Update on Horizons Active Preferred Share ETF (HPR)

Find Quality When Possible

Since Q4 2018, we have been improving the quality of our preferred share exposure in this lower rate environment by increasing the average reset level on our fixed reset issues and our fixed rate perpetual exposure, while decreasing our exposure to fixed reset issues with low reset levels.

However, so far this year, the investment backdrop has been difficult for all types of preferred shares, including perpetual issues that, until recently, held up in the recent pullbacks. Currently, liquidity and credit risk concerns are the main challenges that preferred share investors are facing. Due to a lack of liquidity, we do not expect drastic changes to the portfolio positioning in the short term, as selling in this environment would involve selling existing issues with potentially significant discounts to their fair values due to unusually wide bid/ask spreads.

Interest Rates Likely to Continue Decline, Credit to Remain Volatile

On the rates side, there is a general consensus among investors that the Bank of Canada will lower its benchmark rate to 0.25% — which we see as already priced in — and then opt for additional quantitative easing ("QE") measures.

If COVID-19 containment can be achieved, we could see pressure on rates to move higher toward our pre-virus crisis expectations.

On the credit front, we expect credit spreads to continue widening relative to their historical average levels and expect this increased perceived credit risk to be continually repriced as the number of COVID-19 cases outside China continues to grow with few signs of containment.

Meanwhile, we expect looser monetary policy and fiscal stimulus to be somewhat effective in supporting credit markets and limiting the downside (e.g. coordinated action by G7 countries to limit downside in financial markets). If investor sentiment were to improve on the back of positive news in the latter part of 2020, we would expect a marked reduction in volatility, potentially leading to improved liquidity and potentially tighter credit spreads.

It is extremely difficult to call the bottom during a downturn, but HPR, like most preferred shares ETFs, is fre- quently trading at a significant discount to its daily net asset value. This is mainly because of negative market sentiment and, consequently, increased volatility resulting in a general lack of liquidity for the underlying preferred shares issues in the sector.

While we expect volatility to remain in the short term, we believe that our portfolio is well-positioned to profit from a potential market recovery and that our high-quality issuers should benefit from additional QE and fiscal stimulus on the credit side.

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HPR Portfolio Composition

	March 13, 2020	
	HFP ETF	**HPR ETF**
Cash & Cash Equivalents	0.50%	0.00%
P2	53.65%	61.87%
P3	44.09%	38.13%
P4 or lower	1.76%	0.00%

Type of Pref Allocation		
Cash & Cash Equivalents	0.50%	0.00%
Fixed-Floating	73.33%	75.83%
Floating Rate	2.89%	2.32%
Perpetual	23.28%	21.84%
Retractable	0.00%	0.00%

Sector Allocation		
Banks	27.83%	34.66%
Cash & Cash Equivalents	0.50%	0.00%
Diversified Financials	4.77%	7.13%
Energy	18.22%	17.37%
Food & Staples Retailing	0.94%	1.70%
Insurance	22.59%	20.71%
Media	0.00%	0.00%
Real Estate	2.57%	3.11%
Telecommunication Services	5.23%	3.05%
Utilities	15.86%	12.04%

Source: Fiera Capital, as at March 13, 2020.

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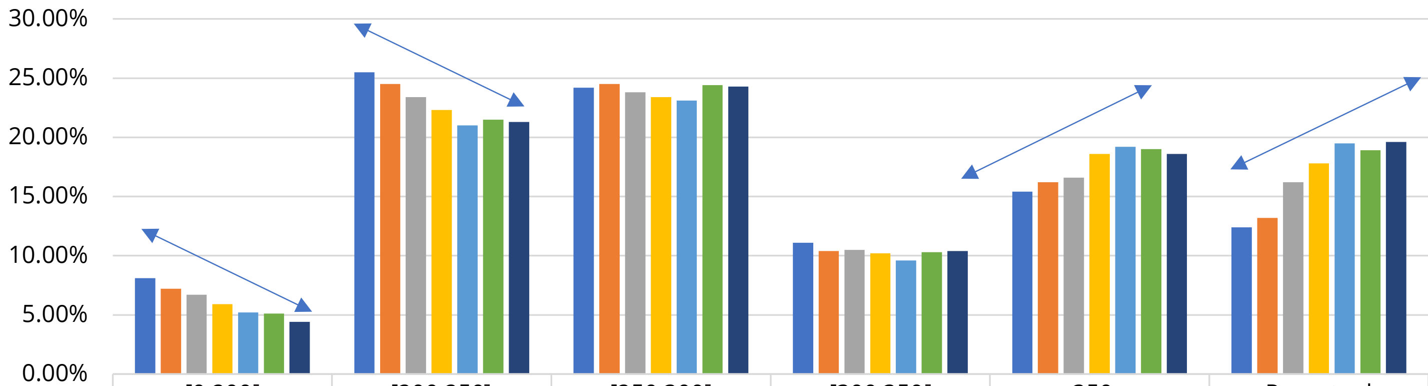
HPR - Horizons Active Preferred Shares ETF



	[0,200]	[200,250]	[250,300]	[300,350]	350+	Perpetual
28-Sep-18	8.10%	25.50%	24.20%	11.10%	15.40%	12.40%
31-Dec-18	7.20%	24.50%	24.50%	10.40%	16.20%	13.20%
31-Mar-19	6.70%	23.40%	23.80%	10.50%	16.60%	16.20%
28-Jun-19	5.90%	22.30%	23.40%	10.20%	18.60%	17.80%
30-Sep-19	5.20%	21%	23.10%	9.60%	19.20%	19.50%
31-Dec-19	5.10%	21.50%	24.40%	10.30%	19.00%	18.90%
31-Jan-20	4.40%	21.30%	24.30%	10.40%	18.60%	19.60%

Analysis of Portfolio Impact from Decreased Interest Rates

The way we look at the impact of declining rates is by calculating the duration of the fund based on internal assumptions. Right now, we calculate HPR's duration to be around -10 years. Thus, all else being equal, if rates drop by 50 basis points ("bps"), or if rates drop by 25 bps and credit spreads also widen by 25 bps, unitholders could expect an approximate 5% drop in the value of the ETF.

However, this is not our view. We expect the Bank of Canada to lower its benchmark rate to 0.25% — which we believe is already priced in — and then to opt for additional QE measures instead. If COVID-19 containment can be achieved, we could see pressure on rates move higher toward our pre-virus crisis expectations.