

Interim Report | June 30, 2021



**Horizons Active Hybrid Bond and Preferred Share ETF**  
*(formerly Horizons Active Floating Rate Preferred Share ETF)*  
**(HYBR:TSX)**



**HORIZONS** ETFs  
by Mirae Asset

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# Contents

## **MANAGEMENT REPORT OF FUND PERFORMANCE**

Management Discussion of Fund Performance .....	7
Financial Highlights .....	13
Past Performance .....	16
Summary of Investment Portfolio .....	17

## **MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING** .....

19

## **FINANCIAL STATEMENTS**

Statements of Financial Position .....	20
Statements of Comprehensive Income .....	21
Statements of Changes in Financial Position .....	22
Statements of Cash Flows .....	23
Schedule of Investments .....	24
Notes to Financial Statements .....	32



## A Message from the CEO

After 2020's challenges and uncertainty, we have seen persistent success in the global fight against the COVID-19 pandemic during the first half of 2021.

Across the world, vaccination rollouts are under way and there is growing optimism that a 'return to normal' is on the horizon. At Horizons ETFs, while we mourn the COVID-19 pandemic's toll and reflect on its lessons, we continue to work diligently to best serve our investors and clients.

Despite the impacts of the pandemic across many businesses and sectors, Canada's ETF industry and the marketplace have shown few signs of slowing down. As at May 31, 2021, Canada's ETF industry has seen \$25 billion in year-to-date inflows, with \$7 billion in May alone – a 12-month record.

Horizons ETFs is proud to continue our longstanding commitment to bringing innovative ETFs to market. In 2021, that commitment has so far resulted in eight new ETF launches.

In January, Horizons ETFs launched the Horizons Psychedelic Stock Index ETF ("**PSYK**"). PSYK is the world's first psychedelics ETF; an emerging industry that has the potential to disrupt the pharmaceutical sector and revolutionize the treatment of numerous mental health conditions.

Another global first: in April, we launched our inverse Bitcoin ETF, the BetaPro Inverse Bitcoin ETF ("**BITI**"), offering investors a unique opportunity to potentially profit from volatility in what has become one of 2021's most-watched asset classes.

In June, we launched the Horizons S&P Green Bond Index ETF ("**HGGB**"), Canada's first global green bond ETF. We believe there is growing demand for responsible investing products in the Canadian marketplace and HGGB fills an important gap for those seeking to directly fund projects that will help lead to a greener future.

Also launched in June was the Horizons Global Semiconductor Index ETF ("**CHPS**"). CHPS offers direct exposure to companies involved in the production and development of semiconductors. Despite supply being interrupted by COVID-19, we are bullish on the potential of this sector as semiconductors are at the core of technology usage.

At Horizons ETFs, following the significant growth in our assets under management in 2020 from approximately \$10 billion to more than \$17 billion, we continue to solidify our position as one of Canada's top ETF providers. In May of this year, we were honoured to be the recipient of Wealth Professionals "Fund Provider of the Year Award" for 2020. With several more innovative Horizons ETFs' funds slated to launch this year, we are optimistic about the prospect of further growth for the second half of 2021.

In 2021, several sectors that we have pioneered ETF exposure to, including the marijuana industry and the global uranium market, have seen their fortunes rise considerably. Following the election of the Biden Administration, there is renewed hope for broader federal cannabis reform in the United States, which has resulted in rallies in both the Canadian and American marijuana industries. The uranium market has also seen significant growth this year as well as continued global efforts toward decarbonization and building more sustainable power generation – both positive trends for the nuclear sector.

At Horizons ETFs, "Innovation is Our Capital," has long been our motto, and we believe this has allowed us to be nimble enough to adapt quickly when anticipating what investors are looking for. While the road ahead is still uncertain, we feel confident in our ability to retain our momentum and believe there are brighter days on the horizon.

As always, we thank you for your continued support and hope you're staying safe and healthy during this time.

Sincerely,



Steven J. Hawkins  
President & CEO of Horizons ETFs Management Inc.



## MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Horizons Active Hybrid Bond and Preferred Share ETF (formerly Horizons Active Floating Rate Preferred Share ETF) (“HYBR” (formerly HFP) or the “ETF”) contains financial highlights and is included with the unaudited interim financial statements for the investment fund. You may request a copy of the ETF’s unaudited interim or audited annual financial statements, interim or annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosures, at no cost, from the ETF’s manager, Horizons ETFs Management (Canada) Inc. (“Horizons Management” or the “Manager”), by calling toll free 1-866-641-5739, or locally (416) 933-5745, by writing to us at: 55 University Avenue, Suite 800, Toronto ON, M5J 2H7, or by visiting our website at [www.horizonsetfs.com](http://www.horizonsetfs.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance, or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements.

Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the ETF may invest and the risks detailed from time to time in the ETF’s prospectus. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors. We caution that the foregoing list of factors is not exhaustive, and that when relying on forward-looking statements to make decisions with respect to investing in the ETF, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Manager does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The investment objective of HYBR is to seek 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 limited recourse capital notes (“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.

The ETF’s sub-advisor, Fiera Capital Corporation (“Fiera” or the “Sub-Advisor”), uses fundamental research to select companies that, based on the Sub-Advisor’s view on the company’s industry and growth prospects, should be included in the ETF’s investment portfolio. An extensive credit analysis for each security as well as an assessment of each company’s risk profile is completed in order to confirm the selection and relative weight of each security held by the ETF.

HYBR may, from time to time, also invest in Hybrids, preferred shares and other income generating securities of non-North American issuers as well as Listed Funds, as they are defined in the ETF’s prospectus.

## Management Discussion of Fund Performance (continued)

The ETF may, invest in non-investment grade securities which generally in the aggregate will be less than 50% of the ETF's net assets at time of purchase.

In anticipation of, or in response to, adverse conditions or for defensive purposes, or to manage new subscription activity, the ETF may temporarily hold a portion of its assets in cash, money market instruments, or other cash equivalents which, generally, in aggregate, will not exceed 20% of the ETF's net assets. The ETF may also invest in derivatives for currency hedging purposes.

In accordance with applicable securities rules, the ETF may rely on exemptions from the securities regulatory authorities allowing it to purchase securities of a related issuer of the Sub-Advisor if certain conditions are met. In particular, the investment must be consistent with, or necessary to meet, the investment objective of HYBR. The investment must also be approved by the ETF's Independent Review Committee ("IRC") and is subject to certain other provisions of National Instrument 81-107 ("NI 81-107").

Please refer to the ETF's most recent prospectus for a complete description of HYBR's investment restrictions.

### Risk

The Manager performs a review of the ETF's risk rating at least annually, as well as when there is a material change in the ETF's investment objective or investment strategies. The current risk rating for the ETF is: medium.

Risk ratings are determined based on the historical volatility of the ETF as measured by the standard deviation of its performance against its mean. The risk categorization of the ETF may change over time and historical volatility is not indicative of future volatility. Generally, a risk rating is assigned to the ETF based on a rolling 10-year standard deviation of its returns, the return of an underlying index, or of an applicable proxy. In cases where the Manager believes that this methodology produces a result that is not indicative of the ETF's future volatility, the risk rating may be determined by the ETF's category. Risk ratings are not intended for use as a substitute for undertaking a proper and complete suitability or financial assessment by an investment advisor.

The Manager, as a summary for existing investors, is providing the list below of the risks to which an investment in the ETF may be subject. **Prospective investors should read the ETF's most recent prospectus and consider the full description of the risks contained therein before purchasing units.**

The risks to which an investment in the ETF is subject are listed below and have not changed from the list of risks found in the ETF's most recent prospectus. A full description of each risk listed below may also be found in the most recent prospectus. The most recent prospectus is available at [www.horizonsetfs.com](http://www.horizonsetfs.com) or from [www.sedar.com](http://www.sedar.com), or by contacting Horizons ETFs Management (Canada) Inc. directly via the contact information on the back page of this document.



## Management Discussion of Fund Performance (continued)

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Stock market risk</li> <li>• Specific issuer risk</li> <li>• Legal and regulatory risk</li> <li>• Market disruptions risk</li> <li>• Cyber security risk</li> <li>• Listed Funds risk</li> <li>• Reliance on historical data risk</li> <li>• Corresponding net asset value risk</li> <li>• Designated broker/dealer risk</li> <li>• Cease trading of securities risk</li> <li>• Exchange risk</li> <li>• Early closing risk</li> <li>• No assurance of meeting investment objective</li> <li>• Tax risk</li> <li>• Securities lending, repurchase and reverse repurchase transaction risk</li> <li>• Loss of limited liability</li> <li>• Reliance on key personnel</li> <li>• Distributions risk</li> </ul> | <ul style="list-style-type: none"> <li>• Conflicts of interest</li> <li>• No ownership interest</li> <li>• Market for units</li> <li>• Redemption price</li> <li>• Net asset value fluctuation</li> <li>• Restrictions on certain unitholders</li> <li>• Highly volatile markets</li> <li>• No guaranteed return</li> <li>• Derivatives and counterparty risk</li> <li>• Interest rate risk</li> <li>• Foreign currency risk</li> <li>• Credit risk</li> <li>• Income trust investment risk</li> <li>• Foreign stock exchange risk</li> <li>• Call risk</li> <li>• Risk of difference between quoted and actionable market price</li> <li>• Liquidity risk</li> </ul> |
|---|---|

### Results of Operations

For the six-month period ended June 30, 2021, units of the ETF returned 20.25%, when including distributions paid to unitholders. By comparison, the S&P/TSX Preferred Share Index™ (the “Index”) and the Solactive Laddered Canadian Preferred Share Index (the “Laddered Index”) returned 14.30 and 17.94%, respectively, on a total return basis, and the 3-month Canadian Dealer Offered Rate (“CDOR”) returned 1.103% for the same period.

The S&P/TSX Preferred Share Index is designed to track the performance of the Canadian preferred stock market. Preferred stocks pay dividends at a specified rate and receive preference over common stocks in terms of dividend payments and liquidation of assets.

The Solactive Laddered Canadian Preferred Share Index includes preferred shares that generally have an adjustable dividend rate and are laddered using equal weights in annual reset term buckets. Securities are market-capitalization-weighted within the annual term buckets. Constituents are subject to minimum market capitalization, quality and liquidity screens.

CDOR is a key industry-determined financial benchmark in Canada. CDOR is the rate at which contributors are willing to extend credit to corporate clients utilizing a bankers’ acceptance facility.

### General Market Review

Risk assets continued where they left off at the end of 2020 and pushed higher throughout the first quarter of 2021. Vaccinations and reopenings, particularly in the U.S., drove risk assets even higher throughout the second quarter, but bond markets reversed direction.

## Management Discussion of Fund Performance (continued)

In the first quarter of 2021, global bond markets sold off significantly after the U.S. approved a massive \$1.9 trillion fiscal package at the beginning of the year, forcing fixed income investors to quickly adjust their expectations higher for both growth and inflation. The yield curve steepened as central banks were in no hurry to take their foot off the gas pedal. In the second quarter, short term rates increased significantly, and the long end of the yield curve rallied causing the curve to flatten.

Economic growth in the U.S. was strong in the first half of the year but supply constraints are causing shortages in labor, supplies and goods. Jobs are still down 6.8 million from their pre-COVID-19 levels putting pressure on the U.S. Federal Reserve. However, there are now seven of 18 Federal Open Market Committee (“FOMC”) members expecting a rate hike by the end of 2022. New COVID-19 variants are spreading globally causing concerns that new or additional stay-at-home orders and economic restrictions may increase in some countries.

Conversely, the Canadian economy had started accelerating in the first quarter of 2021 following the rollout of vaccines and easing of restrictions, however it slowed down in the second quarter as a result of new lockdowns associated with the third wave. With Canadian vaccinations now proceeding much faster and plans to lift restrictions over the summer, the economy is set to have a strong recovery, led by consumer spending. Rising global demand and higher commodity prices are expected to help Canadian exports. Inflation has increased to 3% but is expected to ease later in the year. The weekly net asset purchases by the Bank of Canada of government bonds were reduced to \$3 billion from \$4 billion in April.

These developments caused the 10-year Canada yield to increase by 71 basis points (“bps”) to 1.39% and for the yield curve to flatten. In this environment midterm provincial bond spreads tightened 7 bps on average to 50 bps, and midterm corporate spreads tightened by 14 bps on average to 119 bps.

The strong credit tone in the limited resource capital notes (“LRCN”) and hybrid markets, and the stable five-year rate were the main drivers of outperformance throughout the first half of the year. Real estate, telecommunication and energy sectors outperformed, while bank and utility sectors underperformed.

### **Portfolio Review**

The ETF’s performance was mainly driven by a significant position in fixed-floating issues, as well as strong security selection, particularly in the energy sector. Conversely, the ETF’s underweight position in perpetuals detracted the fund’s performance. An underweight position in real estate names also reduced the fund’s outperformance.

Over the period, the ETF increased its allocation to banks, insurance, and telecommunication fixed reset issues with low level. The ETF decreased its allocation to fixed reset issues with high reset. Also exposure to hybrids was increased by adding to BNS LRCN through the new issue process.

### **Outlook**

The speed of vaccinations to combat COVID-19 will continue to drive financial markets for the remainder of the year. In Canada, a substantial portion of the population has now received at least one dose and the second dose is being rolled out faster than previously expected. Fiera continues to maintain its thesis on the reopening of the economy with the U.S. leading the way. Fiera anticipates that during the summer, re-openings will occur and with this a boom in the economy; fiscal and monetary policy will also support this powerful recovery. Inflation has pushed materials higher this year and although they expect it to decline over the medium term, inflationary risks are skewed to the upside due to the strength of the economy and supply chain disruptions caused by the virus. Central banks are also expected to reduce bond

## Management Discussion of Fund Performance (continued)

purchases later in the year. As a result, the portfolio is still positioned for higher yields and a steeper curve, but there is an expectation of volatility.

The preferred shares market should continue to deliver some capital gain over the next quarters but at a slower pace versus the second quarter. The technicals should stay positive as issuers should continue to redeem their expensive preferred shares and replace them with LRCN and hybrid. Fiera is expecting at least \$11.4 billion of redemption (16.8% of the market) until the end of 2022. The primary market will remain quiet in this environment. Retail investors may continue to be net seller, but it should not derail the positive impact of those potential redemptions which will bring a strong and constant bid in the market. Flows into the ETFs will continue to be an important driver of daily volatility. In this environment, fixed reset issues with low reset level that trade at discount should continue to outperform. Fiera also believes the non-financial sectors (utilities, communications and energy) have more upside than the financial sector in this environment.

### ***Other Operating Items and Changes in Net Assets Attributable to Holders of Redeemable Units***

For the six-month period ended June 30, 2021, the ETF generated gross comprehensive income (loss) from investments and derivatives (which includes changes in the fair value of the ETF's portfolio) of \$8,609,291. This compares to (\$13,884,292) for the six-month period ended June 30, 2020. The ETF incurred management, operating and transaction expenses of \$304,476 (2020 – \$308,867) of which \$110,964 (2020 – \$40,235) was either paid or absorbed by the Manager on behalf of the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

The ETF distributed \$995,873 to unitholders during the period (2020 – \$2,053,016).

### **Presentation**

The attached financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets in the financial statements and/or management report of fund performance is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

### **Recent Developments**

Other than indicated below, there are no recent industry, management or ETF related developments that are pertinent to the present and future of the ETF.

### ***Impact of COVID-19***

The full extent of the impact that the COVID-19 epidemic will have on the Canadian and U.S. economies and the ETF's business remains uncertain and difficult to predict at this time. By their very nature, the estimates and/or judgements the Manager makes for the purposes of preparing the ETF's financial statements relate to matters that are inherently uncertain. However, the Manager maintains detailed policies and internal controls that are intended to ensure that these estimates and judgements are well controlled, and that they are consistently applied from period to period. It is the Manager's opinion that any estimates and/or judgements used in the preparation of these financial statements are appropriate as at June 30, 2021, and December 31, 2020, and for the periods ended June 30, 2021 and 2020.

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## Management Discussion of Fund Performance (continued)

### ***Underlying Index, ETF and Ticker Name Changes***

Effective at the close of trading on March 3, 2021, there was a change to the ETF's investment objective. The ETF's new investment objective is described in the Investment Objective and Strategies section. Prior to March 3, 2021, the previous investment objective of the ETF was to generate income consistent with prevailing short-term preferred share yields while reducing the potential effects of interest rate fluctuations. The ETF invested primarily in preferred shares (including securities convertible into preferred shares) of Canadian companies and may have also invested in preferred shares of companies located in the United States, debt (including debt-like securities) of Canadian and U.S. issuers, including other income generating securities, Listed Funds, as defined in the ETF's prospectus. The ETF, at times, used derivatives, including interest rate swaps and futures contracts, to contribute to the ability of the ETF to seek to deliver a floating rate of income.

In addition, based on the implementation of the new investment objective, the Manager changed both the name of the ETF and the ETF's trading symbol to "Horizons Active Hybrid Bond and Preferred Share ETF" and "HYBR", respectively, effective March 10, 2021.

### **Related Party Transactions**

Certain services have been provided to the ETF by related parties and those relationships are described below.

#### ***Manager, Trustee and Investment Manager***

The manager, trustee and investment manager of the ETF is Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, a corporation incorporated under the laws of Ontario.

If the ETF invests in other Horizons Management ETFs, Horizons Management may receive management fees in respect of the ETF's assets invested in such Horizons Management ETFs. In addition, any management fees paid to the Manager (described in detail on page 15) are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income in the attached financial statements of the ETF. The management fees payable by the ETF as at June 30, 2021, and December 31, 2020, are disclosed in the statements of financial position.

## Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance for the current interim reporting period and for the past five fiscal years. This information is derived from the ETF's audited annual financial statements and the current unaudited interim financial statements. Please see the front page for information on how you may obtain the ETF's annual or interim financial statements.

### The ETF's Net Assets per Unit

Period <sup>(1)</sup>	2021	2020	2019	2018	2017	2016
<b>Net assets, beginning of period</b>	\$ 8.08	8.09	8.41	9.78	8.70	8.41
<b>Increase (decrease) from operations:</b>						
Total revenue	0.20	0.43	0.43	0.42	0.41	0.41
Total expenses	(0.04)	(0.05)	(0.06)	(0.07)	(0.07)	(0.06)
Realized gains (losses) for the period	0.01	(1.08)	(0.74)	(0.06)	0.12	(0.17)
Unrealized gains (losses) for the period	1.45	0.68	0.39	(1.42)	0.95	0.58
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	1.62	(0.02)	0.02	(1.13)	1.41	0.76
<b>Distributions:</b>						
From net investment income (excluding dividends)	(0.19)	–	–	–	–	–
From dividends	–	(0.41)	(0.38)	(0.33)	(0.32)	(0.34)
From net realized capital gains	–	–	–	–	(0.04)	–
From return of capital	–	–	(0.01)	(0.03)	–	(0.03)
<b>Total distributions <sup>(3)</sup></b>	(0.19)	(0.41)	(0.39)	(0.36)	(0.36)	(0.37)
<b>Net assets, end of period <sup>(4)</sup></b>	\$ 9.51	8.08	8.09	8.41	9.78	8.70

- This information is derived from the ETF's unaudited interim financial statements and audited annual financial statements.
- Net assets per unit and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.
- Income, dividend and/or return of capital distributions, if any, are paid in cash, reinvested in additional units of the ETF, or both. Capital gains distributions, if any, may or may not be paid in cash. Non-cash capital gains distributions are reinvested in additional units of the ETF and subsequently consolidated. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder, nor the net asset per unit of the ETF change as a result of any non-cash capital gains distributions. Distributions classified as return of capital, if any, decrease each unitholder's adjusted cost base for their units. The characteristics of distributions, if any, are determined subsequent to the end of the ETF's tax year. Until such time, distributions are classified as from net investment income (excluding dividends) for reporting purposes.
- The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

**Financial Highlights** (continued)

**Ratios and Supplemental Data**

<b>Period</b> <sup>(1)</sup>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Total net asset value (000's)	\$ 51,958	44,131	89,624	135,892	143,102	103,167
Number of units outstanding (000's)	5,465	5,465	11,085	16,161	14,628	11,852
Management expense ratio <sup>(2)(5)</sup>	0.64%	0.65%	0.65%	0.63%	0.65%	0.62%
Management expense ratio excluding proportion of expenses from underlying investment funds	0.64%	0.65%	0.65%	0.62%	0.65%	0.62%
Management expense ratio before waivers and absorptions <sup>(3)</sup>	1.12%	0.75%	0.70%	0.68%	0.69%	0.73%
Trading expense ratio <sup>(4)(5)</sup>	0.19%	0.07%	0.14%	0.08%	0.10%	0.11%
Trading expense ratio excluding proportion of costs from underlying investment funds	0.19%	0.07%	0.14%	0.08%	0.10%	0.11%
Portfolio turnover rate <sup>(6)</sup>	18.17%	17.34%	53.21%	30.20%	35.04%	27.45%
Net asset value per unit, end of period	\$ 9.51	8.08	8.09	8.41	9.78	8.70
Closing market price	\$ 9.57	8.06	8.10	8.40	9.82	8.69

1. This information is provided as at June 30, 2021, and December 31 of the other years shown.
2. Management expense ratio is based on total expenses, including sales tax, (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Out of its management fees, and waivers and absorptions, as applicable, the Manager pays for such services to the ETF as investment manager compensation and marketing.
3. The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.
4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. Transaction costs related to the purchase and/or sale of fixed income securities are typically embedded in the price of those transactions and are therefore not included in the trading expense ratio.
5. The ETF's management expense ratio (MER) and trading expense ratio (TER) include an estimated proportion of the MER and TER for any underlying investment funds held in the ETF's portfolio during the year.
6. The ETF's portfolio turnover rate indicates how actively its portfolio investments are traded. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. Generally, the higher the ETF's portfolio turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the ETF.

## Financial Highlights (continued)

### Management Fees

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as portfolio managers, custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.55%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears.

The Sub-Advisor is compensated for its services out of the management fees without any further cost to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

The table below details, in percentage terms, the services received by the ETF from the Manager in consideration of the management fees paid during the period.

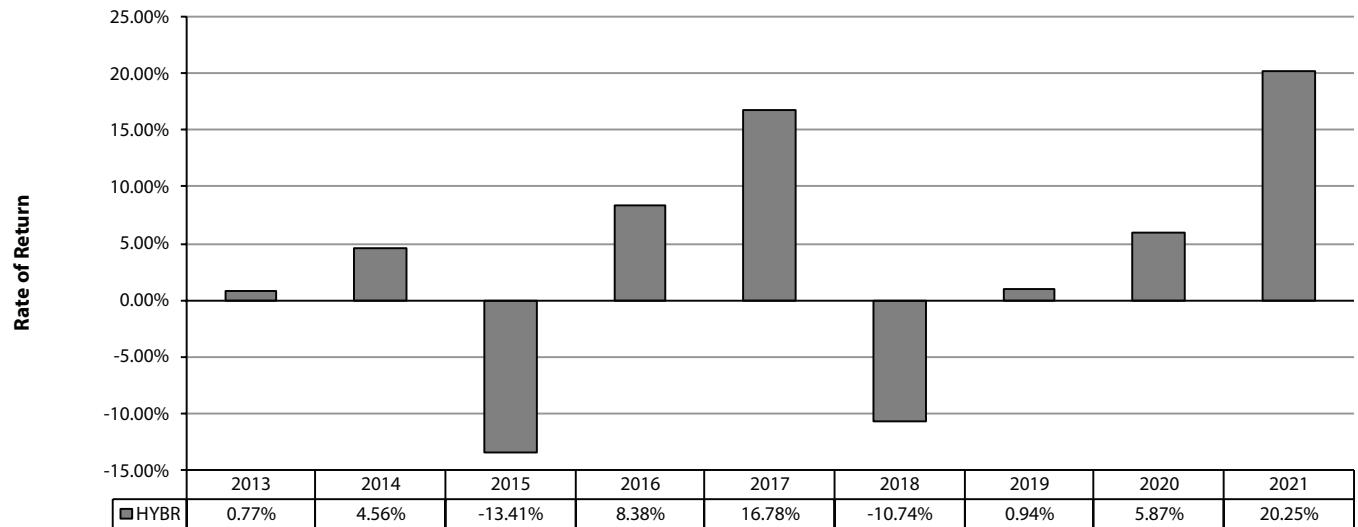
<b>Marketing</b>	<b>Portfolio management fees, general administrative costs and profit</b>	<b>Waived/absorbed expenses of the ETF</b>
3%	20%	77%

## Past Performance

Commissions, management fees, expenses and applicable sales taxes all may be associated with an investment in the ETF. Please read the prospectus before investing. The indicated rates of return are the historical total returns including changes in unit value and reinvestment of all distributions, and do not take into account sales, redemptions, distributions or optional charges or income taxes payable by any investor that would have reduced returns. An investment in the ETF is not guaranteed. Its value changes frequently and past performance may not be repeated. The ETF's performance numbers assume that all distributions, if any, are reinvested in additional units of the ETF. If you hold this ETF outside of a registered plan, income and capital gains distributions that are paid to you increase your income for tax purposes whether paid to you in cash or reinvested in additional units. The amount of the reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gain or increase your capital loss when you later redeem from the ETF, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation.

## Year-by-Year Returns

The following chart presents the ETF's performance for the periods shown, and illustrates how the performance has changed from period to period. In percentage terms, the chart shows how much an investment made on the first day of the financial period would have grown or decreased by the last day of the financial period.



The ETF effectively began operations on October 1, 2013.



## Summary of Investment Portfolio

As at June 30, 2021

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Canadian Preferred Securities	\$ 48,894,320	94.11%
Canadian Fixed Income Securities	1,794,022	3.45%
Currency Forward Hedge*	(18,496)	-0.04%
Cash and Cash Equivalents	1,169,601	2.25%
Other Assets less Liabilities	118,342	0.23%
	<b>\$ 51,957,789</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Financials	\$ 25,968,175	49.98%
Energy	13,077,717	25.17%
Utilities	5,941,160	11.44%
Communication Services	3,634,039	6.99%
Corporate Bonds	1,794,022	3.45%
Industrials	273,229	0.53%
Currency Forward Hedge*	(18,496)	-0.04%
Cash and Cash Equivalents	1,169,601	2.25%
Other Assets less Liabilities	118,342	0.23%
	<b>\$ 51,957,789</b>	<b>100.00%</b>

\*Positions in forward contracts are disclosed as the gain/(loss) that would be realized if the contracts were closed out on the date of this report.

**Summary of Investment Portfolio** (continued)

As at June 30, 2021

<b>Top 25 Holdings*</b>	<b>% of ETF's Net Asset Value</b>
Enbridge Inc.	9.76%
Toronto-Dominion Bank (The)	7.58%
Manulife Financial Corp.	7.43%
Canadian Imperial Bank of Commerce	7.35%
BCE Inc.	6.99%
Bank of Montreal	5.96%
Pembina Pipeline Corp.	5.73%
TC Energy Corp.	4.26%
Royal Bank of Canada	4.01%
Brookfield Asset Management Inc.	3.52%
National Bank of Canada	3.40%
AltaGas Ltd.	3.38%
Brookfield Renewable Power Preferred Equity Inc.	3.03%
Brookfield Office Properties Inc.	2.65%
Cenovus Energy Inc.	2.51%
Cash and Cash Equivalents	2.25%
Brookfield Infrastructure Partners L.P.	1.97%
Industrial Alliance Insurance and Financial Services Inc.	1.89%
Sun Life Financial Inc.	1.81%
Fortis Inc.	1.75%
Intact Financial Corp.	1.43%
Fairfax Financial Holdings Ltd.	1.33%
Bank of Nova Scotia (The)	1.33%
Emera Inc.	1.21%
Inter Pipeline Ltd.	1.17%

\* Note all of the Top 25 Holdings represent the aggregate preferred securities of that issuer in the ETF's portfolio.

The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent financial statements are available at no cost by calling 1-866-641-5739, or (416) 933-5745, by writing to us at 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7, by visiting our website at [www.horizonsetfs.com](http://www.horizonsetfs.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

### MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of Horizons Active Hybrid Bond and Preferred Share ETF (*formerly Horizons Active Floating Rate Preferred Share ETF*) (the "ETF") are the responsibility of the manager and trustee to the ETF, Horizons ETFs Management (Canada) Inc. (the "Manager"). They have been prepared in accordance with International Financial Reporting Standards using information available and include certain amounts that are based on the Manager's best estimates and judgements.

The Manager has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

These financial statements have been approved by the Board of Directors of the Manager.



Steven J. Hawkins  
Director  
Horizons ETFs Management (Canada) Inc.



Thomas Park  
Director  
Horizons ETFs Management (Canada) Inc.

### NOTICE TO UNITHOLDERS

**The Auditors of the ETF have not reviewed these Financial Statements.**

Horizons ETFs Management (Canada) Inc., the Manager of the ETF, appoints an independent auditor to audit the ETF's annual financial statements.

The ETF's independent auditors have not performed a review of these interim financial statements in accordance with Canadian generally accepted auditing standards.

**Statements of Financial Position** (unaudited)

As at June 30, 2021 and December 31, 2020

	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,169,601	\$ 435,230
Investments	50,688,342	43,828,424
Amounts receivable relating to accrued income	87,465	84,220
Amounts receivable relating to portfolio assets sold	5,903	12,338
Amounts receivable relating to securities issued	238,890	–
Derivative assets (note 3)	15	1,032
<b>Total assets</b>	<b>52,190,216</b>	<b>44,361,244</b>
<b>Liabilities</b>		
Accrued management fees	26,146	24,315
Accrued operating expenses	6,211	2,391
Amounts payable for portfolio assets purchased	5,727	12,968
Distribution payable	175,832	189,729
Derivative liabilities (note 3)	18,511	977
<b>Total liabilities</b>	<b>232,427</b>	<b>230,380</b>
<b>Total net assets (note 2)</b>	<b>\$ 51,957,789</b>	<b>\$ 44,130,864</b>
Number of redeemable units outstanding (note 8)	5,465,351	5,464,531
Total net assets per unit	\$ 9.51	\$ 8.08

(See accompanying notes to financial statements)

Approved on behalf of the Board of Directors of the Manager:



 Steven J. Hawkins  
 Director



 Thomas Park  
 Director

**Statements of Comprehensive Income** (unaudited)

For the Periods Ended June 30,

	<b>2021</b>	<b>2020</b>
<b>Income</b>		
Dividend income	\$ 979,374	\$ 2,158,785
Interest income for distribution purposes	49,025	61,676
Securities lending income (note 7)	53	285
Net realized gain (loss) on sale of investments and derivatives	75,720	(4,682,192)
Net realized gain (loss) on foreign exchange	(921)	10,516
Net change in unrealized appreciation (depreciation) of investments and derivatives	7,505,957	(11,433,799)
Net change in unrealized appreciation of foreign exchange	83	437
	<b>8,609,291</b>	<b>(13,884,292)</b>
<b>Expenses (note 9)</b>		
Management fees	143,228	216,859
Audit fees	6,304	6,312
Independent Review Committee fees	576	376
Custodial and fund valuation fees	15,540	16,302
Legal fees	52,684	1,490
Securityholder reporting costs	24,841	10,677
Administration fees	16,905	14,986
Transaction costs	44,398	41,640
Other expenses	–	225
	<b>304,476</b>	<b>308,867</b>
Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(110,964)	(40,235)
	<b>193,512</b>	<b>268,632</b>
<b>Increase (decrease) in net assets for the period</b>	<b>\$ 8,415,779</b>	<b>\$ (14,152,924)</b>
Increase (decrease) in net assets per unit	\$ 1.62	\$ (1.40)

(See accompanying notes to financial statements)

**Statements of Changes in Financial Position** (unaudited)

For the Periods Ended June 30,

	<b>2021</b>		<b>2020</b>	
<b>Total net assets at the beginning of the period</b>	\$	44,130,864	\$	89,624,318
<b>Increase (decrease) in net assets</b>		8,415,779		(14,152,924)
<b>Redeemable unit transactions</b>				
Proceeds from the issuance of securities of the investment fund		5,385,691		609,263
Aggregate amounts paid on redemption of securities of the investment fund		(4,985,989)		(12,372,452)
Securities issued on reinvestment of distributions		7,317		22,991
Distributions:				
From net investment income		(995,873)		(2,053,016)
<b>Total net assets at the end of the period</b>	<b>\$</b>	<b>51,957,789</b>	<b>\$</b>	<b>61,678,180</b>

(See accompanying notes to financial statements)

**Statements of Cash Flows** (unaudited)

For the Periods Ended June 30,

	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets for the period	\$ 8,415,779	\$ (14,152,924)
Adjustments for:		
Net realized loss (gain) on sale of investments and derivatives	(75,720)	4,682,192
Net realized gain (loss) on currency forward contracts	32,954	(48,712)
Net change in unrealized depreciation (appreciation) of investments and derivatives	(7,505,957)	11,433,799
Net change in unrealized appreciation of foreign exchange	(50)	(20)
Purchase of investments	(7,713,013)	(5,261,852)
Proceeds from the sale of investments	4,640,034	6,602,291
Amounts receivable relating to accrued income	(3,245)	65,309
Accrued expenses	5,651	(17,296)
<b>Net cash from (used in) operating activities</b>	<b>(2,203,567)</b>	<b>3,302,787</b>
<b>Cash flows from financing activities:</b>		
Amount received from the issuance of units	4,489,044	44,729
Amount paid on redemptions of units	(548,703)	(1,437,661)
Distributions paid to unitholders	(1,002,453)	(2,052,809)
<b>Net cash from (used in) financing activities</b>	<b>2,937,888</b>	<b>(3,445,741)</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>734,321</b>	<b>(142,954)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	50	20
<b>Cash and cash equivalents at beginning of period</b>	<b>435,230</b>	<b>1,532,184</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,169,601</b>	<b>\$ 1,389,250</b>
Interest received, net of withholding taxes	\$ 49,861	\$ 77,820
Dividends received, net of withholding taxes	\$ 975,293	\$ 2,207,950

(See accompanying notes to financial statements)

**Schedule of Investments** (unaudited)

As at June 30, 2021

Security	Shares/ Par Value/ Contracts		Average Cost		Fair Value
<b>CANADIAN PREFERRED SECURITIES (94.11%)</b>					
<b>Financials (49.98%)</b>					
Artis REIT, Preferred, Series 'A', Variable Rate, Perpetual	3,351	\$	73,194	\$	82,099
Artis REIT, Preferred, Series 'E', Variable Rate, Perpetual	6,427		120,894		151,034
Artis REIT, Preferred, Series 'I', Variable Rate, Perpetual	3,691		82,134		94,120
Bank of Montreal, Preferred, Class 'B', Series '26', Floating Rate, Perpetual	580		12,203		14,488
Bank of Montreal, Preferred, Class 'B', Series '27', Variable Rate, Convertible, Perpetual	13,993		278,938		332,474
Bank of Montreal, Preferred, Class 'B', Series '29', Variable Rate, Perpetual	33,978		729,948		791,687
Bank of Montreal, Preferred, Class 'B', Series '31', Variable Rate, Perpetual	7,225		163,311		171,594
Bank of Montreal, Preferred, Class 'B', Series '33', Variable Rate, Perpetual	19,847		436,364		476,725
Bank of Montreal, Preferred, Class 'B', Series '38', Variable Rate, Perpetual	4,247		109,704		108,341
Bank of Montreal, Preferred, Class 'B', Series '40', Variable Rate, Perpetual	25,615		590,964		651,902
Bank of Montreal, Preferred, Class 'B', Series '42', Variable Rate, Perpetual	21,344		491,250		544,699
Bank of Nova Scotia (The), Preferred, Series '38', Variable Rate, Perpetual	8,122		203,100		208,654
Brookfield Asset Management Inc., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	3,394		51,279		58,631
Brookfield Asset Management Inc., Preferred, Class 'A', Series '24', Variable Rate, Perpetual	1,812		35,217		34,972
Brookfield Asset Management Inc., Preferred, Class 'A', Series '25', Variable Rate, Perpetual	1,010		21,197		19,493
Brookfield Asset Management Inc., Preferred, Class 'A', Series '26', Variable Rate, Convertible, Perpetual	5,807		110,057		113,643
Brookfield Asset Management Inc., Preferred, Class 'A', Series '30', Variable Rate, Convertible, Perpetual	9,954		206,951		238,896
Brookfield Asset Management Inc., Preferred, Class 'A', Series '32', Variable Rate, Convertible, Perpetual	5,010		113,413		122,745
Brookfield Asset Management Inc., Preferred, Class 'A', Series '34', Variable Rate, Perpetual	3,866		80,217		88,145
Brookfield Asset Management Inc., Preferred, Class 'A', Series '38', 4.40%, Perpetual	17,891		375,120		376,784
Brookfield Asset Management Inc., Preferred, Class 'A', Series '40', Variable Rate, Perpetual	15,780		341,782		375,091
Brookfield Asset Management Inc., Preferred, Class 'A', Series '42', Variable Rate, Perpetual	17,192		354,809		393,009



**Schedule of Investments** (unaudited) (continued)

As at June 30, 2021

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'N', Variable Rate, Perpetual	18,116	323,293	337,501
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'P', Variable Rate, Convertible, Perpetual	11,407	193,151	213,995
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'R', Variable Rate, Perpetual	20,571	393,695	415,431
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'AA', Variable Rate, Perpetual	14,766	276,169	305,952
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'CC', Variable Rate, Perpetual	100	1,978	2,585
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'EE', Variable Rate, Perpetual	1,000	21,530	24,500
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'GG', Variable Rate, Perpetual	2,500	50,960	59,125
Brookfield Office Properties Inc., Preferred, Class 'AAA', Series 'II', Variable Rate, Perpetual	757	15,273	17,714
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '39', Variable Rate, Perpetual	30,054	637,898	702,061
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '41', Variable Rate, Perpetual	8,482	182,431	200,260
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '43', Variable Rate, Perpetual	37,513	838,294	889,433
Canadian Imperial Bank of Commerce, Preferred, Class 'A', Series '45', Variable Rate, Perpetual	79,949	1,899,227	2,026,707
Canadian Western Bank, Preferred, Series '5', Variable Rate, Perpetual	183	3,277	4,438
Fairfax Financial Holdings Ltd., Preferred, Series 'C', Variable Rate, Convertible	5,758	118,841	133,010
Fairfax Financial Holdings Ltd., Preferred, Series 'G', Variable Rate, Perpetual	2,664	43,489	46,860
Fairfax Financial Holdings Ltd., Preferred, Series 'I', Variable Rate, Convertible, Perpetual	1,164	21,320	22,221
Fairfax Financial Holdings Ltd., Preferred, Series 'K', 5.00%, Perpetual	7,552	148,654	178,982
Fairfax Financial Holdings Ltd., Preferred, Series 'M', Variable Rate, Perpetual	12,224	265,543	311,101
Great-West Lifeco Inc., Preferred, Series 'N', Variable Rate, Perpetual	866	15,313	13,865
Industrial Alliance Insurance and Financial Services Inc., Preferred, Class 'A', Series 'G', Variable Rate, Convertible, Perpetual	36,349	765,487	894,185
Industrial Alliance Insurance and Financial Services Inc., Preferred, Class 'A', Series 'I', Variable Rate, Perpetual	3,435	72,878	86,579
Intact Financial Corp., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Perpetual	24,238	524,466	598,679
Intact Financial Corp., Preferred, Class 'A', Series '7', Variable Rate, Convertible, Perpetual	5,652	130,978	144,126

**Schedule of Investments** (unaudited) (continued)

As at June 30, 2021

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Laurentian Bank of Canada, Preferred, Class 'A', Series '13', Variable Rate, Perpetual	918	20,020	20,609
Manulife Financial Corp., Preferred, Class '1', Series '5', Variable Rate, Convertible, Perpetual	18,700	378,961	465,630
Manulife Financial Corp., Preferred, Class '1', Series '7', Variable Rate, Perpetual	18,526	389,742	472,784
Manulife Financial Corp., Preferred, Class '1', Series '9', Variable Rate, Convertible, Perpetual	21,318	473,539	531,884
Manulife Financial Corp., Preferred, Class '1', Series '11', Variable Rate, Perpetual	14,241	320,265	356,167
Manulife Financial Corp., Preferred, Class '1', Series '13', Variable Rate, Perpetual	5,531	130,008	132,025
Manulife Financial Corp., Preferred, Class '1', Series '15', Variable Rate, Perpetual	20,323	438,682	467,429
Manulife Financial Corp., Preferred, Class '1', Series '17', Variable Rate, Perpetual	19,603	422,164	461,651
Manulife Financial Corp., Preferred, Class '1', Series '19', Variable Rate, Perpetual	9,739	200,037	229,743
Manulife Financial Corp., Preferred, Class '1', Series '23', Variable Rate, Perpetual	19,691	463,701	503,302
Manulife Financial Corp., Preferred, Class '1', Series '25', Variable Rate, Perpetual	9,614	232,132	240,254
National Bank of Canada, Preferred, Series '30', Variable Rate, Perpetual	15,143	304,444	369,489
National Bank of Canada, Preferred, Series '32', Variable Rate, Perpetual	7,722	152,869	182,857
National Bank of Canada, Preferred, Series '36', Variable Rate, Perpetual	7,814	202,342	197,616
National Bank of Canada, Preferred, Series '38', Variable Rate, Perpetual	24,613	583,244	636,246
National Bank of Canada, Preferred, Series '40', Variable Rate, Perpetual	10,551	206,331	261,876
National Bank of Canada, Preferred, Series '42', Variable Rate, Perpetual	4,969	97,781	126,809
Power Financial Corp., Preferred, Series 'P', Variable Rate, Perpetual	9,530	149,521	156,768
Power Financial Corp., Preferred, Series 'T', Variable Rate, Perpetual	4,715	111,577	110,897
Royal Bank of Canada, Preferred, Series 'AZ', Variable Rate, Perpetual	11,375	267,197	268,564
Royal Bank of Canada, Preferred, Series 'BB', Variable Rate, Perpetual	500	11,420	11,840
Royal Bank of Canada, Preferred, Series 'BD', Variable Rate, Perpetual	45,356	1,004,303	1,086,730
Royal Bank of Canada, Preferred, Series 'BF', Variable Rate, Perpetual	30,314	652,815	718,442
Sun Life Financial Inc., Preferred, Class 'A', Series '10R', Variable Rate, Perpetual	8,172	163,298	191,388
Sun Life Financial Inc., Preferred, Class 'A', Series '12R', Variable Rate, Perpetual	29,849	659,812	749,807

**Schedule of Investments** (unaudited) (continued)

As at June 30, 2021

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Toronto–Dominion Bank (The), Preferred, Series '1', Variable Rate, Convertible, Perpetual	6,917	148,970	162,342
Toronto–Dominion Bank (The), Preferred, Series '3', Variable Rate, Perpetual	35,733	749,496	844,371
Toronto–Dominion Bank (The), Preferred, Series '5', Variable Rate, Perpetual	16,530	351,953	391,761
Toronto–Dominion Bank (The), Preferred, Series '7', Variable Rate, Perpetual	65,386	1,504,239	1,569,264
Toronto–Dominion Bank (The), Preferred, Series '9', Variable Rate, Perpetual	21,007	474,177	505,428
Toronto–Dominion Bank (The), Preferred, Series '14', Variable Rate, Perpetual	2,474	62,531	62,840
Toronto–Dominion Bank (The), Preferred, Series '16', Variable Rate, Perpetual	2,368	48,874	60,858
Toronto–Dominion Bank (The), Preferred, Series '18', Variable Rate, Perpetual	1,000	21,290	25,240
Toronto–Dominion Bank (The), Preferred, Series '24', Variable Rate, Perpetual	11,735	290,097	316,728
		23,614,023	25,968,175
<b>Energy (25.17%)</b>			
AltaGas Ltd., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	22,608	426,053	430,908
AltaGas Ltd., Preferred, Series 'C', 4.40%, Convertible, Perpetual	18,403	523,973	541,565
AltaGas Ltd., Preferred, Series 'G', Variable Rate, Perpetual	22,809	508,395	516,624
AltaGas Ltd., Preferred, Series 'K', Variable Rate, Perpetual	10,650	254,440	269,978
Cenovus Energy Inc., Preferred, Series '1', Variable Rate, Perpetual	12,763	197,273	195,274
Cenovus Energy Inc., Preferred, Series '3', Variable Rate, Perpetual	15,290	328,670	336,380
Cenovus Energy Inc., Preferred, Series '5', Variable Rate, Perpetual	11,589	255,371	269,560
Cenovus Energy Inc., Preferred, Series '7', Variable Rate, Perpetual	22,585	417,250	500,258
Enbridge Inc., Preferred, Series 'B', Variable Rate, Perpetual	30,662	446,773	531,679
Enbridge Inc., Preferred, Series 'D', Variable Rate, Perpetual	106	1,748	1,927
Enbridge Inc., Preferred, Series 'F', Variable Rate, Perpetual	6,313	117,641	119,442
Enbridge Inc., Preferred, Series 'L', Variable Rate, Perpetual	3,955	97,329	104,622
Enbridge Inc., Preferred, Series 'N', Variable Rate, Perpetual	2,150	40,212	43,473
Enbridge Inc., Preferred, Series 'P', Variable Rate, Perpetual	28,266	535,979	524,900
Enbridge Inc., Preferred, Series 'R', Variable Rate, Perpetual	28,742	536,759	525,116
Enbridge Inc., Preferred, Series '3', Variable Rate, Perpetual	49,075	965,123	866,665
Enbridge Inc., Preferred, Series '7', Variable Rate, Perpetual	4,629	93,908	87,442
Enbridge Inc., Preferred, Series '9', Variable Rate, Perpetual	10,385	197,763	200,534
Enbridge Inc., Preferred, Series '11', Variable Rate, Perpetual	24,764	465,018	464,573
Enbridge Inc., Preferred, Series '13', Variable Rate, Perpetual	22,527	405,243	402,783
Enbridge Inc., Preferred, Series '15', Variable Rate, Perpetual	12,001	233,431	214,818

**Schedule of Investments** (unaudited) (continued)

As at June 30, 2021

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Enbridge Inc., Preferred, Series '17', Variable Rate, Perpetual	5,000	120,800	127,000
Enbridge Inc., Preferred, Series '19', Variable Rate, Convertible, Perpetual	24,333	550,442	616,355
Pembina Pipeline Corp., Preferred, Class 'A', Series '3', Variable Rate, Perpetual	185	3,723	3,846
Pembina Pipeline Corp., Preferred, Class 'A', Series '5', Variable Rate, Perpetual	6,974	83,386	159,007
Pembina Pipeline Corp., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	18,403	397,098	406,706
Pembina Pipeline Corp., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	35,137	771,982	888,966
Pembina Pipeline Corp., Preferred, Class 'A', Series '15', Variable Rate, Perpetual	8,741	171,846	190,073
Pembina Pipeline Corp., Preferred, Class 'A', Series '17', Variable Rate, Perpetual	4,074	77,564	95,739
Pembina Pipeline Corp., Preferred, Class 'A', Series '19', Variable Rate, Perpetual	20,453	449,900	518,279
Pembina Pipeline Corp., Preferred, Class 'A', Series '23', Variable Rate, Perpetual	12,380	283,331	321,756
Pembina Pipeline Corp., Preferred, Class 'A', Series '25', Variable Rate, Perpetual	14,879	345,446	387,598
TC Energy Corp., Preferred, Series '1', Variable Rate, Convertible, Perpetual	18,747	335,083	352,256
TC Energy Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual	6,007	98,709	81,455
TC Energy Corp., Preferred, Series '5', Variable Rate, Convertible, Perpetual	7,033	102,366	106,058
TC Energy Corp., Preferred, Series '7', Variable Rate, Convertible, Perpetual	25,112	488,058	516,554
TC Energy Corp., Preferred, Series '9', Variable Rate, Perpetual	18,595	359,304	381,755
TC Energy Corp., Preferred, Series '11', Variable Rate, Perpetual	30,646	609,446	726,310
TC Energy Corp., Preferred, Series '15', Variable Rate, Perpetual	1,939	48,930	49,483
		12,345,766	13,077,717
<b>Utilities (11.44%)</b>			
Algonquin Power & Utilities Corp., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	2,068	44,534	51,700
Algonquin Power & Utilities Corp., Preferred, Series 'D', Variable Rate, Perpetual	3,355	66,284	86,727
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '1', Variable Rate, Perpetual	18,444	380,502	418,310
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '3', Variable Rate, Perpetual	4,195	100,963	113,286
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '5', Variable Rate, Perpetual	10,550	255,827	265,966

**Schedule of Investments** (unaudited) (continued)

As at June 30, 2021

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
Brookfield Infrastructure Partners L.P., Preferred, Class 'A', Series '11', Variable Rate, Perpetual	9,063	191,990	230,200
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '7', Variable Rate, Perpetual	12,325	277,729	326,613
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '9', Variable Rate, Perpetual	4,004	89,782	102,102
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '11', Variable Rate, Perpetual	1,333	25,476	33,925
Brookfield Renewable Partners L.P., Preferred, Class 'A', Series '15', Variable Rate, Perpetual	861	17,677	22,799
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '1', Variable Rate, Convertible, Perpetual	39,563	773,908	801,546
Brookfield Renewable Power Preferred Equity Inc., Preferred, Class 'A', Series '3', Variable Rate, Convertible, Perpetual	33,674	708,359	775,175
Canadian Utilities Ltd., Preferred, Series 'Y', Variable Rate, Perpetual	22,766	458,393	496,982
Canadian Utilities Ltd., Preferred, Series 'FF', Variable Rate, Perpetual	1,840	45,915	50,324
Capital Power Corp., Preferred, Series '1', Variable Rate, Convertible, Perpetual	7,636	100,846	117,671
Capital Power Corp., Preferred, Series '3', Variable Rate, Convertible, Perpetual	3,080	57,372	76,076
Capital Power Corp., Preferred, Series '5', Variable Rate, Perpetual	2,611	45,895	62,429
Capital Power Corp., Preferred, Series '9', Variable Rate, Perpetual	210	5,080	5,418
Emera Inc., Preferred, Series 'A', Variable Rate, Convertible, Perpetual	11,720	209,765	198,537
Emera Inc., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	9,316	176,246	220,323
Emera Inc., Preferred, Series 'F', Variable Rate, Perpetual	9,137	181,955	214,354
Fortis Inc., Preferred, Series 'G', Variable Rate, Perpetual	7,626	158,406	163,349
Fortis Inc., Preferred, Series 'H', 4.25%, Perpetual	413	6,854	6,298
Fortis Inc., Preferred, Series 'K', Variable Rate, Perpetual	7,190	141,282	149,983
Fortis Inc., Preferred, Series 'M', Variable Rate, Perpetual	26,614	496,046	590,565
TransAlta Corp., Preferred, Series 'C', Variable Rate, Convertible, Perpetual	3,355	52,600	62,470
TransAlta Corp., Preferred, Series 'E', 5.00%, Perpetual	4,251	70,300	93,437
TransAlta Corp., Preferred, Series 'G', Variable Rate, Perpetual	2,353	41,985	56,001
Westcoast Energy Inc., Preferred, Series '12', Variable Rate, Perpetual	5,864	147,695	148,594
		5,329,666	5,941,160
<b>Communication Services (6.99%)</b>			
BCE Inc., Preferred, Series 'R', Variable Rate, Perpetual	10,588	178,062	193,231
BCE Inc., Preferred, Series 'T', Variable Rate, Perpetual	36,762	622,693	674,215
BCE Inc., Preferred, Series 'Y', Variable Rate, Perpetual	5,596	101,983	101,679
BCE Inc., Preferred, Series 'Z', Variable Rate, Perpetual	8,064	138,165	149,829
BCE Inc., Preferred, Series 'AA', Variable Rate, Perpetual	24,415	407,302	453,631
BCE Inc., Preferred, Series 'AB', Variable Rate, Perpetual	14,505	257,955	263,846

**Schedule of Investments** (unaudited) (continued)

As at June 30, 2021

Security	Shares/ Par Value/ Contracts	Average Cost	Fair Value
BCE Inc., Preferred, Series 'AD', Variable Rate, Perpetual	9,000	103,486	163,890
BCE Inc., Preferred, Series 'AF', Variable Rate, Perpetual	22,265	402,821	439,957
BCE Inc., Preferred, Series 'AG', Variable Rate, Perpetual	18,460	297,818	341,510
BCE Inc., Preferred, Series 'AI', Variable Rate, Perpetual	11,798	189,444	216,257
BCE Inc., Preferred, Series 'AJ', Variable Rate, Perpetual	4,537	68,547	83,231
BCE Inc., Preferred, Series 'AK', Variable Rate, Convertible, Perpetual	7,750	128,362	137,563
BCE Inc., Preferred, Series 'AL', Floating Rate, Perpetual	9,948	178,055	175,184
BCE Inc., Preferred, Series 'AM', Variable Rate, Perpetual	10,434	168,294	190,316
BCE Inc., Preferred, Series 'AO', Variable Rate, Perpetual	2,000	34,320	49,700
		3,277,307	3,634,039
<b>Industrials (0.53%)</b>			
Element Fleet Management Corp., Preferred, Series 'E', Variable Rate, Perpetual	10,071	238,560	259,328
Element Fleet Management Corp., Preferred, Series 'I', Variable Rate, Perpetual	543	12,103	13,901
		250,663	273,229
<b>TOTAL CANADIAN PREFERRED SECURITIES</b>		<b>44,817,425</b>	<b>48,894,320</b>
<b>CANADIAN FIXED INCOME SECURITIES (3.45%)</b>			
<b>Corporate Bonds (3.45%)</b>			
Bank of Nova Scotia (The), Variable Rate, Perpetual, 4.90%, 2025/06/04	170,000	234,167	231,805
Bank of Nova Scotia (The), Series '1', Variable Rate, Callable, 3.70%, 2081/07/27	250,000	250,000	250,432
Enbridge Inc., Variable Rate, Callable, 6.00%, 2077/01/15	20,000	21,218	27,519
Enbridge Inc., Series 'C', Variable Rate, Callable, 6.63%, 2078/04/12	192,000	192,000	218,125
Inter Pipeline Ltd., Series '19-A', Variable Rate, Callable, 6.88%, 2079/03/26	548,000	548,000	610,852
Keyera Corp., Floating Rate, Callable, 6.88%, 2079/06/13	410,000	410,000	455,289
		1,655,385	1,794,022
<b>TOTAL CANADIAN FIXED INCOME SECURITIES</b>		<b>1,655,385</b>	<b>1,794,022</b>
<b>DERIVATIVES (-0.04%)</b>			
<b>Currency Forwards (-0.04%)</b>			
Currency forward contract to buy C\$847,893 for US\$698,904 maturing September 15, 2021		-	(18,496)
<b>TOTAL DERIVATIVES</b>		<b>-</b>	<b>(18,496)</b>

**Schedule of Investments** (unaudited) (continued)

As at June 30, 2021

<b>Security</b>	<b>Shares/ Par Value/ Contracts</b>	<b>Average Cost</b>	<b>Fair Value</b>
Transaction Costs		(47,714)	
<b>TOTAL INVESTMENT PORTFOLIO (97.52%)</b>		<b>\$ 46,425,096</b>	<b>\$ 50,669,846</b>
<b>Cash and cash equivalents (2.25%)</b>			1,169,601
<b>Other assets less liabilities (0.23%)</b>			118,342
<b>TOTAL NET ASSETS (100.00%)</b>			<b>\$ 51,957,789</b>

(See accompanying notes to financial statements)

## Notes to Financial Statements (unaudited)

June 30, 2021

### 1. REPORTING ENTITY

Horizons Active Hybrid Bond and Preferred Share ETF (formerly *Horizons Active Floating Rate Preferred Share ETF*) (“HYBR” (formerly HFP) or the “ETF”) is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on October 1, 2013. The address of the ETF’s registered office is: c/o Horizons ETFs Management (Canada) Inc., 55 University Avenue, Suite 800, Toronto, Ontario, M5J 2H7.

The ETF is offered for sale on a continuous basis by its prospectus in Class E units (“Class E”) which trade on the Toronto Stock Exchange (“TSX”) under the symbol HYBR (formerly HFP). An investor may buy or sell units of the ETF on the TSX only through a registered broker or dealer in the province or territory where the investor resides. Investors are able to trade units of the ETF in the same way as other securities traded on the TSX, including by using market orders and limit orders and may incur customary brokerage commissions when buying or selling units.

The investment objective of HYBR is to seek 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 limited recourse capital notes (“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.

Horizons ETFs Management (Canada) Inc. is the manager, trustee and investment manager of the ETF (“Horizons Management”, the “Manager” or the “Investment Manager”). The Investment Manager is responsible for implementing the ETF’s investment strategies and for engaging the services of Fiera Capital Corporation (“Fiera” or the “Sub-Advisor”), to act as the sub-advisor to the ETF.

#### ***Underlying Index, ETF and Ticker Name Changes***

Effective at the close of trading on March 3, 2021, there was a change to the ETF’s investment objective. The ETF’s new investment objective is described in the Investment Objective and Strategies section above. Prior to March 3, 2021, the previous investment objective of the ETF was to generate income consistent with prevailing short-term preferred share yields while reducing the potential effects of interest rate fluctuations. The ETF invested primarily in preferred shares (including securities convertible into preferred shares) of Canadian companies and may have also invested in preferred shares of companies located in the United States, debt (including debt-like securities) of Canadian and U.S. issuers, including other income generating securities, Listed Funds, as defined in the ETF’s prospectus. The ETF, at times, used derivatives, including interest rate swaps and futures contracts, to contribute to the ability of the ETF to seek to deliver a floating rate of income.

In addition, based on the implementation of the new investment objective, the Manager changed both the name of the ETF and the ETF’s trading symbol to “Horizons Active Hybrid Bond and Preferred Share ETF” and “HYBR”, respectively, effective March 10, 2021.

### 2. BASIS OF PREPARATION

#### ***(i) Statement of compliance***

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Any mention of total net assets, net assets, net asset value



## Notes to Financial Statements (unaudited) (continued)

June 30, 2021

or increase (decrease) in net assets is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

These financial statements were authorized for issue on August 1, 2021, by the Board of Directors of the Manager.

### **(ii) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

### **(iii) Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the ETF's functional currency.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### **(a) Financial instruments**

#### **(i) Recognition, initial measurement and classification**

The ETF is subject to IFRS 9, Financial Instruments ("IFRS 9") for the classification and measurement requirements for financial instruments, including impairment of financial assets and hedge accounting.

IFRS 9 requires financial assets to be classified based on the ETF's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss ("FVTPL"). IFRS 9 requires classification of debt instruments, if any, based solely on payments of principal and interests, and business model tests.

The ETF's financial assets and financial liabilities are managed and its performance is evaluated on a fair value basis. The contractual cash flows of the ETF's debt securities, if any, consist solely of principal and interest, however, these securities are neither held in held-to-collect, or held-to-collect-and-sell business models in IFRS 9.

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value (see below), with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

The ETF classifies financial assets and financial liabilities into the following categories:

- Financial assets mandatorily classified at FVTPL: debt securities, equity investments and derivative financial instruments
- Financial assets at amortized cost: all other financial assets
- Financial liabilities classified at FVTPL: derivative financial instruments and securities sold short, if any
- Financial liabilities at amortized cost: all other financial liabilities

## Notes to Financial Statements (unaudited) (continued)

June 30, 2021

### ***(ii) Fair value measurement***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the ETF has access at that date. The fair value of a liability reflects its non-performance risk.

Investments are valued at fair value as of the close of business on each day upon which a session of the TSX is held ("Valuation Date") and based on external pricing sources to the extent possible. Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers, are valued at their closing sale price. However, such prices may be adjusted if a more accurate value can be obtained from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from external sources. Short-term investments, including notes and money market instruments, are valued at amortized cost which approximates fair value.

Investments held that are not traded in an active market, including some derivative financial instruments, are valued using observable market inputs where possible, on such basis and in such manner as established by the Manager. Derivative financial instruments are recorded in the statements of financial position according to the gain or loss that would be realized if the contracts were closed out on the Valuation Date. Margin deposits, if any, are included in the schedule of investments as margin deposits. See also, the summary of fair value measurements in note 6.

Fair value policies used for financial reporting purposes are the same as those used to measure the net asset value ("NAV") for transactions with unitholders.

The fair value of other financial assets and liabilities approximates their carrying values due to the short-term nature of these instruments.

### ***(iii) Offsetting***

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

### ***(iv) Specific instruments***

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and short-term, interest bearing notes with a term to maturity of less than three months from the date of purchase.

#### **Forward foreign exchange contracts**

Forward foreign exchange contracts, if any, are valued at the current market value thereof on the Valuation Date. The value of these forward contracts is the gain or loss that would be realized if, on the Valuation Date, the positions were

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

to be closed out and recorded as derivative assets and/or liabilities in the statements of financial position and as a net change in unrealized appreciation (depreciation) of investments and derivatives in the statements of comprehensive income. When the forward contracts are closed out or mature, realized gains or losses on forward contracts are recognized and are included in the statements of comprehensive income in net realized gain (loss) on sale of investments and derivatives. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider.

**Interest rate swaps**

Interest rate swaps, if any, are valued at the current market value thereof on the Valuation Date. The value of these interest rate swaps is the gain or loss that would be realized if, on the Valuation Date, the positions were to be closed out and recorded as derivative assets and/or liabilities, plus any amounts relating to accrued income, if applicable, in the statements of financial position, and as a net change in unrealized appreciation (depreciation) of investments and derivatives and interest income for distribution purposes, if applicable, in the statements of comprehensive income. When the interest rate swaps are closed out or mature, realized gains or losses on interest rate swaps are recognized and are included in the statements of comprehensive income.

**Redeemable units**

The redeemable units are measured at the present value of the redemption amounts and are considered a residual amount of the net assets attributable to holders of redeemable units. They are classified as financial liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders.

**(b) Investment income**

Investment transactions are accounted for as of the trade date. Realized gains and losses from investment transactions are calculated on a weighted average cost basis. The difference between fair value and average cost, as recorded in the financial statements, is included in the statements of comprehensive income as part of the net change in unrealized appreciation (depreciation) of investments and derivatives. Interest income for distribution purposes from investments in bonds and short-term investments represents the coupon interest received by the ETF accounted for on an accrual basis. Dividend income is recognized on the ex-dividend date. Distribution income from investments in other funds or ETFs is recognized when earned.

Income from derivatives is shown in the statements of comprehensive income as net realized gain (loss) on sale of investments and derivatives; net change in unrealized appreciation (depreciation) of investments and derivatives; and, interest income for distribution purposes, in accordance with its nature.

Income from securities lending, if any, is included in "Securities lending income" on the statements of comprehensive income and is recognized when earned. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (see note 7).

If the ETF incurs withholding taxes imposed by certain countries on investment income and capital gains, such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statements of comprehensive income.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

**(c) Foreign currency**

Transactions in foreign currencies are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the period-end exchange rate. Foreign exchange gains and losses are presented as "Net realized gain (loss) on foreign exchange", except for those arising from financial instruments at fair value through profit or loss, which are recognized as a component within "Net realized gain (loss) on sale of investments and derivatives" and "Net change in unrealized appreciation (depreciation) of investments and derivatives" in the statements of comprehensive income.

**(d) Cost basis**

The cost of portfolio investments is determined on an average cost basis.

**(e) Increase (decrease) in net assets attributable to holders of redeemable units per unit**

The increase (decrease) in net assets per unit in the statements of comprehensive income represents the change in net assets attributable to holders of redeemable units from operations divided by the weighted average number of units of the ETF outstanding during the reporting period.

**(f) Unitholder transactions**

The value at which units are issued or redeemed is determined by dividing the net asset value of the ETF by the total number of units outstanding of the ETF on the applicable Valuation Date. Amounts received on the issuance of units and amounts paid on the redemption of units are included in the statements of changes in financial position. Orders for subscriptions or redemptions are only permissible on valid trading days, as defined in the ETF's prospectus.

**(g) Amounts receivable (payable) relating to portfolio assets sold (purchased)**

In accordance with the ETF's policy of trade date accounting for sale and purchase transactions, sales/purchase transactions awaiting settlement represent amounts receivable/payable for securities sold/purchased, but not yet settled as at the reporting date.

**(h) Net assets attributable to holders of redeemable units per unit**

Net assets attributable to holders of redeemable units per unit is calculated by dividing the ETF's net assets attributable to holders of redeemable units by the number of units of the ETF outstanding on the Valuation Date.

**(i) Transaction costs**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and any applicable transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

In preparing these financial statements, the Manager has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The full extent of the impact that the COVID-19 epidemic will have on the Canadian and U.S. economies and the ETF's business remains uncertain and difficult to predict at this time. By their very nature, the estimates and/or judgements the Manager makes for the purposes of preparing the ETF's financial statements relate to matters that are inherently uncertain. However, the Manager maintains detailed policies and internal controls that are intended to ensure that these estimates and judgements are well controlled, and that they are consistently applied from period to period. It is the Manager's opinion that any estimates and/or judgements used in the preparation of these financial statements are appropriate as at June 30, 2021, and December 31, 2020, and for the periods ended June 30, 2021 and 2020.

The ETF may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates that the ETF has made in preparing the financial statements. See note 6 for more information on the fair value measurement of the ETF's financial instruments.

**5. FINANCIAL INSTRUMENTS RISK**

In the normal course of business, the ETF's investment activities expose it to a variety of financial risks. The Manager seeks to minimize potential adverse effects of these risks for the ETF's performance by employing professional, experienced portfolio advisors, by daily monitoring of the ETF's positions and market events, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Manager maintains a governance structure that oversees the ETF's investment activities and monitors compliance with the ETF's stated investment strategies, internal guidelines and securities regulations.

Please refer to the most recent prospectus for a complete discussion of the risks attributed to an investment in the units of the ETF. Significant financial instrument risks that are relevant to the ETF, and analysis thereof, are presented below.

**(a) Market risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the ETF's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**(i) Currency risk**

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at June 30, 2021, and December 31, 2020, the ETF did not have any material net exposure to foreign currencies due to the ETF's hedging strategies.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

**(ii) Interest rate risk**

The ETF may be exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In general, the value of interest-bearing financial instruments will rise if interest rates fall, and conversely, will generally fall if interest rates rise. There is minimal sensitivity to interest rate fluctuation on cash and cash equivalents invested at short-term market rates since those securities are usually held to maturity and are short term in nature.

The majority of the ETF's assets and liabilities are non-interest bearing. However, in general, preferred shares tend to react to changes in the prevailing level of long-term interest rates in a similar manner as bonds. For example, if interest rates fall, preferred share prices tend to rise, and vice versa. In the past, the ETF may have entered into interest rate swaps (as described in note 3) in order to hedge a portion of the ETF's interest rate risk. As at June 30, 2021, approximately 99.1% (December 31, 2020 - 99.5%) of the ETF's net assets were directly or indirectly exposed to interest rate risk. The amount by which the net assets of the ETF would have increased or decreased, as at June 30, 2021, had the prevailing interest rates been lowered or raised by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, was \$1,823,035 (December 31, 2020 - \$1,408,120).

**(iii) Other market risk**

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The Manager has implemented internal risk management controls on the ETF which are intended to limit the loss on its trading activities.

The table below shows the estimated impact on the ETF of a 1% increase or decrease in a broad-based market index, based on historical correlation, with all other factors remaining constant, as at the dates shown. In practice, actual results may differ from this sensitivity analysis and the difference could be material. The historical correlation may not be representative of future correlation.

Comparative Index	June 30, 2021	December 31, 2020
S&P/TSX Preferred Share Index™	\$508,050	\$431,995

**(b) Credit risk**

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the ETF. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables. The ETF's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statements of financial position. The ETF's credit risk policy is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the ETF's prospectus and, when necessary, receiving acceptable collateral.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

***Analysis of credit quality***

The ETF's credit risk exposure by designated rating of the invested portfolio as at June 30, 2021, and December 31, 2020, is listed as follows:

Canadian Securities by Credit Rating	Percentage of Net Asset Value (%)	
	June 30, 2021	December 31, 2020
P-1 - Best credit	1.9%	–
P-2 - Second best credit	51.0%	54.3%
P-3 - Third best credit	38.0%	34.8%
<b>Total</b>	<b>90.9%</b>	<b>89.1%</b>
U.S. Securities by Credit Rating	Percentage of Net Asset Value (%)	
	June 30, 2021	December 31, 2020
AAA	1.3%	–
BBB	3.6%	4.8%
BB	3.3%	5.6%
<b>Total</b>	<b>8.2%</b>	<b>10.4%</b>

Designated ratings are obtained by Standard & Poor's, Moody's and/or Dominion Bond Rating Services. Where more than one rating is obtained for a security, the lowest rating has been used. Credit risk is managed by dealing with counterparties the ETF believes to be creditworthy and by regular monitoring of credit exposures. The maximum exposure to any one debt issuer as of June 30, 2021, was 9.8% (December 31, 2020 – 10.0%) of the net assets of the ETF.

**(c) Liquidity risk**

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF's policy and the Investment Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the ETF's reputation. Generally, liabilities of the ETF are due within 90 days. Liquidity risk is managed by investing the majority of the ETF's assets in investments that are traded in an active market and can be readily disposed. The ETF aims to retain sufficient cash and cash equivalent positions to maintain liquidity; therefore, the liquidity risk for the ETF is considered minimal.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

**6. FAIR VALUE MEASUREMENT**

Below is a classification of fair value measurements of the ETF's investments based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair valuation inputs is summarized as follows:

- Level 1: securities that are valued based on quoted prices in active markets.
- Level 2: securities that are valued based on inputs other than quoted prices that are observable, either directly as prices, or indirectly as derived from prices.
- Level 3: securities that are valued with significant unobservable market data.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as at June 30, 2021, and December 31, 2020, in valuing the ETF's investments and derivatives carried at fair values:

	June 30, 2021			December 31, 2020		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>						
Bonds	–	1,794,022	–	–	1,587,655	–
Equities	48,894,320	–	–	42,240,769	–	–
Currency Forward Contracts	–	15	–	–	1,032	–
<b>Total Financial Assets</b>	<b>48,894,320</b>	<b>1,794,037</b>	<b>–</b>	<b>42,240,769</b>	<b>1,588,687</b>	<b>–</b>
<b>Financial Liabilities</b>						
Currency Forward Contracts	–	(18,511)	–	–	(977)	–
<b>Total Financial Liabilities</b>	<b>–</b>	<b>(18,511)</b>	<b>–</b>	<b>–</b>	<b>(977)</b>	<b>–</b>
<b>Net Financial Assets and Liabilities</b>	<b>48,894,320</b>	<b>1,775,526</b>	<b>–</b>	<b>42,240,769</b>	<b>1,587,710</b>	<b>–</b>

There were no significant transfers made between Levels 1 and 2 as a result of changes in the availability of quoted market prices or observable market inputs during the period or year shown. In addition, there were no investments or transactions classified in Level 3 for the period ended June 30, 2021, and for the year ended December 31, 2020.

**7. SECURITIES LENDING**

In order to generate additional returns, the ETF is authorized to enter into securities lending agreements with borrowers deemed acceptable in accordance with National Instrument 81-102 – *Investment Funds* ("NI 81-102"). Under a securities lending agreement, the borrower must pay the ETF a negotiated securities lending fee, provide compensation to the ETF equal to any distributions received by the borrower on the securities borrowed, and the ETF must receive an acceptable form of collateral in excess of the value of the securities loaned. Although such collateral is marked to market, the ETF may be exposed to the risk of loss should a borrower default on its obligations to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities. Revenue, if any, earned on securities lending transactions during the period is disclosed in the ETF's statements of comprehensive income.



**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

The aggregate closing market value of securities loaned and collateral received as at June 30, 2021, and December 31, 2020, was as follows:

As at	Securities Loaned	Collateral Received
June 30, 2021	\$2,690	\$2,833
December 31, 2020	\$198,734	\$213,819

Collateral may comprise, but is not limited to, cash and obligations of or guaranteed by the Government of Canada or a province thereof; by the United States government or its agencies; by some sovereign states; by permitted supranational agencies; and short-term debt of Canadian financial institutions, if, in each case, the evidence of indebtedness has a designated rating as defined by NI 81-102.

The table below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income for the periods ended June 30, 2021 and 2020. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the ETF, less any taxes withheld and amounts earned by parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

For the periods ended	June 30, 2021	% of Gross Income	June 30, 2020	% of Gross Income
Gross securities lending income	\$117		\$407	
Withholding taxes	(29)	24.79%	–	–
Lending Agents' fees:				
Canadian Imperial Bank of Commerce	(35)	29.91%	(122)	29.98%
<b>Net securities lending income paid to the ETF</b>	<b>\$53</b>	<b>45.30%</b>	<b>\$285</b>	<b>70.02%</b>

## 8. REDEEMABLE UNITS

The ETF is authorized to issue an unlimited number of redeemable, transferable Class E units each of which represents an equal, undivided interest in the net assets of the ETF. Each unit entitles the owner to one vote at meetings of unitholders. Each unit is entitled to participate equally with all other units with respect to all payments made to unitholders, other than management fee distributions, whether by way of income or capital distributions and, on liquidation, to participate equally in the net assets of the ETF remaining after satisfaction of any outstanding liabilities that are attributable to units of that class of the ETF. All units will be fully paid and non-assessable, with no liability for future assessments, when issued and will not be transferable except by operation of law.

The redeemable units issued by the ETF provide an investor with the right to require redemption for cash at a value proportionate to the investor's share in the ETF's net assets at each redemption date. They are classified as liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders. The ETF's objectives in managing the redeemable units are to meet the ETF's investment objective, and to manage liquidity risk arising from redemptions. The ETF's management of liquidity risk arising from redeemable units is discussed in note 5.

On any valid trading day, as defined in the ETF's prospectus, unitholders of the ETF may (i) redeem units of the ETF for cash at a redemption price per unit equal to 95% of the closing price for units of the ETF on the TSX on the effective day of the redemption, where the units being redeemed are not equal to a prescribed number of units ("PNU") or a multiple

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

PNU; or (ii) redeem, less any applicable redemption charge as determined by the Manager in its sole discretion from time to time, a PNU or a multiple PNU of the ETF for cash equal to the net asset value of that number of units.

Units of the ETF are issued or redeemed on a daily basis at the net asset value per security that is determined as at 4:00 p.m. (Eastern Time) each business day. Purchase and redemption orders are subject to a 9:30 a.m. (Eastern Time) cut-off time.

The ETF is required to distribute any net income and capital gains that it has earned in the year. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and these distributions are either paid in cash or reinvested by unitholders into additional units of the ETF. Net realized capital gains, if any, are typically distributed in December of each year to unitholders. The annual capital gains distributions are not paid in cash but rather, are reinvested and reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units are recognized in the statements of changes in financial position.

Please consult the ETF's most recent prospectus for a full description of the subscription and redemption features of the ETF's units.

For the periods ended June 30, 2021 and 2020, the number of units issued by subscription and/or distribution reinvestment, the number of units redeemed, the total and average number of units outstanding was as follows:

<b>Period</b>	<b>Beginning Units Outstanding</b>	<b>Units Issued</b>	<b>Units Redeemed</b>	<b>Ending Units Outstanding</b>	<b>Average Units Outstanding</b>
2021	5,464,531	575,820	(575,000)	5,465,351	5,187,166
2020	11,084,970	78,411	(1,825,000)	9,338,381	10,137,009

## 9. EXPENSES

### Management fees

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as portfolio managers, custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.55%, plus applicable sales taxes, of the net asset value of the ETF's units, calculated and accrued daily and payable monthly in arrears. The Sub-Advisor is compensated for its services out of the management fees without any further cost

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

to the ETF. Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

**Other expenses**

Unless otherwise waived or reimbursed by the Manager, the ETF pays all of its operating expenses, including but not limited to: audit fees; trustee and custodial expenses; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to unitholders; listing and annual stock exchange fees; index licensing fees, if applicable; fees payable to CDS Clearing and Depository Services Inc.; bank related fees and interest charges; extraordinary expenses; unitholder reports and servicing costs; registrar and transfer agent fees; costs associated with the Independent Review Committee; income taxes; sales taxes; brokerage expenses and commissions; and withholding taxes.

The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

**10. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS**

Brokerage commissions paid on securities transactions may include amounts paid to related parties of the Manager for brokerage services provided to the ETF.

Research and system usage related services received in return for commissions generated with specific dealers are generally referred to as soft dollars.

Brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager, if any, for the periods ended June 30, 2021 and 2020, were as follow:

<b>Period Ended</b>	<b>Brokerage Commissions Paid</b>	<b>Soft Dollar Transactions</b>	<b>Amount Paid to Related Parties</b>
June 30, 2021	\$nil	\$724	\$nil
June 30, 2020	\$13,612	\$688	\$nil

In addition to the information contained in the table above, the management fees paid to the Manager described in note 9 are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both the management fees and fees paid to the Independent Review Committee are disclosed in the statements of comprehensive income. The management fees payable by the ETF as at June 30, 2021, and December 31, 2020, are disclosed in the statements of financial position.

The ETF may invest in other ETFs managed by the Manager or its affiliates, in accordance with the ETF's investment objectives and strategies. Such investments, if any, are disclosed in the schedule of investments.

**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

**11. INCOME TAX**

The ETF has qualified as a mutual fund trust under the *Income Tax Act* (Canada) (the "Tax Act") and accordingly, is not taxed on the portion of taxable income that is paid or allocated to unitholders. As well, tax refunds (based on redemptions and realized and unrealized gains during the year) may be available that would make it possible to retain some net capital gains in the ETF without incurring any income taxes.

**12. TAX LOSSES CARRIED FORWARD**

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forwards may be applied against future years' taxable income. Non-capital losses that are realized in the current taxation year may be carried forward for 20 years. As at December 31, 2020, the ETF had net capital losses and/or non-capital losses, with the year of expiry of the non-capital losses as follows:

Net Capital Losses	Non-Capital Losses	Year of Expiry of the Non-Capital Losses
\$10,054,536	–	–

**13. OFFSETTING OF FINANCIAL INSTRUMENTS**

In the normal course of business, the ETF may enter into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at June 30, 2021, and December 31, 2020. The "Net" column displays what the net impact would be on the ETF's statements of financial position if all amounts were set-off.

Financial Assets and Liabilities as at June 30, 2021	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	15	–	15	(15)	–	–
Derivative liabilities	(18,511)	–	(18,511)	15	–	(18,496)

Financial Assets and Liabilities as at December 31, 2020	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	1,032	–	1,032	(135)	–	897
Derivative liabilities	(977)	–	(977)	135	–	(842)

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**Notes to Financial Statements** (unaudited) (continued)

June 30, 2021

**14. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND UNCONSOLIDATED STRUCTURED ENTITIES**

The ETF may invest in units of other ETFs as part of its investment strategies (“Investee ETF(s)”). The nature and purpose of these Investee ETFs generally, is to manage assets on behalf of third party investors in accordance with their investment objectives, and are financed through the issue of units to investors.

In determining whether the ETF has control or significant influence over an Investee ETF, the ETF assesses voting rights, the exposure to variable returns, and its ability to use the voting rights to affect the amount of the returns. In instances where the ETF has control over an Investee ETF, the ETF qualifies as an investment entity under IFRS 10 - *Consolidated Financial Statements*, and therefore accounts for investments it controls at fair value through profit and loss. The ETF’s primary purpose is defined by its investment objectives and uses the investment strategies available to it as defined in the ETF’s prospectus to meet those objectives. The ETF also measures and evaluates the performance of any Investee ETFs on a fair value basis.

Investee ETFs over which the ETF has control or significant influence are categorized as subsidiaries and associates, respectively. All other Investee ETFs are categorized as unconsolidated structured entities. Investee ETFs may be managed by the Manager, its affiliates, or by third-party managers.

Investments in Investee ETFs are susceptible to market price risk arising from uncertainty about future values of those Investee ETFs. The maximum exposure to loss from interests in Investee ETFs is equal to the total fair value of the investment in those respective Investee ETFs at any given point in time. The fair value of Investee ETFs, if any, are disclosed in investments in the statements of financial position and listed in the schedule of investments. As at June 30, 2021 and December 31, 2020, the ETF had no exposure to subsidiaries, associates or unconsolidated structured entities.





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