

FAQ: UBIL.U Non-Cash Distribution

Background

What is a non-cash distribution?

- In Canada, ETFs are required to distribute any net income and capital gains earned during the year.
- When an underlying security in an ETF's portfolio is sold for more than its purchase price, a capital gain may be realized and may necessitate a non-cash distribution to unitholders.
- These distributions are sometimes referred to as “Phantom” and/or “Notional” Distributions and can have certain tax implications for holders.
- Non-cash distributions are automatically reinvested in additional units of the respective ETFs and immediately consolidated so that the number of units held by the unitholder and the net asset value of the ETFs will not change.
- Typically, this will result in an upward adjustment to the adjusted cost base (“ACB”) while the net asset value and the number of units will remain the same.
- The result is that the reinvested distribution is added to the ETF’s ACB, which prevents double taxation on the capital gain and lower capital gain taxation once the ETF is sold.

What is happening?

- On November 29, 2023, Horizons ETFs (“HETF”) announced its estimated non-cash distributions to unitholders of certain ETFs, including the Horizons 0-3 Month U.S. T-Bill ETF (“UBIL.U” or the “ETF”).
- Over the course of 2023, currency exchange (“FX”) rate fluctuations between the U.S. and Canadian dollar resulting from the sale of T-Bills within UBIL.U have caused the ETF to realize capital gains.
- This FAQ was prepared to help provide context and additional information for advisor and investor inquiries related to the announced non-cash distributions for UBIL.U.

Key Information

Estimated Non-Cash Distributions Table – November 2023

The table below reflects the estimated non-cash distributions that HETF published in its November 29, 2023 press release. Please note that these are estimates only and may be subject to change if circumstances arise before the end of ETFs’ applicable tax year on December 15, 2023.

ETF Name	Ticker Symbol	Estimated Non-cash distributions per Unit as of Nov. 28, 2023 ⁽¹⁾	Net Asset Value (NAV) per Unit as of Nov. 28, 2023	Estimated Non-Cash Distributions as a % of NAV as of Nov. 28, 2023
Horizons 0-3 Month U.S. T-Bill ETF ⁽²⁾	UBIL.U	\$0.93864	\$50.18633	1.87%

¹Distributions are expected to be capital gains in nature.

²The ex-dividend date for Horizons 0-3 Month U.S. T-Bill ETF distributions is anticipated to be December 29, 2023.



Q & A
General

Why are non-cash distributions occurring for UBIL.U?

- The non-cash distributions for UBIL.U are largely the result of certain tax requirements, which require all amounts expressed in a currency other than the Canadian dollar to be converted to Canadian dollars using the relevant spot rate for the particular day on which the amounts arise.
- A large portion of UBIL.U – approximately 10 to 20% – matures or is sold every two weeks, by nature of its laddered Treasury Bill (T-Bill) portfolio structure. Additionally, T-Bills within UBIL.U are sold to fund redemptions or to raise cash for the ETF's monthly distributions.
- Due to recent fluctuations in FX rates between the U.S. and Canadian dollars, the maturing or sale of T-Bills can result in FX gains and/or losses within UBIL.U, which can cause a taxable position to arise.

Do advisors or investors need to do anything on their end with this information?

- If UBIL.U is held within a tax-sheltered/registered account, such as an RRSP or a TFSA, the ETF will not be taxed on the non-cash distribution.
- If UBIL.U is held within a non-registered account, investors should expect to receive a T3 tax form that they will need to include in their tax filings.

When will the final non-cash distribution amounts for UBIL.U be known?

- HETF expects to announce the final year-end Non-Cash Distribution amounts, as well as any regular monthly or quarterly cash distribution amounts, on or about December 20, 2023.
- The ex-dividend dates for all distributions (cash and non-cash) are anticipated to be December 28, 2023, and December 29, 2023, for all unitholders of record on December 29, 2023.
- In early 2024, the tax characteristics of all distributions for 2023 for the ETFs will be reported to brokers via the Clearing and Depository Services Inc. ("CDS") and will be posted on our website at www.horizonsetfs.com shortly thereafter.

Where can I access the non-cash distribution estimate press release?

- You can access the press release directly here: <https://horizonsetfs.com/press-release/horizons-etfs-announces-estimated-2023-annual-non-cash-distributions/>
- All future press releases related to the non-cash distributions can be accessed via our website in "Press Releases" under the "Media" tab on our homepage.

DISCLAIMERS

Commissions, management fees, and expenses all may be associated with an investment in the Horizons 0-3 Month U.S. T-Bill ETF (“UBIL.U or the “ETF”) managed by Horizons ETFs Management (Canada) Inc. The ETF is not covered by the Federal Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the ETF will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the ETF will be returned to you. Past performance may not be repeated. The prospectus contains important detailed information about the ETF. **Please read the prospectus before investing.**

UBIL.U may be susceptible to an increased risk of loss, including losses due to adverse events because fund assets are concentrated in a particular issue, issuer or issuers, country, market segment, or asset class. While U.S. Treasury obligations are backed by the “full faith and credit” of the U.S. government, such securities are nonetheless subject to credit risk (i.e. the risk that the issuing government may be, or be perceived to be, unable or unwilling to honour its financial obligations, such as making payments). **For a full description of the associated risks, please refer to the fund’s prospectus at www.horizonsetfs.com.**

The payment of distributions, if any, is not guaranteed and may fluctuate at any time. The payment of distributions should not be confused with an Exchange Traded Fund's (“ETF”) performance, rate of return, or yield. If distributions paid by the ETF are greater than the performance of the ETF, distributions paid may include a return of capital and an investor's original investment will decrease. A return of capital is not taxable to the investor, but will generally reduce the adjusted cost base of the securities held for tax purposes. Distributions are paid as a result of capital gains realized by an ETF, and income and dividends earned by an ETF are taxable to the investor in the year they are paid. The investor’s adjusted cost base will be reduced by the amount of any returns of capital. If the investor’s adjusted cost base goes below zero, investors will realize capital gains equal to the amount below zero. Future distribution dates may be amended at any time. To recognize that these distributions have been allocated to investors for tax purposes the amounts of these distributions should be added to the adjusted cost base of the units held. The characterization of distributions, if any, for tax purposes, (such as dividends/other income/capital gains, etc.) will not be known for certain until after the ETF's tax year-end. Therefore, investors will be informed of the tax characterization after year-end and not with each distribution if any. For tax purposes, these amounts will be reported annually by brokers on official tax statements. Please refer to the applicable ETF distribution policy in the prospectus for more information.

Certain statements may constitute a forward-looking statement, including those identified by the expression “expect” and similar expressions (including grammatical variations thereof). The forward-looking statements are not historical facts but reflect the author’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking statements. These forward-looking statements are made as of the date hereof and the authors do not undertake to update any forward-looking statement that is contained herein, whether as a result of new information, future events or otherwise, unless required by applicable law.

This communication is intended for informational purposes only and does not constitute an offer to sell or the solicitation of an offer to purchase exchange traded products (the “Horizons Exchange Traded Products”) managed by Horizons ETFs Management (Canada) Inc. and is not, and should not be construed as, investment, tax, legal or accounting advice, and should not be relied upon in that regard. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies. These investments may not be suitable to the circumstances of an investor.

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