

Update on the Canadian Federal Budget Proposal

Impact on Preferred Shares

November 2023

▶ **HPR: Horizons Active Preferred Share ETF**

▶ **HYBR: Horizons Active Hybrid Bond and Preferred Share ETF**

On November 21, 2023, the Canadian federal government announced that they will be grand fathering the special tax treatment that preferred shares receive for financial institutions that hold them as part of their investment portfolio. This is a complete reversal from their original budget proposal in early 2023 where they had announced that these insurance companies and banks would lose the preferential tax treatment.

This is great news for the preferred shares market as the changes in the proposed budget were weighing heavily on the asset class, with insurance companies holding close to 15% of outstanding preferred shares in Canada. For those insurance companies, it is now clear that they will no longer be looking to sell the asset class, and they may even look to adding instead given the relative attractiveness of preferred shares on a go-forward basis.

Fiera Capital, sub-advisor to Horizons ETFs' HPR and HYBR, believes this news will be very supportive for the preferred shares market.

What does this mean for HPR/HYBR?

- The sub-advisor largely overweighs the preferred shares with reset spreads of 300 bps and lower, and those are the ones that trade at the deepest discounts. The sub-advisor believes that this segment of the market will benefit the most in this new environment.
- Additionally, the sub-advisor has a very large overweight position in fixed-reset preferred shares that are resetting their coupon in 2025, and think those have the largest upside as investors start looking beyond 2024 and into these preferred shares that had their last coupon set in 2020 when rates were near historical lows.
- All in all, the sub-advisor believes their positioning in both HPR and HYBR will be very favorable for investors in the next 12 to 18 months.

Dividend Received Deduction by Financial Institutions – Exception

The Income Tax Act permits corporations to claim a deduction in respect of dividends received on shares of other corporations resident in Canada. Budget 2023 proposed to deny the dividend received deduction in respect of dividends received by financial institutions on shares that are mark-to-market property. The 2023 Fall Economic Statement proposes an exception to this measure for dividends received on “taxable preferred shares” (as defined in the Income Tax Act). This exception, along with the rest of the measure, would apply to dividends received on or after January 1, 2024.

Excerpt from the 2024 Federal Budget of Canada:
<https://www.budget.canada.ca/fes-eea/2023/reportrapport/tm-mf-en.html>



Horizons Active Preferred Share ETF

Current Positioning as of October 31, 2023

Risk/Return Profile

	HPR ETF	S&P/TSX Preferred Share Index
# issuers	40	34
Average Yield (%)	6.57%	7.37%
Average Current Yield (%)	6.56%	7.16%
Internal Beta/Duration* (yrs)	-6.2	-5.1
Internal Beta/Credit* (yrs)	13.5	13.5

*Based on Fiera Capital internal assumptions

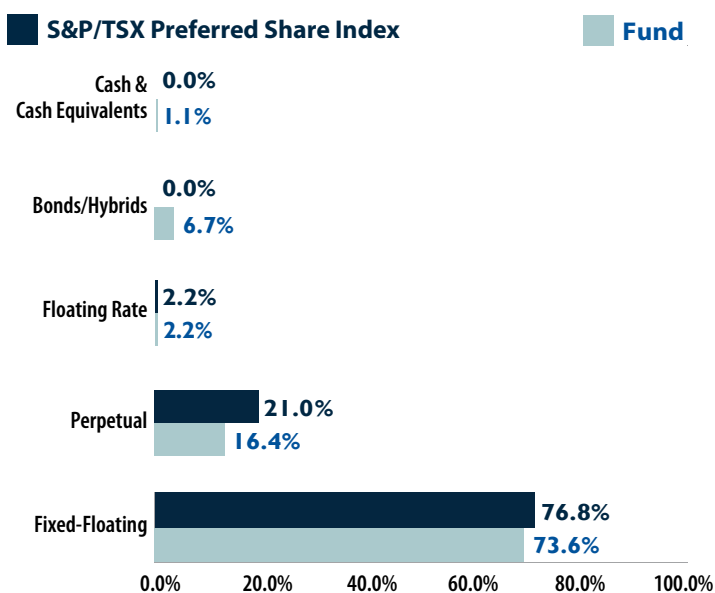
Discounted Rate Reset/Floating Rate Preferred Shares Allocation (%)

Trading Price	Fund	S&P/TSX Preferred
<\$20	95.2%	83.1%
<\$21	96.2%	87.2%
<\$22	96.2%	89.7%
<\$23	96.2%	91.7%

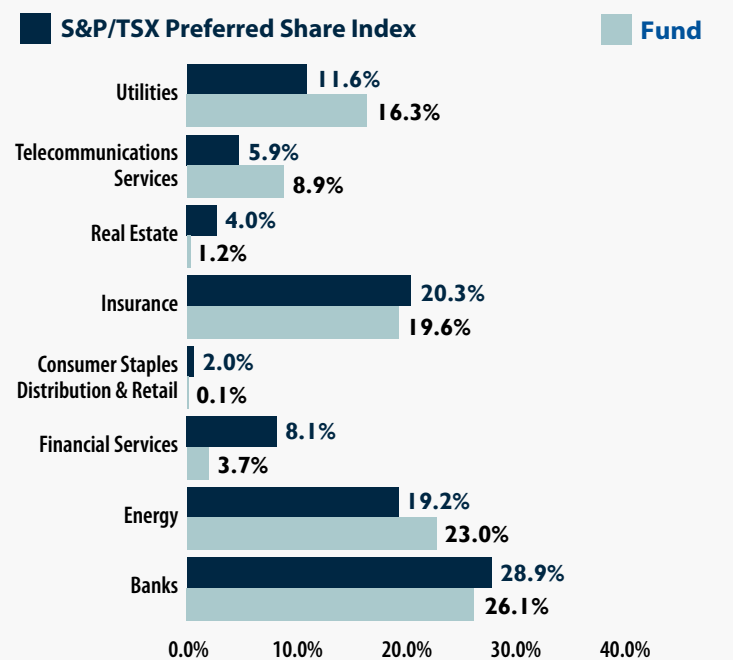
Credit Rating Allocation (%) By Lowest Rating (DBRS//S&P)

Preferred Ratings	Fund	S&P/TSX Preferred Share Index	Difference
P1	0.0%	0.0%	0.0%
P2	49.7%	55.5%	-5.9%
P3	41.2%	44.5%	-3.2%
P4	0.5%	0.0%	0.5%
Hybrid/Jr.Sub-Debt Ratings	Fund	S&P/TSX Preferred Share Index	Difference
BBB	2.3%	0.0%	2.3%
BB	5.2%	0.0%	5.2%

Structure Allocation



Sector Allocation



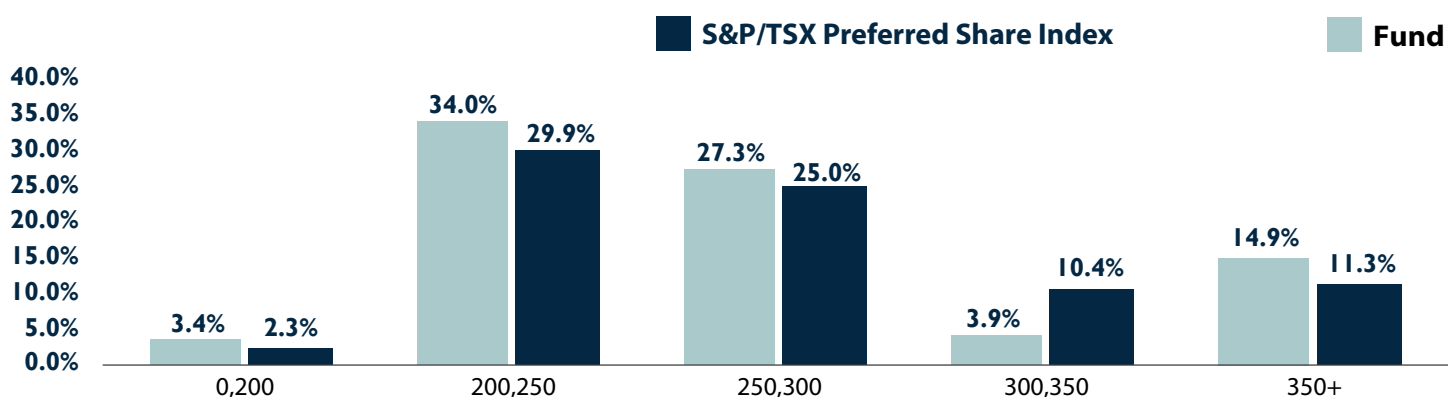
Source: Fiera Capital, as of October 31, 2023

HPR ETF Portfolio Composition

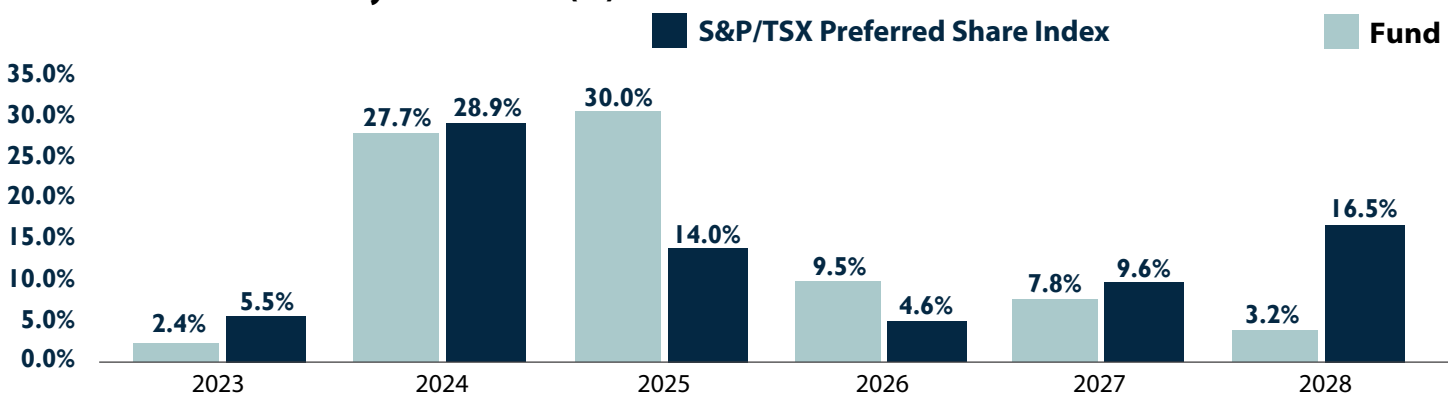
Current Positioning as of October 31, 2023

	Average Spread
Fund	276
S&P/TSX Preferred Share Index	277

Portfolio Distribution by Reset Spread (%)



Portfolio Distribution by Reset Date (%)



Source: Fiera Capital, as of October 31, 2023

Annualized Standard Performance - October 31, 2023

ETF Name	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	2 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	YTD (%)	Since Inception (%)**
Horizons Active Preferred Share ETF	-2.28	-4.27	-3.40	-3.41	-10.30	-4.78	-0.27	1.27	-1.34	1.25

Source: Horizons ETFs Management (Canada) Inc.

**Fund performance since inception on November 22, 2010, as at October 31, 2023

The indicated rates of return are the historical annual compounded total returns including changes in per unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF(s) or future returns on investment in the ETF(s). Only the returns for periods of one year or greater are annualized returns.

HPR seeks to provide dividend income while preserving capital by investing primarily in preferred shares (including securities convertible into preferred shares) of Canadian companies. HPR may also invest in preferred shares of companies located in the United States, debt securities (including LRCNs) of Canadian and U.S. issuers, other income generating securities, as well as Canadian equity securities and Listed Funds.

Horizons Active Hybrid Bond and Preferred Share ETF

Current Positioning as of October 31, 2023

Risk/Return Profile

	HYBR ETF	Solactive Laddered Preferred Share Index
# issuers	40	28
Average Yield (%)	6.60%	7.43%
Average Current Yield (%)	6.69%	7.32%
Internal Beta/Duration* (yrs)	-8.9	-11.5
Internal Beta/Credit* (yrs)	11.9	11.7

*Based on Fiera Capital internal assumptions

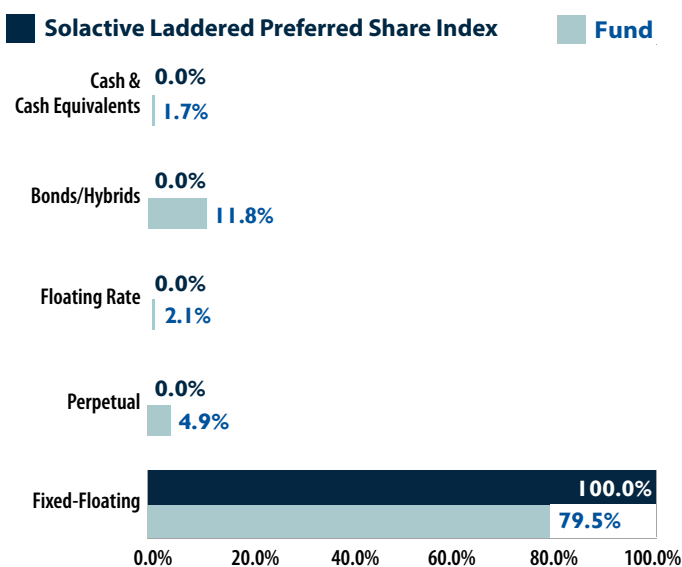
Discounted Rate Reset/Floating Rate Preferred Shares Allocation (%)

Trading Price	Fund	Solactive Laddered Preferred Share Index
<\$20	91.2%	85.9%
<\$21	93.7%	87.5%
<\$22	94.0%	89.3%
<\$23	94.4%	92.2%
<\$24	94.4%	94.0%
<\$25	94.6%	99.7%

Credit Rating Allocation (%) By Lowest Rating (DBRS//S&P)

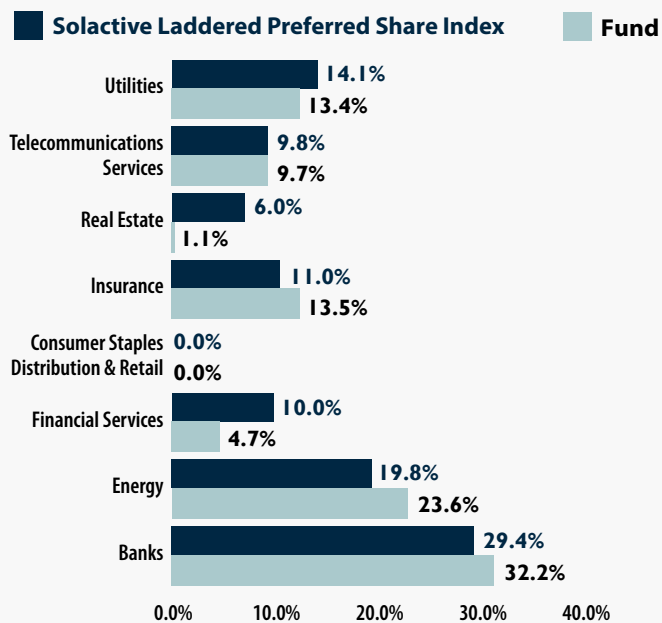
Preferred Ratings	Fund	Solactive Laddered Preferred Share Index	Difference
P1	0.0%	0.0%	0.0%
P2	41.7%	45.6%	-3.9%
P3	43.3%	53.1%	-9.8%
P4	0.3%	1.3%	-0.9%
Hybrid/Jr.Sub-Debt Ratings	Fund	Solactive Laddered Preferred Share Index	Difference
BBB	6.4%	0.0%	6.4%
BB	6.6%	0.0%	6.6%

Structure Allocation



Source: Fiera Capital, as of October 31, 2023

Sector Allocation

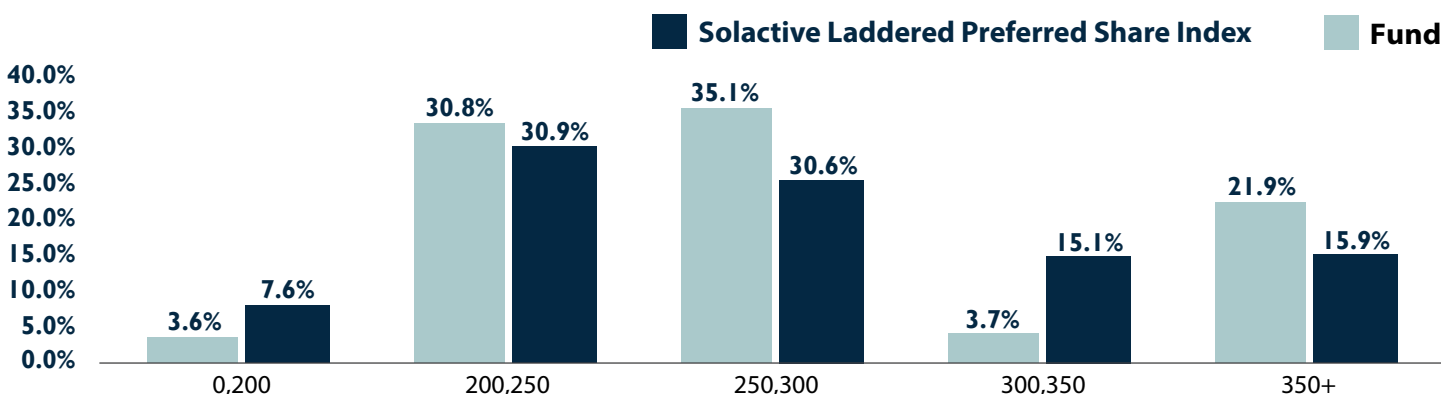


HYBR ETF Portfolio Composition

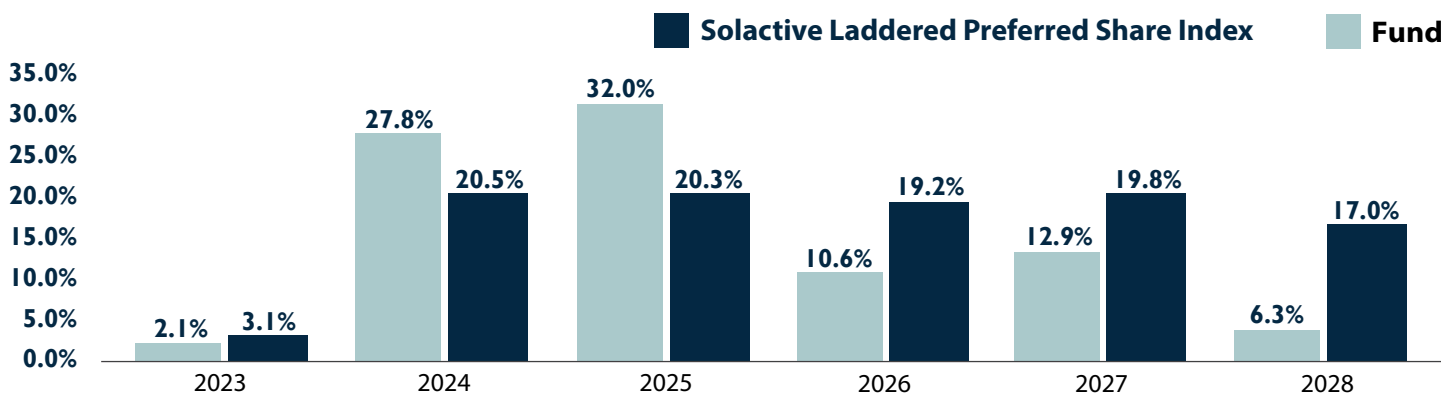
Current Positioning as of October 31, 2023

	Average Spread
Fund	288
Solactive Laddered Preferred Share Index	279

Portfolio Distribution by Reset Spread (%)



Portfolio Distribution by Reset Date (%)



Source: Fiera Capital, as of October 31, 2023

Annualized Standard Performance - October 31, 2023

ETF Name	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	2 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	YTD (%)	Since Inception (%)**
Horizons Active Hybrid Bond And Preferred Share ETF	-2.40	-0.05	-4.56	-3.96	-11.20	2.78	-0.53	1.22	-2.23	1.87

Source: Horizons ETFs Management (Canada) Inc.

**Fund performance since inception on October 01, 2013, as at October 31, 2023

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As of March 10, 2021, the ETF name and ticker were changed. The ETF was previously named Horizons Active Floating Rate Preferred Share ETF (HFP). Subsequent to shareholder approval, the Investment Objective and Strategy of the ETF was also changed as of March 4, 2021.

HYBR seeks to provide Unitholders with a high level of income by investing in a portfolio of debt and other debt-like securities, including but not limited to hybrid corporate debt ("Hybrids"), Alternative Tier 1 Capital ("AT1") (such as LRCNs), and income generating equities, including but not limited to preferred securities (fixed-rate perpetual, fixed floating rate, retractable and floating rate), of Canadian and U.S. companies. HYBR may hedge some or all of its non-Canadian dollar currency exposure at the discretion of its Sub-Advisor.

Disclaimers

Commissions, management fees and expenses all may be associated with an investment in exchange traded products (the “Horizons Exchange Traded Products”) managed by Horizons ETFs Management (Canada) Inc. The Horizons Exchange Traded Products are not guaranteed, their values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the Horizons Exchange Traded Products. **Please read the relevant prospectus before investing.**

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