An Actively Managed Emerging Market Bond ETF

Emerging Market ("EM") bonds are an often overlooked segment of the fixed income market. Historically, EM bonds have been viewed as a risky and illiquid segment of the bond universe. However, better market dynamics, strengthening fiscal policy and economic growth in EM countries has resulted in a better risk/return profile for EM bonds.

The Horizons Active Emerging Markets Bond ETF ("HEMB") seeks to generate income and long-term capital growth by investing primarily in debt securities of EM issuers. HEMB invests in both fixed-rate and floating-rate instruments issued by sovereign, quasi-sovereign, supranational and corporate issuers.

HEMB is Horizons ETFs' first dual sub-advised ETF. Fiera Capital Corporation ("Fiera Capital") oversees the portfolio strategy of the ETF's global asset allocation and security selection of sovereign bonds, while Mirae Asset Global Investments (USA) LLC. ("Mirae Asset USA") oversees the security selection of the corporate issuances in the portfolio.

The target asset mix for the ETF is initially approximately 80% invested in sovereign bonds and 20% invested in corporate issuances that are domiciled in Emerging Markets. The majority of the issuances in the portfolio are expected to be USD-denominated bonds with all USD currency exposure hedged back to Canadian dollars.

Get the Active Advantage™

Fixed income indexing can be highly inefficient because a portfolio may be obligated to hold long-duration issues of questionable quality, exposing it to higher levels of interest rate risk. A more active approach – as employed by HEMB – strives to find the best opportunities in relative bond valuations that can potentially lead to a selection of bonds with higher risk-adjusted return profiles.

Fiera Capital and Mirae Asset USA provide independent credit analysis and have the flexibility to take advantage of interest rate conditions by adjusting duration levels. Additionally, they can tilt portfolio weightings in favor of macro-economic trends. For example, this could involve leaning towards commodity driven issuances in a commodity boom, or favouring higher-quality bonds during a global recessionary environment.
Tactical Asset Allocation
The asset allocation of HEMB will be highly tactical, and driven by the macro-economic views of Fiera Capital’s tactical asset allocation committee – an internal investment management team that is a key consultant on all of the various management groups at Fiera Capital. Mirae Asset USA will similarly undertake a tactical investment strategy in the corporate issuance allocation of the portfolio, determining which corporate bonds offer the best risk/reward profile. The allocation to corporate bonds allow HEMB to generate a higher yield than the broader EM bond universe – and provide more upside potential for regions that are seeing strong economic and equity market growth.

Key Features of EM Bonds:
• Higher yielding asset class vs. North American bonds
• Strengthening fiscal policy, economic growth and improving market dynamics has led to improving creditworthiness of EM bonds
• Credit risk is lower than that of high yield bonds, but with similar yields

Fiera Capital Corporation
Fiera Capital Corporation is one of the largest fixed income managers in Canada. Publically traded with offices across the U.S. and Canada, Fiera Capital Corp. has become a leader in the realm of non-traditional investment solutions. It has vast experience and expertise in Canadian fixed income, North American preferred shares, Canadian and foreign equities, asset allocation and alternative strategies.

Mirae Asset Global Investments (USA) LLC.
Established in 2008, Mirae Asset USA, an affiliate of the Manager, is a Registered Investment Advisor firm committed to providing clients with global access to investment opportunities around the world. Mirae Asset USA focusses on emerging markets and active, bottom-up Asia-centric strategies that leverage the firm’s emerging market heritage and on-the-ground presence to deliver high-conviction portfolios and quality long-term performance.