fees, and expenses all may be associated with an investment in the Horizons High Interest Savings ETF (CASH), Horizons Cash Maximizer ETF (HSAV), Horizons USD Cash Maximizer ETF (HSUV.U), Horizons 0-3 Month T-Bill ETF (CBIL), and Horizons 0-3 Month U.S. T-Bill ETF (UBIL.U) or the ("ETFs") managed by Horizons ETFs Management (Canada) Inc. The ETFs are not covered by the Canada Deposit Insurance Corporation, the Federal Deposit Insurance Corporation or any other government deposit insurer. There can be no assurances that the ETFs will be able to maintain their net asset value per security at a constant amount or that the full amount of your investment in the ETFs will be returned to you. Past performance may not be repeated. The prospectus contains important detailed information about the ETFs. **Please read the prospectus before investing.**

CASH/HSAV/HSUV.U uses cash accounts and does not track a traditional benchmark but rather receives interest paid on cash deposits that can change over time. Any distributions which are received by HSAV/HSUV.U are reflected automatically in the net asset value (NAV) of HSAV/HSUV.U. As a result, the shareholders of HSAV and HSUV.U are not expected to receive any taxable distributions

¹On February 3, 2022, HSAV suspended new subscriptions after reaching approximately \$ 2 billion in assets. During a period of suspended subscriptions, investors should note that ETF shares of HSAV would be expected to trade at a premium or substantial premium to the NAV per ETF Share of HSAV. During such periods, investors are strongly discouraged from purchasing ETF shares of HSAV on a stock exchange. Any resumption of subscriptions for HSAV will be announced by press release and announced on the Manager's website. A suspension of subscriptions, if any, will not affect the ability of existing Shareholders to sell their ETF Shares of HSAV in the secondary market at a price reflective, or potentially higher than, the NAV per ETF Share.

²On January 9, 2023, HSUV.U suspended new subscriptions after reaching approximately US\$775 Million in assets. During a period of suspended subscriptions, investors should note that ETF shares of HSUV.U would be expected to trade at a premium or substantial premium to the NAV per ETF Share of HSUV.U. During such periods, investors are strongly discouraged from purchasing ETF shares of HSUV.U on a stock exchange. Any resumption of subscriptions for HSUV.U will be announced by press release and announced on the Manager's website. A suspension of subscriptions, if any, will not affect the ability of existing Shareholders to sell their ETF Shares of HSUV.U in the secondary market at a price reflective, or potentially higher than, the NAV per ETF Share.

CBIL & UBIL.U may be susceptible to an increased risk of loss, including losses due to adverse events because fund assets are concentrated in a particular issue, issuer or issuers, country, market segment, or asset class. While U.S. Treasury and Canadian Treasury obligations are fully backed by the respective governments, such securities are

nonetheless subject to credit risk (i.e. the risk that the issuing government may be, or be perceived to be, unable or unwilling to honour its financial obligations, such as making payments). For a full description of the associated risks, please refer to the fund's prospectus at www.horizonsetfs.com.

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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