Advancing Asset Allocation

The Horizons ReSolve Adaptive Asset Allocation ETF (“HRAA” or “the ETF”) is an alternative fund whose investment objective is to seek long-term capital appreciation by investing, directly or indirectly, in major global asset classes, including, but not limited to: equity indices, fixed income indices, interest rates, commodities and currencies. The ETF gains exposure to these asset classes by investing in derivative instruments that may include futures contracts and forward agreements, and securities.

HRAA provides a globally diversified portfolio that seeks to generate positive returns, to target an annualized volatility level at or below 12%, and reduced correlation to broader equity and fixed income markets in all market conditions through an adaptive asset allocation.

The ETF’s sub-advisor, ReSolve Asset Management Inc. (the “Sub-Advisor”), uses traditional quantitative methods and advanced machine learning tools to create a portfolio of instruments which emphasize a variety of characteristics such as, but not limited to: total return momentum, trends, seasonal patterns, carry measures, mean reversion, and others. It simultaneously seeks to maximize diversification based on regularly updated estimates of volatility and correlations.

HRAA will take long or short positions — using up to a maximum of three-times leverage — in asset classes such as equity indices and fixed income asset classes, commodities, currencies, volatility indices and other alternative asset classes.

Managing Risk

Most investors understand the benefits of diversification without truly appreciating how it is achieved in a portfolio. While a portfolio may be widely diversified across a number of asset classes, its risk profile might actually be highly concentrated. HRAA uses a portfolio allocation strategy commonly known as risk parity. This is an approach that seeks to ensure that each asset class in the portfolio contributes an equal amount of risk, thus creating optimal portfolio diversification.

The illustration below shows that while a traditional portfolio of 50% equities and 50% bonds might seem balanced, the overwhelming majority — potentially as much of 90% of the risk — could be contributed to the equity portfolio.
Horizons ReSolve Adaptive Asset Allocation ETF (HRAA)

Risk Diversification

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<th>Equities</th>
<th>Treasury</th>
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<tr>
<td>Capital</td>
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<tr>
<td>Contribution</td>
<td>50%</td>
<td>50%</td>
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<td>10%</td>
<td>90%</td>
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Traditional 50/50 Portfolios

Simple Risk Parity

For illustrative purposes only.
“Equities” represents an allocation in the Vanguard Total Stock Market ETF (VTI:NYSE).
“Treasury” represents an allocation in the iShares 7-10 Year Treasury Bond ETF (IEF:NYSE).

More than Risk Parity

ReSolve Asset Management Inc. manages HRAA’s risk parity by dynamically shifting the ETF’s asset allocation to adapt to changes in market conditions.

The Sub-Advisor uses sophisticated (i.e.: machine learning) trading systems to determine asset allocations based on multi-factor quantitative market information and explicitly seeks opportunities to reduce portfolio volatility through diversification. The trading systems analyze these factors over a certain period of time, which may range from several days to multiple years.

The Sub-Advisor analyzes a number of additional factors in determining how the asset classes are allocated in the portfolio, including, but not limited to: intermediate-term profitability of an asset class or market; liquidity of a particular market; desired diversification among markets and asset classes; transaction costs; and exchange regulations and depth of market.

For illustrative purposes only.

Alpha sources that derive returns from persistent seasonal return effects
Alpha sources that derive returns by trading against extreme dispersion to long term averages/expectations
Alpha sources that derive returns from the propensity for recent performance to continue
Alpha sources that derive returns from under-pricing markets with high payouts
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Key Features:
- **Globally Diversified**: Provides exposure to a global portfolio of equities, fixed income and commodities
- **A Systematic Process**: HRAA uses a systematic strategy that combines prudent risk management and machine learning to formulate forward-looking views for key risk factors. This seeks to dynamically determine potentially favourable asset allocations under most market conditions. These factors include, but are not limited to: seasonality, momentum, fundamentals and counter-trend and carry
- **Risk Management**: HRAA uses a quantitative process to dynamically measure the sensitivities of major asset classes to a set of common risk factors over changing market conditions. By considering asset allocation from the perspective of systematic risks, it aims to keep the portfolio's target level of volatility below a certain threshold and reduce overall correlation to broader equity and fixed income markets
- **Experienced Sub-Advisor**: Over 20 years of experience in institutional portfolio management techniques focused on global asset allocation
- **Tax-Efficient**: Net interest income from settlement of any derivatives in the ETF is reflected in HRAA's net asset value ("NAV"), but is not expected to be paid out to the shareholder

Corporate Class
HRAA is a class of shares in a corporate class structure that allows the ETF to deliver its returns in a tax-efficient manner. Within a Canadian mutual fund corporation structure, only capital gains and Canadian dividends can be distributed to investors. From a tax perspective, any income and foreign dividends generated within any one class of the corporation can potentially be offset by losses and expenses incurred in other class (from a tax perspective), which generally makes the corporate class structure more tax-efficient than a traditional mutual fund trust. Due to this, investors in HRAA are not expected to receive any taxable distributions from the ETF. This makes the ETF advantageous, particularly if its shares are held in a taxable account, where tax on interest income could potentially be in excess of 50%, depending on the marginal tax rate of the investor. With this ETF structure, investors can potentially defer incurring a tax liability until they sell the shares of ETF, at which point they may realize a capital gain or loss.

To learn more, please visit www.HorizonsETFs.com/HRAA