

Steve Hawkins:

Hi there. I'm Steve Hawkins, President and CEO of Horizons ETFs. I am joined here today by Mark Noble, EVP of Product Strategy. Thanks for coming, Mark.

Mark Noble:

Always good to be here with you, Steve.

Steve Hawkins:

We launched the Horizons Global Metaverse Index ETF (MTAV) on the TSX. Can you tell me about what is the metaverse and why did we launch this ETF right now, Mark?

Mark Noble:

Yeah, I mean, we're getting this question a lot. Why do we need to have a metaverse ETF? I originally, when we started looking at the idea of a metaverse ETF about six months ago, we thought the concept was a little bit out there because we're seeing a lot of chatter in the emerging technology space that we tend to cover with a lot of our ETFs.

Mark Noble:

And we're like, "What is this metaverse and why is this something that we need to be invested in?" And it is still a term that's defying definition. We're still working on explaining what it is. But I think since the Facebook announcement in October that they would be changing their corporate name from Facebook to Meta and focusing the majority of their corporate branding around the metaverse, I think it's really come a lot more into lexicon in understanding what is the metaverse and why it's important.

Mark Noble:

But I'll briefly try to explain very quickly on what the metaverse is. The metaverse effectively is where we're looking at expanding a lot more of our physical day-to-day activities into a virtual setting. A lot of the internet that we have right now in terms of our interaction, we refer to as Web 2.0. And in some ways it's not just 2.0, but it's also 2D.

Mark Noble:

Our interactions tend to be somewhat less immersive. We do things like video calls, we text. And we're always online, but we're not necessarily engaging in an immersive environment the way that we would be say, if we were in a virtual reality setting.

Steve Hawkins:

Do you think this is more than just online video gaming and people living in this digital world? Like my kids playing their Minecraft and their Roblox and League of Legends every day?

Mark Noble:

Yeah. Well, I think the pandemic has shown that the majority of our day-to-day can be done virtually in terms of interaction with people. So the idea is how do we enhance that engagement virtually? And the way that we enhance that engagement virtually is by creating a world that looks and feels like the world we live in, but is digital.

Mark Noble:

And that's really the idea behind the metaverse, to your question, do you see us doing more and more there? The answer from big tech is yes. So if we look at Facebook, for example, they have already highlighted they're going to be spending 10 billion dollars a year on investing in metaverse technology to effectively replace Facebook with social worlds, where we're walking around and talking to people using digital headsets. And interacting the way we would in the physical world, but of course, this is an online digital realm.

Mark Noble:

So, the answer to your question is, yes. This is very much viewed by big tech as a replacement or an expansion of our lives into a much more immersive virtual reality setting.

Steve Hawkins:

And with that type of investment coming into this universe of potential companies that are acting in this new virtual reality, this new metaverse, where is the investment opportunity for us? What are we investing in to make this a great opportunity for you to invest into this fund?

Mark Noble:

Well, there's really two things you need to understand to find the revenue opportunity in this. So the first is in world creation. We usually use the old adage you probably heard your grandfather tell you, "You should buy real estate, because they're not making any more." But if we turn things on their head, if we create a bunch of digital worlds that exist, that have infinite possibilities, well then actually, there's lots of real estate to be purchased and lots of new worlds to conquer and buy, when we look at the metaverse.

Mark Noble:

The idea here is, number one, there's a revenue from world creation. So if someone like Facebook or if we take Fortnite is a perfect example, owned by Epic Games, where this becomes a world within itself where people not just play video games, but they converse. They watch concerts on there with Marshmello and people like that doing big, huge virtual concerts. If we think of this as a world of engagement, then everything in that world around us is for sale.

Mark Noble:

That in itself is the first big revenue opportunity. And this could be things like buying skins, customized clothing and cars and real estate within that world, that can be for sale. Advertising, of course, is a huge opportunity. Advertising in that world. And then creating portals, of course, to other types of goods having digital storefronts, things like that. So that's the number one revenue source, world creation.

Mark Noble:

The second one is in the actual digital infrastructure. So in our ETF MTAV, we have a lot of the companies that are providing these solutions and tools through which people can build these worlds. So of course, you need things like semiconductors, which at a baseline. But even like Nvidia, which is a leading semiconductor company, they have something called the omniverse tool of apps where these apps will actually allow you to build 3D rendered worlds for things as diverse as doing autonomous driving simulations to teaching robots how to work around manufacturing, to graphics designed for 3D worlds.

Mark Noble:

Or Adobe, of course, which seems pretty straightforward. I mean, you get a PDF that doesn't seem very highly advanced, but Adobe has a whole bunch of creative suites that are really used by these developers to build these worlds. You get the two aspects with our ETF. You get the world traders, companies like Roblox, Tencent, which of course owns Fortnite, and then you get Adobe and Nvidia. And the other companies that are building the infrastructure.

Mark Noble:

And the final piece of that infrastructure, of course, are the AR 3D goggles. So Facebook, of course, has Oculus Quest. And then of course, you've got Microsoft with its Nano Goggles, which US military has purchased. And Autodesk is another one where they're creating virtual apps and all kinds of industrial usage tools to create virtual worlds. Again, two huge key areas. World building, as well as the infrastructure for those world building.

Steve Hawkins:

And so, I mean, that's amazing from a technology perspective. But what else does the metaverse... How else is it going to be affecting, from our economy perspective? You touched on people can own virtual property and they're going to be able to sell their virtual property. Is there going to be digital marketplaces? Are we going to be dealing with digital payments? How is that being affected by the metaverse?

Mark Noble:

It's a great question, Steve. And digital payments is also another part of this solution. So I put that in the infrastructure theme. We segment these two themes by six different buckets and digital payments fits into that digital infrastructure bucket. Because again, yes, you highlight that, as we build these digital worlds, how are we going to safely consume within those worlds? And it is through the digital marketplace.

Mark Noble:

Visa, MasterCard are in MTAV. As well as leading crypto companies like Marathon and Coinbase, because a lot of these worlds will require us to have digital payment systems using blockchain technology, which is obviously secured autonomous distributed ledger technology.

Mark Noble:

We tend to think of what is our infrastructure in the physical world for finance? It's the banks and our centralized solution. What's the finance infrastructure for the metaverse? It most likely will be these digital payment solutions, which again, could just be a massive opportunity if we look at world creation, creating a whole new opportunity of new investment.

Steve Hawkins:

This fund, we partnered again with Solactive to create the Solactive Global Metaverse Index. We know it took a long time for us to get here and build this index. And there's a lot of proprietary technology that has gone into building this index, working with Solactive. Can you tell us a little bit about how the index works? How Solactive are going to be managing that index for us? And how are we weighting the companies? How are we selecting the companies that really go into the fund?

Mark Noble:

Yeah, this was a lot of work on both our behalf and Solactive's behalf. Solactive building this index, us looking at how we wanted to define metaverse in the Horizons end. We came to the idea that the idea behind the index is it defines the metaverse as really being from six pillars. I talked about the two revenue opportunities, but the six pillars are really augmented virtual reality. The goggles or headsets needed to enter the metaverse and have an immersive environment.

Mark Noble:

Creator economy. These are companies that are building the worlds and creating economies within those worlds. A digital infrastructure, which I highlighted. Digital marketplace, which would be retailers that are selling within the metaverse. Gaming, of course being a huge opportunity set. And then digital payments. What we're doing is, Solactive has a really innovative algorithmic screen tool known as ARTIS, which will go and use its screener to read financial statements, press releases, annual reports to really look at what companies are making significant investments in the metaverse. And it has a number of really important keywords around these different pillars that it looks at.

Mark Noble:

From these pillars, we get the leading companies that score high on the ARTIS ranking in each of these different areas. And some of them like Microsoft, for example, are leaders in goggles, but they're also leaders in cloud computing and digital infrastructure. ARTIS again, will help us determine which pillar they go into.

Mark Noble:

From there, once we have 50 stocks with that high ranking ARTIS score from these different pillars, we then go and we market cap weight those stocks. We really want to have exposure to the companies that are larger generally, because this is a very capital intensive theme. And each of those stocks is capped at 5%. Nothing goes above 5%. But it gives you the larger companies as higher weighting.

Mark Noble:

And then, as a prudent approach to index building, you do get some of the smaller cap names, nothing under a billion, but we have some names that are in the four to 5 billion range. Where they have a slightly smaller market cap, but exposure to them as they grow. And as they grow and their market cap grows, they could be a larger weighting index.

Mark Noble:

However, we rebalance this on a quarterly basis to ensure that we're always capturing the leadership in this theme. As we've seen over the last six weeks, people's understanding of this theme is changing by the day. And so we want to make sure we have an ETF and an index solution that's able to rebalance to really reflect the absolutely astounding rapid pace of change that's happening with this theme, including trying to define what this theme actually is. We think this index does the best job out there of giving you constant exposure to the theme and maintaining that global diversification of the leading companies in this theme.

Steve Hawkins:

And we weren't the only metaverse ETF that launched. We've seen our competitor launch a product, they've gone active in the space. Why do we feel that passive is really the best way to go when you're dealing with thematic like this, when you're dealing with technologies that are changing every single day?

Mark Noble:

Well, we've done enough thematic ETFs now to know that, generally speaking, having a broad diversified approach is probably the best approach to a theme. And the reason I say that is you want to own all the winners. You don't want to be missing out on any of the winners because historically, that's where most of your return trajectory is going to go from.

Mark Noble:

And it's not just Horizons that believes that. We have a partner in the United States, Global X, which is a largest thematic ETF provider in the world and runs over 40 billion in thematic ETFs. And they also take this index approach, where you want to be able to capture as much of the companies and ecosystem of these themes, because you don't really know early on who is going to be successful. The challenge with an active strategy is you're making usually a more concentrated bet on stocks that you think are going to win the sector.

Mark Noble:

And no amount of fundamental analysis can sometimes help you there. If that was the case, then you'd be buying Blackberry by the boatload back in 2007, 2008, because of its smartphone share. And you'd be buying PalmPilot in 2000 because of its mobile solutions. Or even early on in the marijuana theme, buying a company like Aurora, which had great fundamentals and size relative to the others, which really hasn't done well as the market changes.

Mark Noble:

Our view is simply, let's find the companies that are in this theme and own them as broadly and prudently as possible. Because ultimately, the companies that are successful in this theme will grow in their market cap weight, and you'll get exposure to them. Which is a much better risk-reward profile than owning the wrong companies and particularly missing out on buying the companies that are really going to move within that theme.

Steve Hawkins:

And Mark, really last question here for you. What type of investors should be investing into our metaverse ETF?

Mark Noble:

Well, this is a long term investment theme. The metaverse doesn't currently exist. Although, I personally believe this is a real theme in terms of something that will exist because of the amount of money that's going into it from the large technology companies. The large technology companies recognize that they have a gated control over what we call web 2.0. But this new web 3.0, which is more of an autonomous decentralized set of worlds. In some ways you could almost say people are leaving the internet to go to the metaverse. Big tech recognizes this and they're pouring a lot of money into it.

Mark Noble:

Now, it could take five, six years for this to really manifest itself. And companies like Grayscale and Bloomberg pegged the growth in this space anywhere from 800 billion to a trillion dollars. That's the long term. So this is a long term buy and hold, but it is speculative. You're betting on something that doesn't currently exist, which means this fits more in the explore portfolio.

Mark Noble:

Having said that, I think what's really interesting about this technology ETF versus other technology ETFs even we own at Horizons is that this has a large cap bias. Again, the leaders in the metaverse space are the world's largest technology companies because they see the writing on the wall. They have the scale and understanding to know that the internet is getting fragmented and moving to more of this decentralized system. And they want to have these worlds that exist online to ensure that they capture the outflow from traditional internet properties.

Mark Noble:

And so that for them, this is not just a matter of revenue opportunity, but a matter of survival. But from an investor perspective, this is a good thing because you have really large, well capitalized companies. This isn't, as I would say, risky as betting on blockchain or cryptocurrencies. You're really betting with the largest technology companies in the world. And betting that they're going to be able to make this pivot to the metaverse over the next decade, which does provide a little bit more framework and protection from a risk perspective.

Steve Hawkins:

Mark, thank you very much for talking to me here today, talking about MTAV. And we look forward to watching this ETF grow substantially into the metaverse.

Mark Noble:

Yeah. And remember the returns are real. They're not virtual, so that's the really nice part about this ETF.

Steve Hawkins:

Love it.

Mark Noble:

All right. Thanks.



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by Mirae Asset

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