

# Canadian and U.S. Currency Exposure Using ETFs

There are many ways for Canadian investors to gain exposure to Canadian and U.S. dollar exchange rate movements such as investing in domestic and foreign securities, as well as buying property on either side of the border. However, the vast majority of these transactions require an expensive currency conversion, where a bank or foreign exchange company will likely charge a significant commission as a part of the transaction. Typically, on currency exchanges of less than \$10,000 dollars, non-institutional rates apply, which are less favourable.

## **CAN and DLR: Tools for Capturing Currency Movements**

Horizons ETFs created the Horizons Canadian Dollar Currency ETF ("CAN") and the Horizons US Dollar Currency ETF ("DLR") to make investing in currency movements simpler and more economical.

**CAN** provides investors with the opportunity to be "long" or "bullish" on the Canadian dollar, expressed in U.S. dollar terms. When the Canadian dollar appreciates relative to the U.S. dollar (i.e. the Canadian dollar/U.S. dollar exchange rate increases), the value of CAN is expected to increase. Conversely, when the Canadian dollar depreciates against the U.S. dollar (i.e. the Canadian dollar/U.S. dollar exchange rate decreases), the value of CAN is expected to decrease.

**DLR** can be used as a tool to be "long" or "bullish" on the U.S. dollar without undergoing an expensive conversion process; or if U.S. dollars are required, it can be used as an easy and efficient way to avoid the high commissions charged on converting the loonie to the greenback.

## **The Horizons Canadian Dollar Currency ETF**

CAN, listed on the Toronto Stock Exchange ("TSX"), seeks to reflect, in Canadian dollars and net of expenses, the performance of the Canadian dollar relative to the U.S. dollar, primarily by investments in Canadian-dollar-denominated cash and cash equivalents, and also through the use of forward currency agreements or futures contracts. When the Canadian dollar appreciates relative to the U.S. dollar (i.e. the Canadian dollar/U.S. dollar exchange rate increases), the value of CAN is expected to increase proportionately. Conversely, when the Canadian dollar depreciates against the U.S. dollar (i.e. the Canadian dollar/U.S. dollar exchange rate decreases), the value of CAN is expected to decrease proportionately.

As a hypothetical example, if there was an appreciation in the exchange rate, which caused the Canadian and U.S. dollar to reach parity (CAD\$1/USD\$1), an increase from CAD\$0.75/USD\$1, this would mean the Canadian dollar appreciated 33% relative to the U.S. dollar. In this example, the price per unit of CAN would be expected to reflect a price appreciation in a proportionate amount.

## **The Horizons US Dollar Currency ETF**

DLR, listed on the TSX, seeks to reflect the price, in Canadian dollars, of the U.S. dollar, net of expenses, by investing primarily in U.S. cash and cash equivalents. The U.S.-dollar-denominated version of this ETF, ("DLR.U") has the same investment objective but is priced and transacted in U.S. dollars and reflects the current exchange rate. When the U.S. dollar appreciates relative to the Canadian dollar (i.e. the U.S. dollar/Canadian dollar exchange rate increases), the value of DLR is expected to increase proportionately. Conversely, when the U.S. dollar depreciates against the Canadian dollar (i.e. the U.S. dollar/Canadian dollar exchange rate decreases), the value of DLR is expected to decrease proportionately.



### CAD to USD Conversion Process



### USD to CAD Conversion Process



All comments, opinions and views expressed are of a general nature and should not be considered as advice to purchase or to sell mentioned securities. Before making any investment decision, please consult your investment advisor or advisors .

### Cost Comparison: Hypothetical Currency Conversion of \$10,000 using DLR/DLR.U

	Horizons US Dollar Currency ETF (DLR)		Foreign Currency Bank Account	
	Assumptions <sup>1</sup>	Cost	Assumptions <sup>1</sup>	Cost
Transaction Costs	\$9.95 per trade (one buy, one sell)	\$19.90	n.a.	\$0.00
	\$0.01 per unit (1,000 units)		\$0.07 per unit (1,000 units)	
Spread (Buy & Sell) <sup>2</sup>	Buy Sell	\$10.00	Buy Sell	\$70.00
	\$10.00 \$9.99		\$10.03 \$9.96	
Management Fees <sup>3</sup>	0.45% Annualized	\$0.25	n.a.	\$0.00
<b>Total Costs (\$)</b>		<b>\$30.15</b>		<b>\$70.00</b>
<b>Total Costs (%)</b>		<b>0.30%</b>		<b>0.70%</b>

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<sup>1</sup>Three-day holding period with two trades (one buying and one selling)

<sup>2</sup>The DLR spread is based on its historical bid ask spread average from January 1, 2016 to January 9, 2019. The Foreign Currency Bank Account spread is based on the average spread of 4 of the main 5 Canadian Banks, as at 3:00 pm January 14, 2019.

<sup>3</sup>Plus applicable sales taxes.

**A SAVINGS OF APPROXIMATELY \$40 OR 0.40%**

### Three Simple Steps to Converting Canadian/U.S. Dollars Using DLR/DLR.U

#### Step 1 – Buy DLR

Ensure that you have both CAD and USD investment accounts with the same broker. Note, they will need to be the same type of account (i.e. cash or margin) and in the same registered name. Obtain a quote on DLR. Look for a reasonable bid-ask spread (generally, two cents).

If the quote and bid-ask spread are acceptable to you and you choose to proceed, the industry recommended practice is to place a limit order at the current ask price. A limit order ensures that the trade will not be executed at a higher price.



### Step 2 – Convert Units of DLR.U

Have your advisor or brokerage firm journal or transfer your DLR units from your CAD to your USD investment account. Your DLR units will become DLR.U units in your USD account. There is typically no cost associated with this transfer, however, some dealers may require three or more days for this step to settle.

### Step 3 – Sell DLR.U and receive USD

Obtain a quote on DLR.U. Again, look for a reasonable bid-ask spread (generally, two cents). If the quote and bid-ask spread are acceptable to you and you choose to proceed, the industry recommended practice is to place a limit order at the current bid price.

Once the trade settles, you will have U.S. dollars in your USD investment account, which you can then allocate as desired.

While this transaction should be more cost-effective than converting currencies in a bank account, investors should be aware that the value of their holdings may change over the course of the transaction. DLR investors are subject to the price movements of the U.S. dollar relative to the Canadian dollar.

To learn more, please visit [www.HorizonsETFs.com](http://www.HorizonsETFs.com)



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