INVESTING IN MARIJUANA USING ETFs

HORIZONS MARIJUANA LIFE SCIENCES INDEX ETF (HMMJ)

HORIZONS EMERGING MARIJUANA GROWERS INDEX ETF (HMJR)

HORIZONS US MARIJUANA INDEX ETF (HMUS)

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WHY INVEST IN MARIJUANA?

There has been increasing social and regulatory acceptance of marijuana for both its medicinal properties and recreational use.

On October 17, 2018, recreational marijuana was legalized in Canada, allowing Canadians to purchase marijuana for use without a doctor’s prescription. With the legalization (or pending legalization) of both medical and recreational marijuana in certain states in the United States and nationally in countries such as Germany, the growth potential of marijuana cultivation and distribution is big business.

Globally, there are a growing number of businesses involved in the Cannabis industry (beyond cultivation and distribution), making it possible to invest in companies without directly investing in cannabis itself.
THE GROWTH OF THE MARIJUANA INDUSTRY

REVENUE AND PROJECTED GROWTH

• According to a report from the Bank of Montreal, the value of the global cannabis industry could reach $194 billion by 2025\(^1\). The legal cannabis market in North America is expected to reach a value of approximately USD $35 billion by 2023\(^2\).
• Medical marijuana, which is used to treat issues such as chronic pain, the side effects of chemotherapy and even epilepsy, is estimated to grow to USD $28 billion by 2024\(^3\).
• The legal recreational cannabis market in Canada is expected to be worth approximately $6.5 billion by 2020, and could top sales of spirits in Canada\(^4\).

PROFIT POTENTIAL

By 2020, it is expected that most Canadians will be able to purchase legal recreational marijuana at a price of CAD $8 to $10 per gram. However, cultivation costs can be as low as $2 a gram, cited by Aphria, a leading marijuana producer.\(^5\)

\(^1\) Source: Cannabis producers could be chasing global market worth $194 billion in seven years: BMO report, November 1, 2018.
\(^4\) Source: Canada’s Legal Cannabis Market by the Numbers, BNN Bloomberg, June 20, 2018.
\(^5\) Source: Cannabis sales to top hard liquor by 2020, but there will be ‘many losers’, Financial Post, June 5, 2018.
Canada is a global leader in building the infrastructure and regulations for the medical marijuana market, through its Access to Cannabis for Medical Purposes Regulations ("ACMPR").

- 218 licensed companies\(^1\)
- Over 342,100 medical marijuana users across Canada\(^2\)

\(^1\)Source: Government of Canada, Health Canada, Authorized Licensed Producers of Cannabis for Medical Purposes, as at August, 2019.

Multi-state operators or MSOs are marijuana cultivators and distributors that operate in U.S. states where medical and recreational marijuana is legal.

- Marijuana is fully legal, similar to Canada, in 10 U.S. states, including larger ones such as California, Michigan, Nevada and Massachusetts, as well as the District of Columbia
- Medicinal marijuana is legal in an additional 28 states, which includes major population states, such as New York, Illinois and Florida

*Source: Map of Marijuana Legality by State, DISA Global Solutions, August 2019.*
Initially, the primary beneficiaries of this industry are likely to be the established Canadian medical marijuana producers, who have track records of producing and distributing marijuana that meets Health Canada standards. Many of them will likely also have financing opportunities allowing them to potentially expand globally. Several medical marijuana companies could also benefit from consolidation – not only from within the industry, but also potentially from companies in larger industries, such as alcohol, tobacco, beverage and pharmaceuticals.

Many Canadian firms are among the largest medical marijuana companies in the world. But a bigger opportunity for these marijuana-focused producers is the potential to be the primary providers of recreational marijuana in Canada.

Canadians spent $43 million on cannabis in the first two weeks after recreational legalization on October 17, 2018. The total Cannabis market in Canada is expected to generate up to CAD $7.17 billion in total sales in 2019, $4.34 billion of which is expected to come from the legal recreational market. That’s just the value of the direct consumption of marijuana. Medical cannabis is expected to generate an additional CAD $1.79 billion in sales, with the illegal market bringing in CAD $1.04 billion.

1 Source: Canadians spent $43M on cannabis in first two weeks after legalization: StatCan, Global News, December 21, 2018.

While marijuana cultivation is legal at the state level in many U.S. states, it remains federally illegal, making it difficult for U.S. companies to have their securities listed on stock exchanges. Despite the regulatory restrictions, the Marijuana industry in the United States continues to see strong growth potential.

In 2016, the U.S. legal Marijuana market size was estimated at USD $7.06 billion and is now expected to grow at a compound annual growth rate of 24.9% from 2017 to 2025. Many of these U.S.-domiciled companies have opted for Canadian securities listings to take advantage of full capital markets support, since marijuana use is fully legal in Canada.

3 Source: Legal Marijuana Market Worth $146.4 Billion by 2025, CARG: 34.6%, Grand View Research, April 2018.
HOW DO I INVEST IN MARIJUANA?

We believe an ETF is the best way to invest in the Marijuana sector, because an ETF provides:

1. **Instant Diversification**
   - ETFs reduce concentration/issuer risk (but can also limit the upside potential of owning certain individual stocks)

2. **Efficiency**
   - ETFs provide single-trade exposure to many issuers

3. **Liquidity**
   - ETFs can be bought and sold on a stock exchange throughout the trading day

4. **Sector Beta**
   - Index products provide a comprehensive exposure to the sector

5. **Potential Yield**
   - ETFs can potentially provide a monthly yield through securities lending

Horizons ETFs currently offers many different ETFs that provide access to this growing investment opportunity. In this piece, we outline three of them.
THE WORLD’S FIRST MARIJUANA ETF

The Horizons Marijuana Life Sciences Index ETF (“HMMJ”) seeks to replicate, to the extent possible, the performance of the North American Marijuana Index, net of expenses. This Index is designed to provide exposure to the performance of a basket of North American publicly listed companies with significant business activities in the Marijuana industry.

DETAILS:

- **Ticker:** HMMJ; HMMJ.U
- **Management Fee:** 0.75%
- **Stock Exchange:** Toronto Stock Exchange
- **Underlying Index:** North American Marijuana Index
- **Bloomberg Index Ticker:** NAMMAR
- **Currency:** Canadian dollar (foreign exposure is not hedged)
- **Eligibility:** All registered and non-registered investment accounts
- **Rebalanced:** Quarterly

North American Marijuana Index

Constituents are listed on North America’s public equity markets with business activities that include biopharmaceuticals, medical manufacturing, distribution, bioproducts and other ancillary businesses to the Marijuana industry. While securities may be listed on the TSX, NYSE, or Nasdaq Global Market, many of these securities may trade on North American junior exchanges that include (but are not limited to) the:

- TSX Venture Exchange
- Canadian Securities Exchange
- NASDAQ Stock Market
- New York Stock Exchange

North American Marijuana Index Methodology

- Rebalanced quarterly to adapt to a dynamically changing market
- Securities will generally have a market capitalization of greater than CAD $75 million
- Average daily trading value generally greater than CAD $250,000
- No issuer will represent more than 10% of the North American Marijuana Index on each rebalance

For more information on HMMJ, including its top holdings, visit: www.HorizonsETFs.com/HMMJ.
EXPOSURE TO MARIJUANA STOCKS WITH GROWTH POTENTIAL

The Horizons Emerging Marijuana Growers Index ETF (“HMJR”) seeks to replicate, to the extent possible, the performance of the Emerging Marijuana Growers Index, net of expenses. This Index is designed to provide exposure to the performance of a basket of primarily North American publicly-listed small-capitalization companies primarily involved in the cultivation, production and/or distribution of marijuana.

DETAILS:

- **Ticker:** HMJR
- **Management Fee:*** 0.85%
- **Stock Exchange:** Aequitas NEO Exchange
- **Underlying Index:** Emerging Marijuana Growers Index
- **Bloomberg Index Ticker:** EMMAR
- **Currency:** Canadian dollar (foreign exposure is not hedged)
- **Eligibility:** All registered and non-registered investment accounts
- **Rebalanced:** Quarterly

*Plus applicable sales taxes.

EMERGING MARIJUANA GROWERS INDEX

The Emerging Marijuana Growers Index tracks the performance of a basket of companies which:

1. Are publicly listed
2. Are located in developed markets; and
3. Have significant business activities in the cultivation, production and/or distribution of marijuana.

EMERGING MARIJUANA GROWERS INDEX METHODOLOGY

- Rebalanced quarterly to adapt to a dynamically changing market
- Securities will generally have an initial market capitalization of greater than CAD $50 million but less than CAD $500 million
- No issuer will represent more than 8% of the Emerging Marijuana Growers Index on each rebalance

For more information on HMJR, including its top holdings, visit: www.HorizonsETFs.com/HMJR.
THE WORLD’S FIRST U.S.-FOCUSED MARIJUANA INDEX ETF

The Horizons US Marijuana Index ETF (“HMUS”) seeks to replicate, to the extent possible, the performance of the US Marijuana Companies Index, net of expenses. This Index is designed to provide exposure to the performance of a basket of North American publicly-listed life sciences companies having significant business activities in, or significant exposure to, the United States Marijuana or Hemp industries.

DETAILS:

- **Ticker:** HMUS; HMUS.U¹
- **Management Fee:*** 0.85%
- **Stock Exchange:** Aequitas NEO Exchange
- **Underlying Index:** US Marijuana Companies Index
- **Bloomberg Index Ticker:** UMMAR
- **Currency:** Canadian dollar (foreign exposure is not hedged)
- **Eligibility:** All registered and non-registered investment accounts
- **Rebalanced:** Quarterly

¹Trades in U.S. dollars.

*Plus applicable sales taxes.

US MARIJUANA COMPANIES INDEX

Constituents are listed on North America’s public equity markets with significant business activities in, or significant exposure to, the Marijuana or Hemp industries in the United States and primarily include those with business activities in the cultivation, production and/or distribution of marijuana.

US MARIJUANA COMPANIES INDEX METHODOLOGY

- Uses a modified market capitalization, with larger companies (by market capitalization) representing larger weights in the portfolio at each rebalance
- No issuer will represent more than 10% of the Index on each rebalance date
- For a security to be eligible for the Index, the issuer will generally need to have a market capitalization of greater than CAD $75 million

For more information on HMUS, including its top holdings, visit: www.HorizonsETFs.com/HMUS.

There are risks associated with this product. HMUS is expected to invest in the Marijuana industry in certain U.S. states that have legalized marijuana for therapeutic or adult-use, which is currently illegal under U.S. federal law. HMUS will passively invest in companies involved in the marijuana industry in the U.S. where local state law regulates and permits such activities, as well as in companies involved in the Canadian legal Marijuana industry. HMUS will not be directly engaged in the manufacture, importation, possession, use, sale or distribution of marijuana in either Canada or the U.S. Please read the full risk disclosure in the prospectus before investing.
WANT TO LEARN MORE ABOUT INVESTING IN THIS BUDDING INDUSTRY?

It’s rare that investors get to take part in the early stages of a new sector of the economy.

HMMJ, HMJR and HMUS provide a simple and diversified way to get exposure to this exciting potential growth opportunity.
Commissions, management fees and expenses all may be associated with an investment in exchange traded products managed by Horizons ETFs Management (Canada) Inc. (the “Horizons Exchange Traded Products”). 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 prospectus before investing.

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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.

To learn more visit HorizonsETFs.com/Marijuana