



November 2023

FAQ

## Premium Yield ETFs – Options Writing on U.S. Treasury Securities FAQ

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### Background

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### What is happening?

On October 5, 2023, Horizons ETFs launched its Premium Yield ETF Suite on the Toronto Stock Exchange (“TSX”). The ETFs trade in U.S. dollars under the ticker symbols SPAY.U, MPAY.U, and LPAY.U as well as in Canadian dollars under the ticker symbols SPAY, MPAY, and LPAY.

This FAQ was prepared to help answer and educate Canadians about the product suite, based on questions received after the launch of our Premium Yield ETF Suite.

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### Key Information

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### Educational Piece sharing questions from investors on this innovative suite

#### ETFs in Focus:

[Horizons Short-Term U.S. Treasury Premium Yield ETF \(“SPAY.U” and “SPAY”\)](#)

[Horizons Mid-Term U.S. Treasury Premium Yield ETF \(“MPAY.U” and “MPAY”\)](#)

[Horizons Long-Term U.S. Treasury Premium Yield ETF \(“LPAY.U” and “LPAY”\)](#)

Horizons ETFs’ Premium Yield ETF Suite empowers Canadians to tailor their duration exposure to U.S. treasuries securities in a way that fits with their unique income needs and investment objectives: short (less than 3 years) via SPAY.U, medium (5 to 10 years) via MPAY.U, and long (10+ years) via LPAY.U.

Targeted duration to U.S. government-backed securities seeks to offer a foundation to protect portfolios while acting as a potential hedge against recessionary impacts. These ETFs further offer investors an opportunity to generate high monthly distributions.



# HORIZONS ETFs

by Mirae Asset

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## Q & A General

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### Are these products considered Fixed Income?

Yes. All of the Premium Yield ETFs seek to provide exposure to the performance of a portfolio of U.S. Treasury securities and high monthly distributions of interest income and option premiums.

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### Are the products CAD-Hedged?

No. The current suite of products are all unhedged, providing full exposure to the currency movements of the U.S. dollar, including potential diversification benefits. The cost of a currency hedge would also be a drag on yield/total return.

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### Why are some rated Low Risk, while others are Rated Low to Medium Risk?

SPAY.U/SPAY and MPAY.U/MPAY are rated Low Risk. LPAY.U/LPAY is rated Low to Medium Risk. This is an important consideration for investors to review and understand as all of the Premium Yield ETFs have exposure to the U.S. Treasury securities, which currently are AA+ rated.

SPAY.U and MPAY.U hold more treasury bill ETFs, which have short durations and as a result, are less sensitive to interest rate changes and corresponding asset price volatility. LPAY.U in comparison, holds longer-dated treasury bond ETFs, which have higher duration and will therefore be more sensitive to interest rate changes.

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### Are these products considered Liquid Alternatives?

No. All of the Premium Yield ETFs are open-ended mutual fund trusts established under the laws of Ontario. They seek to provide exposure to the performance of a portfolio of U.S. Treasury Securities and high monthly distributions of interest income and options premiums.

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### What are the notable differences between the Premium Yield suite and TLTW?

The iShares 20+ Year Treasury Bond BuyWrite Strategy (“TLTW”) has a common reference index to the Premium Yield ETF suite. TLTW seeks to track 100% exposure to the “CBOE TLT 2% OTM BuyWrite Index”, while SPAY.U, MPAY.U and LPAY.U have exposure levels of 5%, 15% and 40% respectively



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TLTW is limited to the use of call writing, while the Premium Yield ETF Suite all use dynamic call writing and put writing options strategies.

ETF	Reference Index
SPAY.U	90% ICE BofA 0-3 Month US Treasury Bill Index 5% ICE U.S. Treasury 20+ Year Bond Index 5% Cboe TLT 2% OTM BuyWrite Index
MPAY.U	60% ICE BofA 0-3 Month US Treasury Bill Index 20% ICE U.S. Treasury 20+ Year Bond Index 20% Cboe TLT 2% OTM BuyWrite Index
LPAY.U	20% ICE BofA 0-3 Month US Treasury Bill Index 40% ICE U.S. Treasury 20+ Year Bond Index 40% Cboe TLT 2% OTM BuyWrite Index
TLTW	100% Cboe TLT 2% OTM BuyWrite Index

## Q & A Options Writing Strategy

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### How do we manage the Premium Yield ETFs portfolios?

The portfolio holdings may be reconstituted and rebalanced, from time to time, at the discretion of the Manager to maintain its duration target by employing rules-based security selection methodology and weighting. To generate premiums and reduce overall portfolio volatility, the Manager actively manages an options strategy that will generally write a combination of covered call and cash-covered put options, at its discretion, on up to approximately 50% of the value of the ETFs' portfolios.

To ensure adequate diversification and control risk, the aggregate portfolio limits per type of security have been established and may be changed from time to time.

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### How does putting writing impact the strategy?

In a similar fashion to covered call writing, where some upside potential is given up to generate higher income levels, we expect put writing to generate slightly worse downside protection during bond bear markets, and better upside capture during bond bull markets.

Our options team uses a combination of calls and puts options, at its discretion, on up to approximately 50% of the value of the portfolios.



## Q & A Performance Expectations

### How would the Premium Yield ETFs react to changes in interest rates?

Assumptions and basis for calculation:

- 0.15 Duration for Short-Term Treasury Bills (UBIL)
- 15 Duration for Long-Term Treasury Bonds (TLT, VGLT)
- For each 1% change in interest the value of the Premium Yield ETF will change by the same amount as its duration

	Basis of Calculation	Short Term Rates		Long Term Rates	
		↑ 1%	↓1%	↑ 1%	↓1%
SPAY	<b>UBIL:</b> 90% weight x 0.15 Duration <b>TLT:</b> 10% weight x 15 duration	-0.14%	0.14%	-1.5%	1.5%
MPAY	<b>UBIL:</b> 60% weight x 0.15 duration <b>TLT:</b> 40% weight x 15 duration	-0.9%	0.9%	-6%	6%
LPAY	<b>UBIL:</b> 20% weight x 0.15 Duration <b>TLT:</b> 50% weight x 15 duration <b>VGLT:</b> 30% weight x 15 duration	-0.3%	0.3%	-12%	12%

**FOR ILLUSTRATIVE PURPOSES ONLY.**

*Based on initial weights in the portfolio as at October 5, 2023, and not modelling in options performance.*



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