



# **AN INTRODUCTION TO** **EXCHANGE TRADED FUNDS**

Learn what ETFs have to offer for your investment portfolio and how to Get the ETF Advantage™



**HORIZONS** ETFs  
by Mirae Asset

Innovation is our capital. Make it yours.

[HorizonsETFs.com](http://HorizonsETFs.com)



If you currently invest or are looking to invest, chances are that you've heard of ETFs. They are the fastest-growing segment of investment funds in Canada.

## **BUT WHAT EXACTLY ARE THEY?**

Think of an exchange traded fund or "ETF" as providing the best of both worlds when it comes to mutual funds and stocks. Like mutual funds, ETFs are pooled investment vehicles that give investors exposure to an underlying asset class, such as a group of stocks, bonds or commodities. There are approximately 800 ETFs listed in Canada, comprising over \$164 billion in assets under management<sup>1</sup>.

As a pooled investment, an ETF's greatest benefit, like a mutual fund, is that it typically provides diversification (overall or within a sector). This is an especially important feature for investors who don't have the time, resources or expertise to create a custom portfolio of securities.

Mutual funds and ETFs are governed by the same set of securities regulations regarding the underlying assets in which they can invest. What makes ETFs different is how their respective units are bought and sold.

When an investor buys units of a mutual fund, he or she is buying those units from the mutual fund manager. The price of mutual fund units is determined by the total net asset value ("NAV") of the fund based on the value of its assets, less liabilities, at the market's closing. When an investor sells units of a mutual fund, that same process occurs in reverse, sometimes minus a penalty for selling out of the fund within a specified, required holding period (assuming there is a hold).

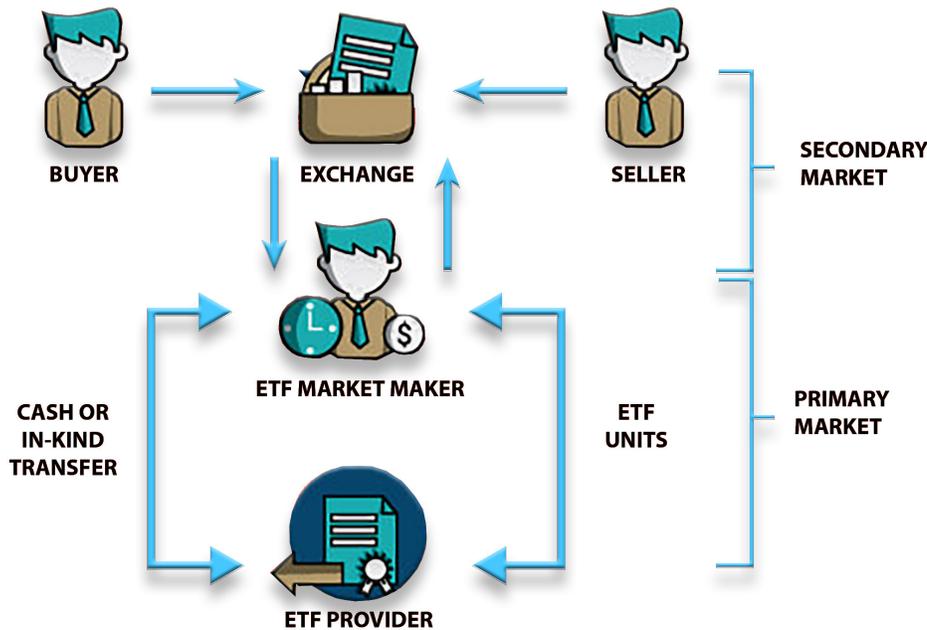
On the other hand, units of ETFs are traded on stock exchanges just like individual stocks. There is no minimum holding period – you can buy and sell ETFs throughout normal trading hours (9:30 a.m. to 4:00 p.m.). The price of each ETF unit is based on the NAV of the ETF at that point of the day, not at the time of market close. This can be appealing to investors who prefer real-time trading data.





# HOW DO ETFS WORK?

Investors buy and sell ETF units through a stock exchange. Frequently, they are buying from (or selling to) a market maker, which typically is a large institution that holds an inventory of ETF units to facilitate their trading. The lead market maker acts to ensure the unit price at which the investor can buy or sell their ETF units, is close to the NAV of the ETF.



# WHAT MAKES ETFs SO POPULAR?

In 2018, ETFs outsold mutual funds for the first time in a decade. There are many good reasons why.

## Instant Diversification

An ETF provides you with exposure to a basket of investments in just about anything – stocks, bonds, currencies and commodities like gold or silver. Often, that basket of investments is based on a benchmark index. For example, if you want exposure to Canadian equities, you could consider buying units in an ETF that tracks the performance of the S&P TSX 60™ Index.

## Low-Cost<sup>2</sup>

ETFs typically charge less<sup>2</sup> than mutual funds for the same level of investment management expertise.

## Transparency

Many ETF holdings are published on a daily basis; whereas the holdings of mutual funds are disclosed less frequently basis, such as monthly or quarterly.

## Liquidity

ETFs can be bought and sold on a stock exchange throughout the trading day.



# TYPES OF HORIZONS ETFs

## Active ETFs

The first and one of the largest families of actively managed ETFs in Canada. Active ETFs combine portfolio management with low fees<sup>2</sup> to seek to generate better risk-adjusted returns. Our actively managed ETFs trade like stocks, but with lower management fees than standard mutual funds, and provide the intra-day liquidity of an ETF.

## Benchmark ETFs

ETFs designed to efficiently track the performance of indices, currencies or commodities.

## Horizons Total Return Index ETFs

Horizons Total Return Index ETFs (“Horizons TRI ETFs”<sup>3</sup>) provide investors with a mechanism to follow an index, but without physically holding the underlying securities. Horizons TRI ETFs are not expected to pay taxable distributions. As a result, they are generally more tax-efficient than physically replicated ETFs, which pay taxable distributions.

## BetaPro: Leveraged and Inverse ETFs

Horizons is the only provider of leveraged ETFs in Canada. Leveraged ETFs are designed to provide double the daily exposure (either long or short) to a commodity, benchmark or index. They seek to deliver 2X the daily return (either on the upside or downside) before fees and expenses of that commodity, benchmark or index. Inverse ETFs aim to achieve -1X the daily performance of their respective underlying benchmark before fees and expenses.

## Get the ETF Advantage™

For details about our family of ETFs, visit [www.HorizonsETFs.com](http://www.HorizonsETFs.com) or speak to a representative at 1 866-641-5739.



<sup>1</sup>Source: CETFA, as at January 31, 2019. <sup>2</sup>Relative to the typical management fee of regular mutual funds. In Canada, the average management fee for F class mutual funds is 0.81% and 0.49% for ETFs, source: Morningstar Direct, as at January 2019. <sup>3</sup>Horizons Total Return Index ETFs (“Horizons TRI ETFs”) are index-tracking ETFs that use an innovative investment structure known as a Total Return Swap to deliver index returns in a low-cost and tax-efficient manner. Unlike a physical replication ETF that typically purchases the securities found in the relevant index in the same proportions as the index, a Horizons TRI ETF uses a synthetic structure that never buys the securities of an index directly. Instead, the Horizons TRI ETF provides the investor with the total return of the index through entering a Total Return Swap agreement with one or more counterparties, typically large financial institutions, which will provide the ETF with the total return of the index in exchange for the interest earned on the cash held by the ETF. Any distributions which are paid by the Index constituents are reflected automatically in the net asset value (NAV) of the ETF. As a result, the investor only receives the total return of the index, which is reflected in the ETF’s unit price, and is not expected to receive any taxable distributions directly. This means that an investor is only expected to be taxed on any capital gain that is realized if, and when, holdings are sold.

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

The Horizons Exchange Traded Products include our BetaPro Products which consist of our 2x Daily Bull and 2x Daily Bear ETFs (“2x Daily ETFs”), Inverse ETFs (“Inverse ETFs”) and our VIX ETF (defined below). The 2x Daily ETFs and certain other BetaPro Products use leveraged investment techniques that can magnify gains and losses and may result in greater volatility of returns. These BetaPro Products are subject to leverage risk and may be subject to aggressive investment risk and price volatility risk, which, where applicable, are described in their respective prospectuses. Each 2x Daily ETF seeks a return, before fees and expenses, that is either 200% or -200% of the performance of a specified underlying index, commodity or benchmark (the “Target”) for a single day. Each Inverse ETF seeks a return that is -100% of the performance of a Target. Due to the compounding of daily returns, a 2x Daily ETF’s or Inverse ETF’s returns over periods other than one day will likely differ in amount and, for the 2x Daily ETFs, possibly direction from the performance of their respective Target(s) for the same period. The BetaPro Product whose Target is the S&P 500 VIX Short-Term Futures Index™ (the “VIX ETF”), which is a (1x) VIX ETF, as described in the prospectus, is a speculative investment tool that is not a conventional investment. The VIX ETF’s Target is highly volatile. As a result, the VIX ETF is not generally viewed as stand-alone long-term investment. Historically, the VIX ETF’s Target has tended to revert to a historical mean. As a result, the performance of the VIX ETF’s Target is expected to be negative over the longer term and neither the VIX ETF nor its Target is expected to have positive long term performance. **Investors should monitor their holdings, as frequently as daily, to ensure that they remain consistent with their investment strategies.**