Horizons Active Global Dividend ETF (HAZ)

Market Overview

Global equity markets built on the gains of last year with a strong first quarter (Q1) in 2024. Investors, who had been expecting aggressive rate cuts to start the year, had to face a reality check. The continued resiliency in economic data into 2024 - particularly firmer than anticipated readings on inflation, and an indication that central banks may not be as proactive as hoped in moving toward a more "neutral" policy setting. This had the market pricing in the first cut for late spring/early summer. With the exception of Japan and Switzerland, all the major central banks held their key rate steady throughout the quarter. A notable holdout to the global rally in equity markets was China, where liquidity constraints and tepid housing demand continued to weigh on the economy, threatening its ongoing recovery.

Corporate earnings season kicked off on a strong note, as key indicators such as long-term sales growth, and earnings growth forecasts adjusted upward. As was the case last year, a cohort of large-cap growth stocks led the charge outpacing their small-cap counterparts. The market strength thus far, however, has been attributable to a relatively narrow set of names associated with Artificial Intelligence (AI) technology. NVIDIA, the large U.S. semiconductor developer, more than tripled in 2023 and proceeded to rise a further 87% in Canadian dollar terms during the first quarter of 2024. Nevertheless, the dominance of these top performers saw a slight dilution, signalling a shift towards broader-based growth compared to the previous year, also reflected in the improvement in non-tech valuations.

Encouraging key macroeconomic signals further boosted global financial market's performance during the quarter. The U.S. market outperformed relative to its global peers, driven by strong consumer spending and labour market strength, which helped keep the recession at bay, with excess savings still in play. Furthermore, the ISM Manufacturing PMI in the US rebounded breaking even at 50.3, a level not seen since September 2022, indicating a positive outlook for economic expansion.

Even so, market volatility lingered during the quarter, with the CBOE Volatility Index (VIX) rising 10%. Contributing to this uncertainty was the sluggish activity in the housing market, and inflation concerns, which, although receding, still exceeded target levels. Investors remained cautious on the possibility of underlying economic strength impeding anticipated rate cuts later this year.

Despite these headwinds, gains were broadly distributed across all 11 sectors, resulting in the MSCI World Index ending the quarter up 8.9% in U.S. dollar terms, with a weaker Canadian dollar parlaying this into gains of 11.7%. Communication Services and Information Technology emerged as top performers, while Real Estate and Utilities lagged the broader market's performance. The Energy sector saw a significant recovery, with double-digit gains attributed to the rise in commodity prices.

Quarter in Review

The mandate slightly lagged the rally in its benchmark.

On a sector level, Industrials was the largest contributor to relative performance. Positions in Waste Management, Schneider Electric, Republic Services and W.W. Grainger continued their strong performance in the quarter and led to a positive stock selection effect. An underweight stance in the REIT sector led to a positive allocation effect. In the Financial sector, strong performance came from positions in Hartford, AXA, Allianz insurance companies and Mastercard. This led to a positive stock selection effect for this sector. An underweight in the Utilities sector led to a positive allocation effect.

The strong performance came from the Information Technology sector, but it lagged behind the benchmark as positions in Accenture and Apple led to a negative stock selection effect. The benchmark had strong returns in the Communications sector led by strong performance from Meta and Netflix. The mandate does not own either of these stocks as they do not pay dividends, but Meta initiated a dividend this quarter. The mandate's positions in Telus and Bell led to a negative stock selection effect. Total Energies and Shell lagged the Energy sector and led to a negative allocation effect. In the Material sector, Air Products led to a negative stock selection effect. In the Health Care sector, United Health Group, AstraZeneca and Johnson & Johnson led to a negative stock selection effect. There were no portfolio transactions in Q1.

Outlook and Positioning

The Sub-Advisor has a core belief that successful asset management should be focused on three core pillars: Growth, Payout and Sustainability. For outlook and positioning, we will address each of these core pillars.

Growth — In positioning the portfolio to secular drivers of dividend growth, the Sub-Advisor believes consistent earnings growth is critical for predictable and sustained dividend growth. According to the Sub-Advisor's research model, earnings per shares (EPS) forecasted growth is moderating slightly in the Consumer Discretionary and Consumer Staples sectors in the U.S., but still at a positive growth rate. In the Information Technology, Health Care, Industrials and Materials sectors, predictions are forecasting a steady recovery in earnings. The outlook for future year-over-year EPS growth is overall positive in double-

digit numbers. These numbers are higher for the shorter term and moderating for the longer term. This is complemented by an increasing dividend growth rate in most of the sectors in the U.S.. The strongest trends for upward movement in dividend growth are for Information Technology, Consumer Staples and Communications. For most sectors in the U.S., dividend growth is converging upwards to an average of around 9%. In Europe, the forecasts are lower than the model is predicting for the U.S. with a slightly positive overall earnings growth forecast. The Sub-Advisor is seeing more dispersion between the sectors in Europe. Health Care and Information Technology are seeing the most projected recovery for earnings. Dividend growth is not as strong for Europe as it is forecasted for the U.S., but is still positive with a convergence of most sectors to an average growth rate of around 7%. The bond proxy sectors are averaging around 2% to 4% forecasted growth rates.

The Sub-Advisor sees the strongest revenue and cash flow growth from secular companies that are thematically driven, especially in the areas of Technology, Industrial Automation and Pharmaceutical Technology. AI demand is certainly a tailwind, as well as continued chip re-shoring, and the implementation of AI into software-as-a-service (SaaS) companies in multiple industries.

The Sub-Advisor continues to position and focus on companies with positive earnings growth coupled with strong dividend growth.

Notwithstanding the speculative nature of the U.S. Federal Reserve (Fed) interest rate cycles, the mandate is positioned for secular dividend growth versus timing the Fed's decision. Over the past 12 months, 100% of the companies in our portfolio have increased their dividends.

Payout — Despite a relief rally in high-yielding asset classes on dovish statements from the Fed in the fourth quarter (Q4), the Sub-Advisor focuses on dividend growth as it believes a yield-for-yield's sake approach results in a minimal broad upside capture amidst hidden downside risks. This is especially apparent in a higher-rate environment where credit quality is much more important. The Fed opted to leave policy unchanged in its first meeting of 2024, which was anticipated. Higher-for-longer rates have continued to put a strain on cashflows and dividend sustainability.

The Sub-Advisor believes that we continue to be in a phase when profitability, stability and safety need to be embraced and it continues to focus on earnings and cash flow growth supporting dividend growth versus extraneous events.

Sustainability (cashflows) — According to the Sub-Advisor's research model, regionally, the probability of dividend cuts continues to be lower in the U.S. than it is in Europe. In the U.S. our models are showing a more systemic downturn in the probability of dividend cuts across sectors. In Europe, Materials, Energy and REITS have come down from higher levels.

The mandate is overweight in the Energy, Consumer Staples, Health Care and Industrial sectors and underweight in the Consumer Discretionary, Communication Services and Financials sectors. Regionally, the mandate has approximately a 35% weight in Europe, and 65% in North America and 0% in Asia and the Pacific Basin.

The Sub-Advisor believes it is time to consider the duration and credit cycles within the dividend asset class. The Sub-Advisor believes that its AI-powered Growth/Payout/Sustainability (GPS) model, offers a total return approach and the best of many worlds through owning companies that can continue to reward shareholders through dividends, buybacks and debt reduction, combined with careful consideration of stock and sector allocations by actual portfolio managers.

Commissions, management fees and expenses all may be associated with an investment in Horizons Active Global Dividend ETF ("HAZ" or the "ETF") managed by Horizons ETFs Management (Canada) Inc. 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 relevant prospectus before investing.**

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