AN INTRODUCTION TO
EXCHANGE TRADED FUNDS

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

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**
ETFs typically charge less 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 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”) 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 or speak to a representative at 1 866-641-5739.