

# Horizons Cdn Select Universe Bond ETF

# HBB

**When investing in an exchange traded fund that tracks a Canadian bond index, investors want to be able to replicate the returns of that index as cost and tax efficiently as possible.**

## **Indexed Returns, Better Tracking, Tax Efficient**

The Horizons Cdn Select Universe Bond ETF, which trades on the Toronto Stock Exchange under the ticker symbol HBB, seeks to replicate the performance of the Solactive Canadian Select Universe Bond Index ("Index"), net of expenses.

There are more than 1300 bonds in the Canadian investment grade bond universe, many of which do not have sufficient liquidity to be used in an ETF strategy. As a result, most bond index tracking ETFs in Canada engage in a practice called sampling, whereby they hold a smaller number of bonds than the index which offer similar return characteristics to the index.

Recognizing that sampling is a reality of bond indexing, the Index seeks to reduce replication costs by holding a much more concentrated portfolio of roughly 160 highly liquid bonds that offer similar duration, yield and return characteristics to the broader Canadian bond universe.

## **Benefits of HBB's Total Return Swap**

Since replication difficulty is a key consideration of whether an index ETF can deliver index returns, Horizons ETFs is using an innovative structure known as a Total Return Swap ("TRS") to replicate the returns of the Index. Key features are as follows:

- **Lower fees.** The TRS structure reduces additional trading costs associated with physically trading the bonds of the index
- **Smaller tracking error.** Counterparties are obligated to deliver exact index returns so the TRS structure reduces the potential for tracking error
- **Superior tax efficiency.** No distributions are received by the ETF and investors get the full pre-tax value of distributions "reinvested" into the net asset value (NAV) of the ETF

### **ETF Snapshot**

**Name:** The Horizons Cdn Select Universe Bond ETF

**Launch Date:** May 8, 2014

**CUSIP:** 44052E104

**Ticker:** HBB

**Bloomberg Index Ticker:** SOLHBB

**Management Fee:** 0.15% (Does not include .15% swap fee included in TER)

**Underlying Index:** : Solactive Canadian Select Universe Bond Index (Total Return)

**Investment Manager:** Horizons ETFs Management (Canada) Inc.

**Distribution Frequency:** Annually, if any (HBB is not expected to make any distributions)

**Eligibility:** All registered and non-registered investment accounts

**Currency Hedge:** No



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## HBB's Selection Pool

Bonds are selected to create the Index based on the following criteria:

1. All bonds must be denominated in Canadian dollars
2. Amount outstanding of at least \$100 million for corporate bonds and \$50 million for government bonds
3. Effective time to maturity of not less than 12 months
4. Only bonds that pay a fixed rate are eligible for the portfolio
5. The securities must have a rating of at least BBB- or its equivalent from S&P or Moody's
6. Floating rate notes, convertibles, mortgage backed securities, inflation-linked securities, flat trading or defaulted securities are specifically excluded from the available Canadian bond universe
7. No more than two bonds per issuer

## Solactive Select Canadian Universe Bond Index Vs. iShares Canadian Universe Bond Index ETF (XBB)

	Solactive Canadian Universe Bond Index	iShares Canadian Universe Bond Index ETF (XBB)
Number of Bonds	162	789
Number of Issuers	82	220
Weighted Average Yield to Maturity	2.529%	2.52%
Weighted Average Term	10.12	9.80
Weighted Average Coupon	3.17%	3.83%
Weighted Average Duration (Years)	7.1361	6.86

Source: Solactive, iShares, as at March 31, 2014

**iShares Canadian Universe Bond Index ETF (XBB):** seeks to provide income by replicating, to the extent possible, the performance of the FTSE TMX Canada Universe Bond Index<sup>TM</sup>, net of expenses. The index consists of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate and municipal bonds issued domestically in Canada and denominated in Canadian dollars.

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



Horizons ETFs is a member of Mirae Asset Global Investments. Commissions, management fees and applicable sales taxes all may be associated with an investment in the Horizons Cdn Select Universe Bond ETF managed by Horizons ETFs Management (Canada) Inc. ("the ETF"). The ETF is not guaranteed, its value changes frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. **Please read the prospectus before investing.**