



ETF solutions for every investor™

Trends in the Global ETF Industry

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June 2014

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An Overview of ETFs



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Agenda

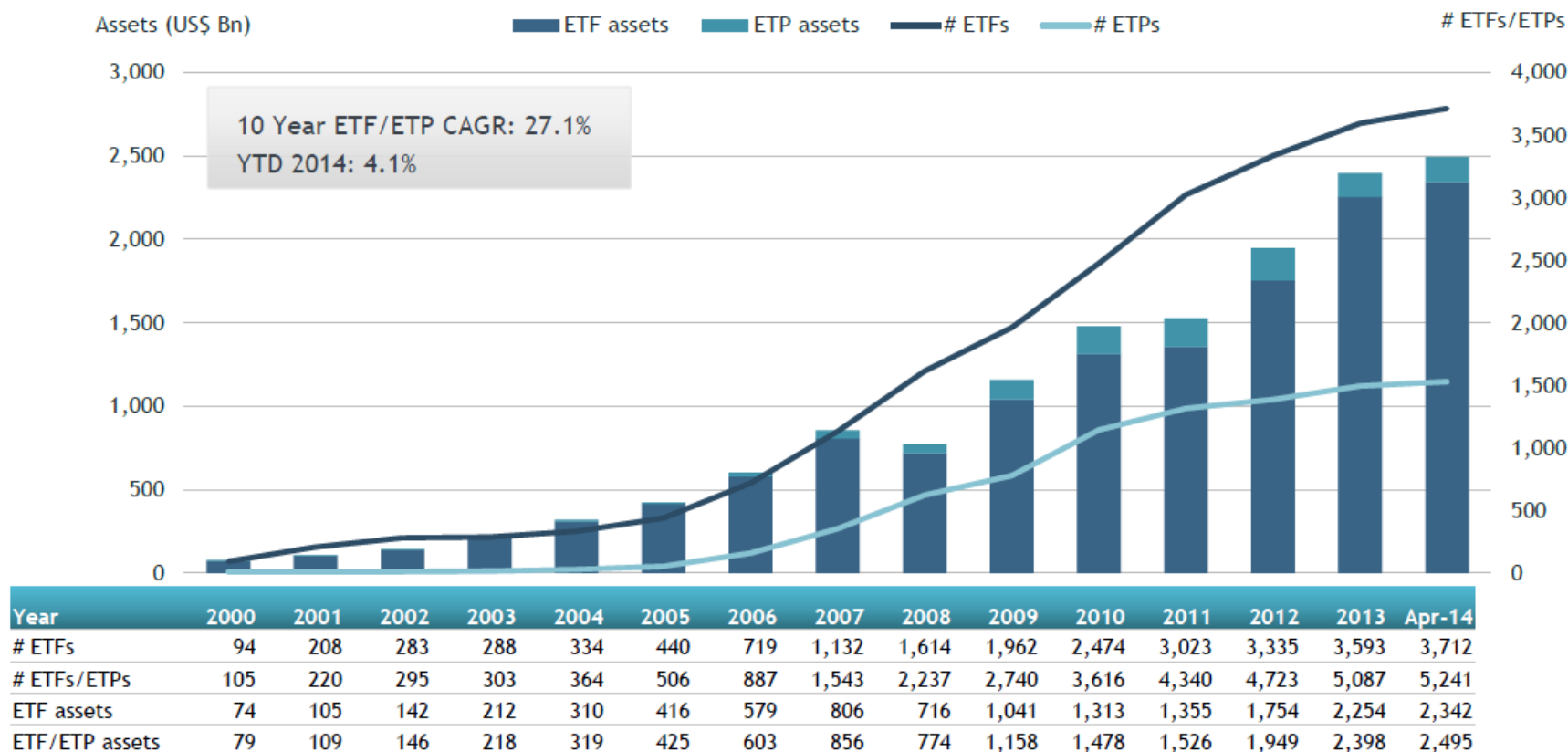
1. An overview of ETFs
2. The North American experience
3. Regulatory trends that have helped ETF growth
4. The evolution of indexing
5. The rise of active ETFs
6. ETF implications for Latin America

Global Presence



Exceptional Global Asset Growth

At the end of April 2014, the Global ETF industry had 3,712 ETFs, with 8,043 listings, assets of US\$2,342 Bn, from 193 providers on 57 exchanges. At the end of April 2014, the Global ETF/ETP industry had 5,241 ETFs/ETPs, with 10,238 listings, assets of US\$2,495 Bn, from 219 providers on 59 exchanges.



Source: ETFGI, as at April 30, 2014.

Benefits of ETFs

- **Low cost:** Typically the lowest cost investment funds
- **Flexible:** ETFs can be purchased throughout the trading day
- **Choice:** There are more than 3700 ETFs listed globally, and most offer broadly diversified exposure to an asset class
 - **Asset Class Exposure:**
 - Equities (all-cap, all styles)
 - Bonds
 - Currencies
 - Commodities
 - Active
 - Futures-based
 - Alternative Strategies

Benefits of ETFs

- **Open-end structure:** ETFs are designed to be open-ended trusts
 - New units of an ETF can be created to meet investor demand
 - This is an extremely important feature for existing unitholders because it means the unit price of an ETF will typically reflect its Net Asset Value (NAV), which is the cumulative market value of the portfolios holdings
- **Easy to research:** You can use research analytics, such as technical or fundamental analysis, to make buy-and-sell decisions

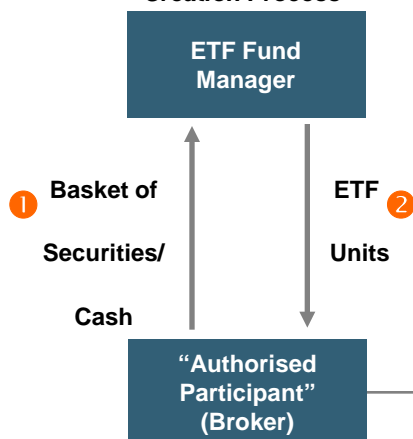
ETF Structure and Creations/Redemptions

Primary Market

Typically, only Authorised Participants (Brokers) create or redeem ETF units directly with the fund

- 1 Market Maker ("Authorised Participant" or "AP") delivers a prescribed basket of securities that matches the underlying index, or cash, to the ETF fund manager
- 2 In return AP receives ETF units equal in value to the assets contributed
- 3 AP offers its ETF units for sale on the exchange.

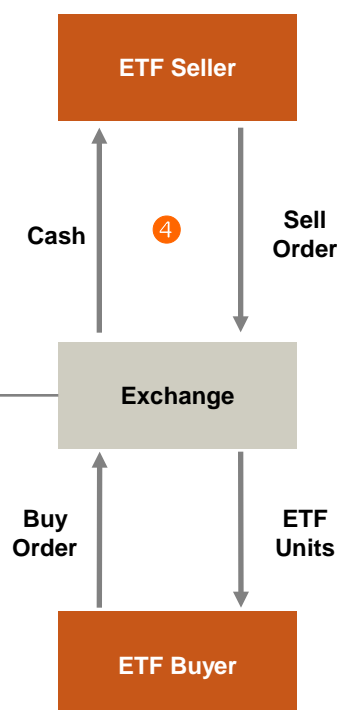
Creation Process



A redemption transaction works in reverse – the Authorised Participant delivers ETF units to the Fund Manager and receives the cash or basket of securities

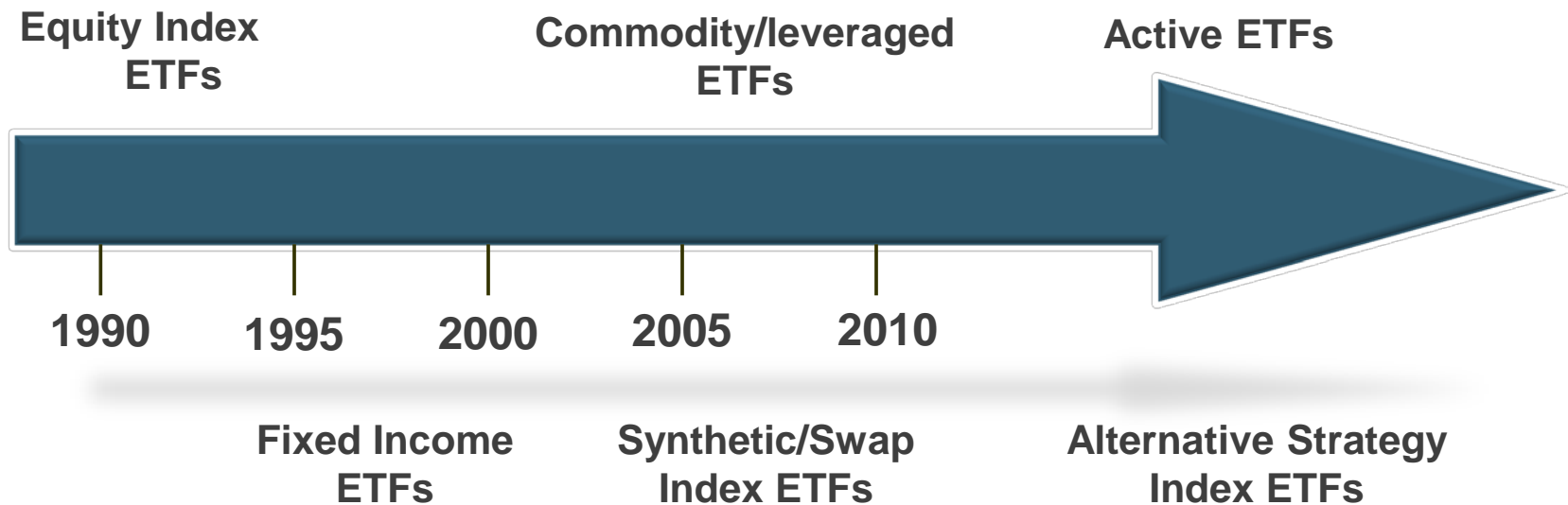
Secondary Market

Buy/Sell Process



- 4 Trading occurs when investors buy and sell ETF units from each other (or from an Authorised Participant) on the ASX

The Evolution of ETFs



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The North American Experience



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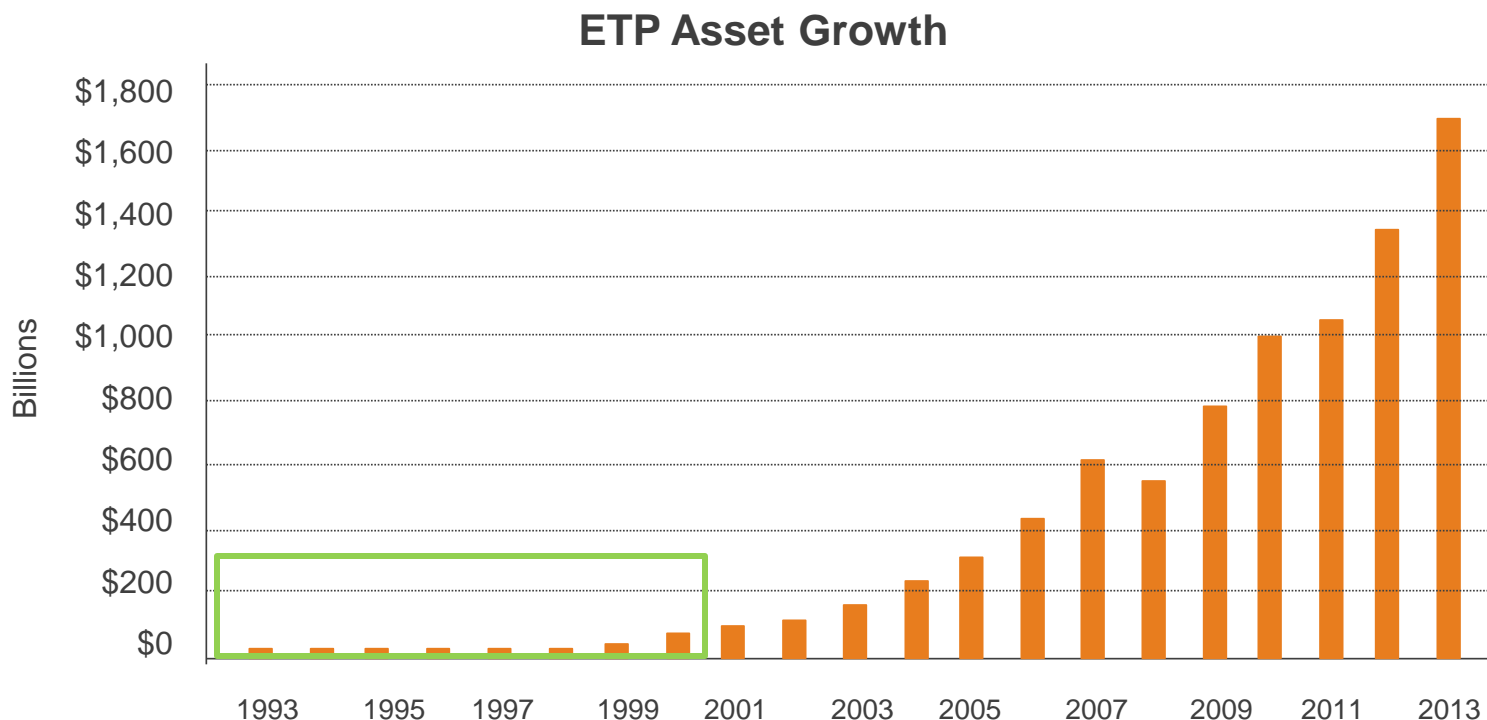


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The North American Experience: ETF Infancy

Phase I: 1990 – 2000

- North American stock exchanges introduce ETFs to market
- Primarily a niche product for institutional indexers
- Start to slowly move from “Wall Street” to “Main Street”



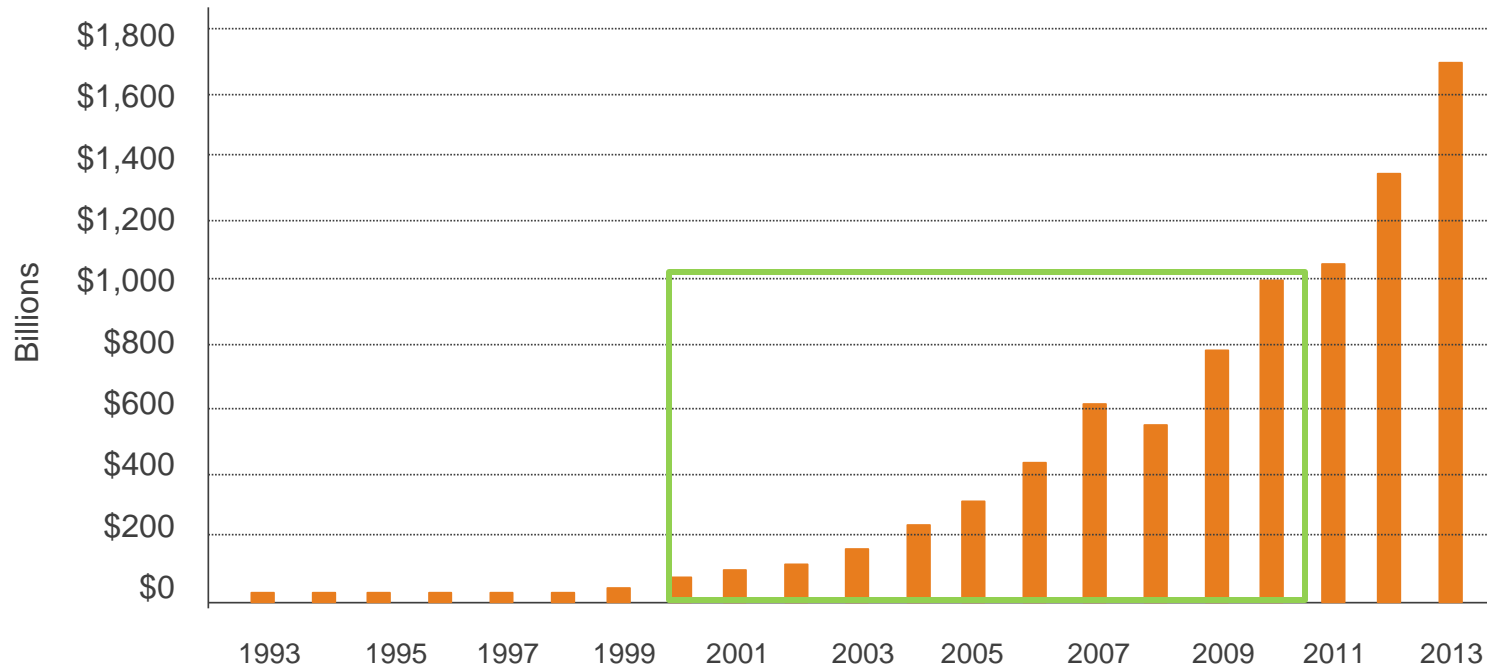
Source: ETF.com as at December 31, 2013.

Fee/Indexing Awareness

Phase II: 2000 – 2010

- ETF growth driven by institutions, investment advisors and direct investors looking to use index strategies for replication
- ETFs expand beyond equity indexing: fixed income, commodity, leveraged and currency ETFs launched
- End of Tech Bubble and Financial Crisis puts fees into perspective

ETP Asset Growth



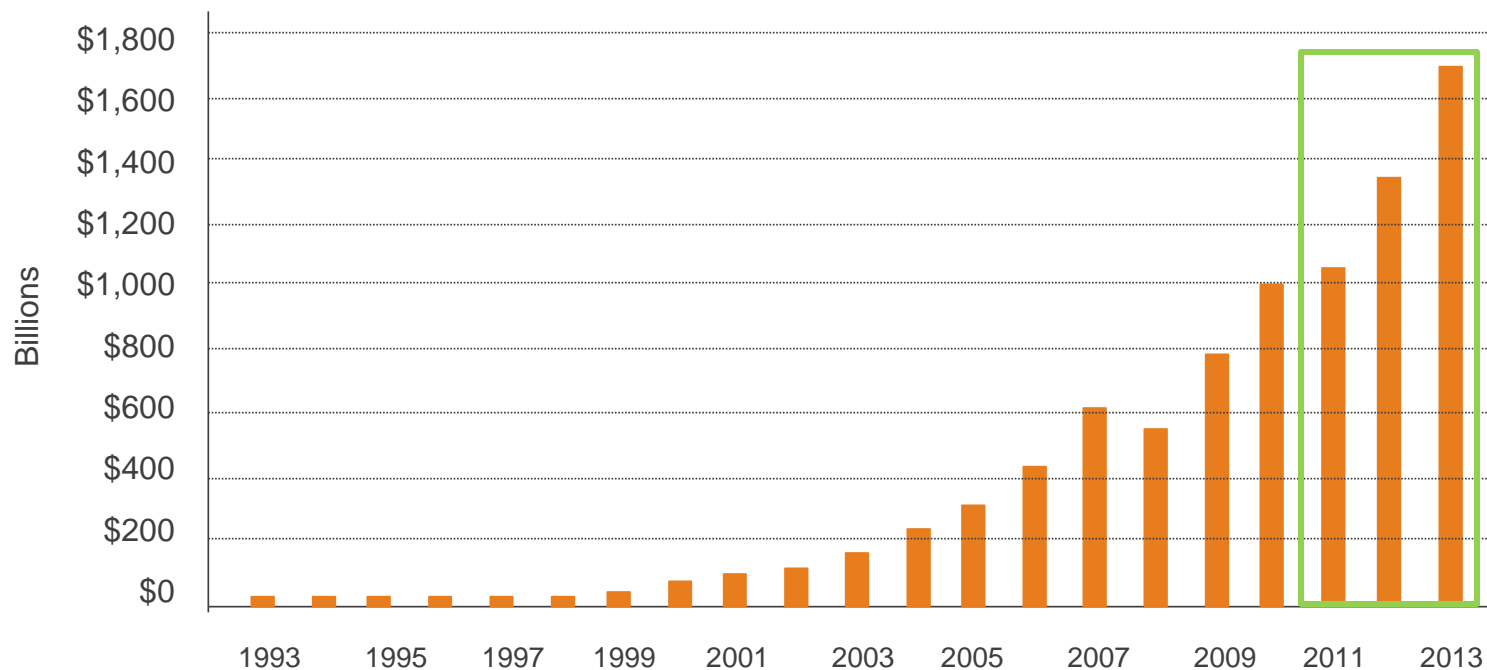
Source: ETF.com as at December 31, 2013.

ETFs Take Charge

Phase III: 2010 – Present

- ETFs gain critical mass and acceptance across all investor channels
- Elimination of embedded advisor compensation in U.K., Australia and U.S. (12b-1) fees force more advisors to build fee-based platforms
- ETFs get cheaper – ETF providers start to undercut each other on same index strategies
- Actively managed ETFs start to attract assets – PIMCO, WisdomTree and Horizons ETFs
- Mutual Fund companies looking at launching Active ETFs

ETP Asset Growth



Source: ETF.com as at December 31, 2013.

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Regulatory Trends



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Regulatory Environment Has Helped ETF Growth

- **Most developed market regulators have adopted or proposed more stringent regulations on the sale of investment products**

USA: The SEC and NASD proposed the elimination of 12b-1 fees (trailer commissions) in 2010. Fees would be made transparent and proposed cap of 0.25%.

UK: The Financial Service Authority introduced the Retail Distribution Review (RDR) in 2013, which eliminated commission-based sales of investment products and required full transparency of advisor compensation.

Australia: In 2013, Australian regulators enacted the Future of Financial Advice, which eliminated commission-based sales. Assets are up more than 50% in Australia on 12-month basis.

Canada: Client Relationship Model 2 (CRM 2) will phase in transparent advisor compensation over next three years, so that clients know exactly what they pay their advisor.

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The Evolution of Indexing



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Why Is Indexing Popular?

- The growth of ETF investing has coincided with the growth in index investing. Over time, the number of actively managed mandates that outperform the index declines
- ETFs are the most efficient and lowest cost way to access an index. If you can't beat the market, then join it at the lowest cost possible

Report 6: Percentage of International Equity Funds Outperformed by Benchmarks

Fund Category	Comparison Index	One Year (%)	Three Years (%)	Five Years (%)
Global Funds	S&P Global 1200	54.09	71.79	66.24
International Funds	S&P 700	44.64	59.54	70.97
International Small-Cap Funds	S&P Developed Ex-U.S. SmallCap	48.61	43.64	45.00
Emerging Markets Funds	S&P/IFCI Composite	57.48	60.87	80.00

Source: S&P Dow Jones Indices, CRSP. For periods ended Dec. 31, 2013. Outperformance is based upon equal weighted fund counts. All index returns used are total returns. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

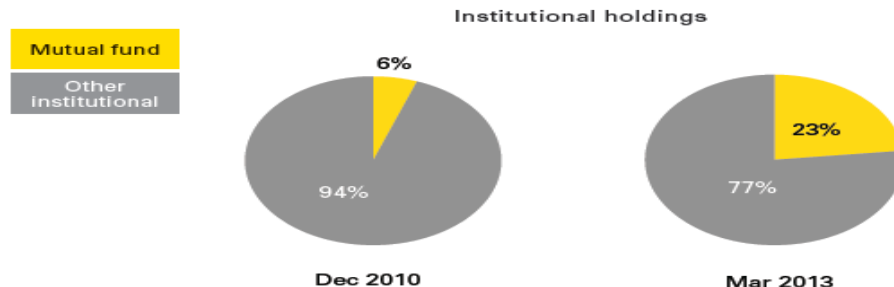
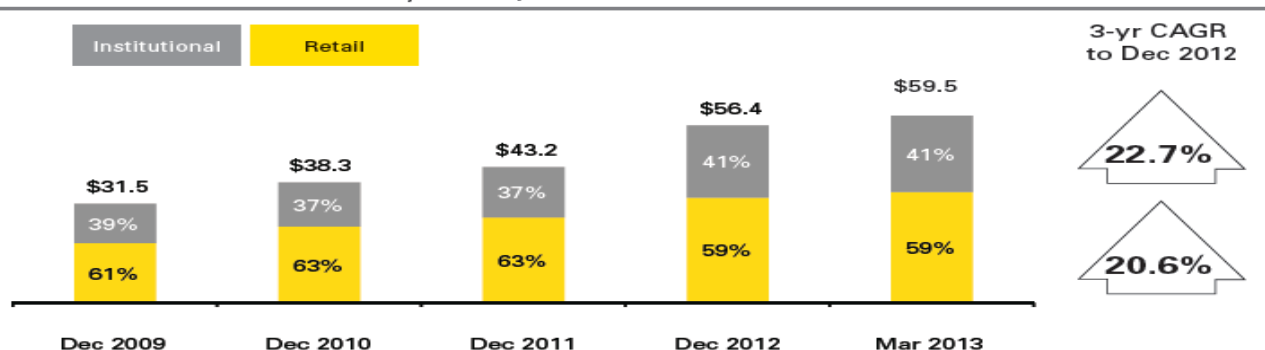
Institutional Use of ETFs

- Institutional investors account for 38% of the 2 trillion in ETF assets globally, according to ETFGI as of November 13, 2013. A large proportion of these are mutual funds and hedge funds
- The same study says institutional investors reported holding 53% of all U.S. listed ETF assets
- Institutional use continues to grow at a 6.7% Compound Annual Growth Rate (CAGR)

From *Versus* to *With*: A Win-Win Situation

2

Mutual Funds: Instrumental in the Growing Size of ETFs
Canadian-listed ETF assets by channel, in billions of dollars

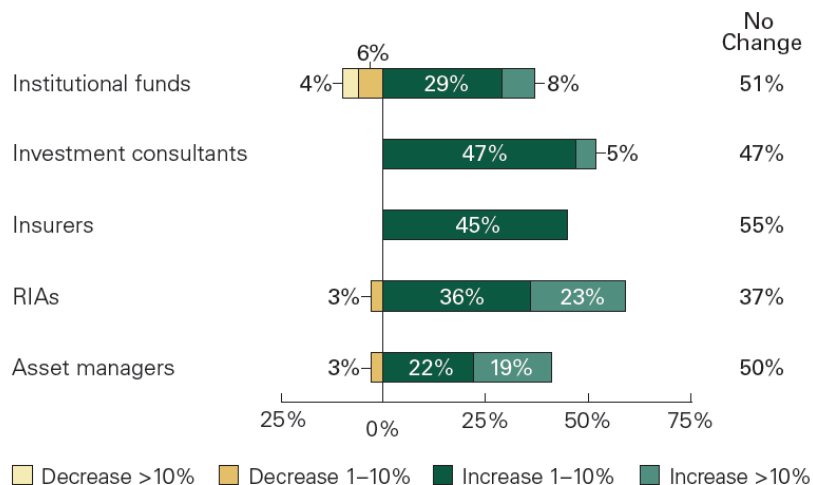


Source: Investor Economics

How Are Institutions Using ETFs

- Global institutional use of ETFs continues to grow
- Key considerations for institutions are cost and liquidity

Expected Change in Allocations to ETFs by Year End

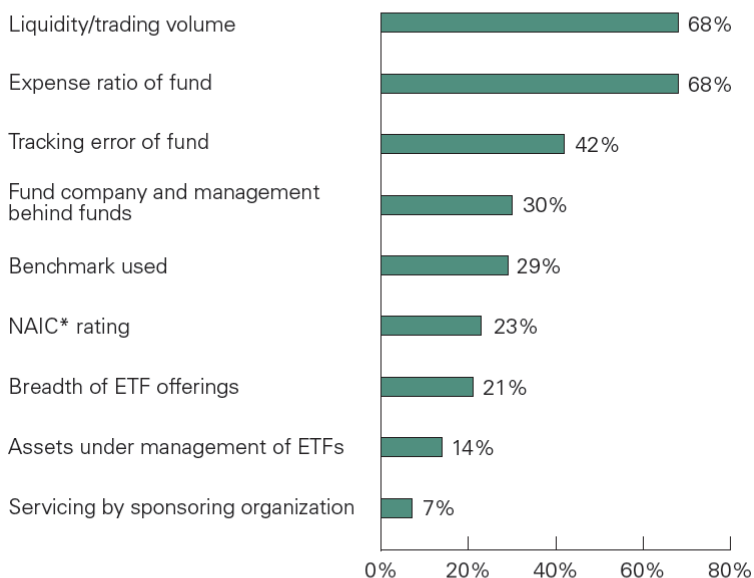


Note: Based on 201 responses: 49 institutional funds, 19 investment consultants, 31 insurance companies, 70 RIAs and 32 asset managers in 2014.
Source: Greenwich Associates 2014 U.S. Exchange-Traded Funds Study

Sources: Greenwich Associates 2014, U.S. Exchange Traded Funds Study

Most Important Factors When Selecting an ETF

(Criteria cited as one of top 3)



Note: *The NAIC does not endorse or recommend any securities or products. NAIC designations are issued for specific regulatory purposes and these designations are not equivalent to credit ratings issued by nationally recognized statistical rating organizations. NAIC designations are suitable only for NAIC members. Based on 182 responses:

Indexing is not One Size Fits All

- In order for an index strategy to be optimal the asset class needs to be:
 - 1) Highly Liquid
 - 2) Transparent
 - 3) Have breadth of security selection
- Many asset classes in Canada are not efficient enough for optimal index performance



Alternative Beta: Not “Smart”: Just Different

- More than \$43 Billion was raised in so called “Smart Beta” ETFs in 2013*
- There is nothing ‘Smart’ about alternative weighting, it’s just a different way to weight stocks, which in turn changes its performance characteristics

Popular Alternative Weighting Strategies

Equal Weighting: Securities are equally weighted in the portfolio. This gives smaller stocks in the index much greater weighting and larger stocks smaller weightings.

RAFI / Fundamental Indexing: A type of equity index in which components are chosen based on fundamental criteria as opposed to market capitalization. Securities are weighted on key metrics such as revenue, dividend rates, earnings, or book value.

Low Volatility: Index is composed of stocks that have lower than average volatility versus the broader index or it re-weights stocks to give greater weighting to low-volatility stocks.

*Source: Bloomberg, as at December 31, 2013

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The Rise of Active ETFs



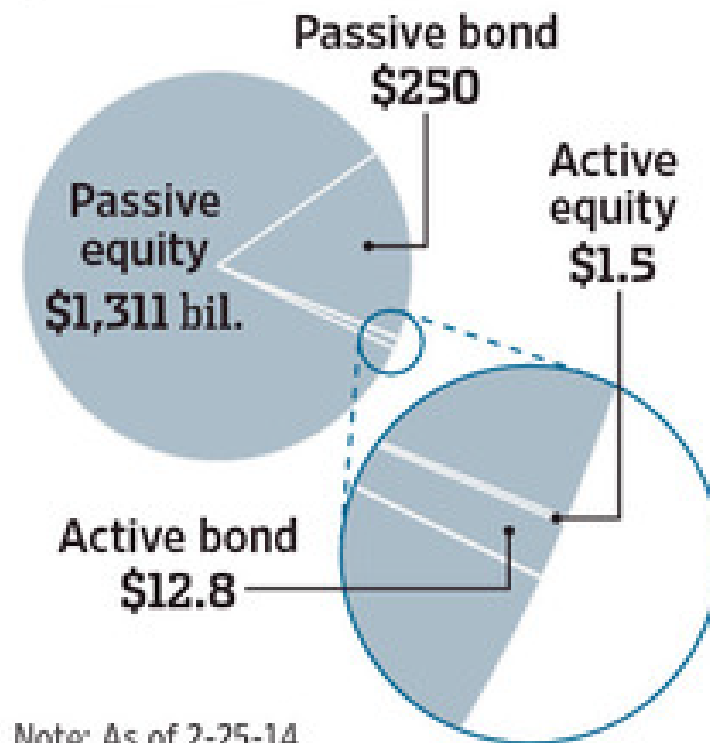
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Active ETFs: Growth

- **Huge asset growth potential as ETF industry is still small versus other pooled funds**
 - McKinsey & Co forecasts U.S. active ETF market to reach between \$500 Billion and \$1 Trillion AUM within a decade
 - U.S. Active ETF market approximately \$14 Billion in AUM (proportionally smaller than Canada)

Among stock and bond ETFs, passive funds dominate



Note: As of 2-25-14

Source: XTF

The Wall Street Journal

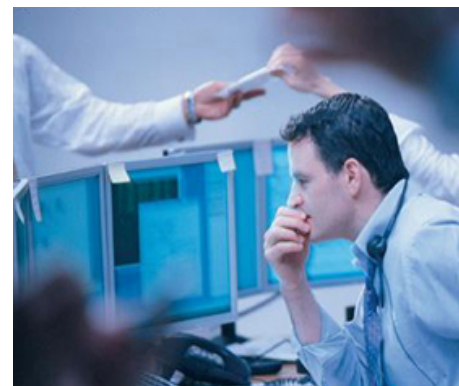
Source: McKinsey & Co, as at September 30, 2013.

Active ETFs: Who Offers Actively Managed ETFs?

Largely North American Issuers to date – BIG NAMES have launched or been receipted

- PIMCO
- Wisdom Tree
- Horizons ETFs
- Powershares
- Eaton Vance
- State Street Global Advisors
- Powershares
- Alliance Bernstein
- Northern Trust
- BlackRock iShares
- Russell Investments
- Legg Mason
- BMO ETFs
- First Asset
- Fidelity Investments

Important to note that SEC filing for Active ETFs can be a very slow process. The number of Active ETF mandates is expected to increase in coming years.



Source: Etfshub.com, as at April 30, 2014.

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ETF Implications For Latin America



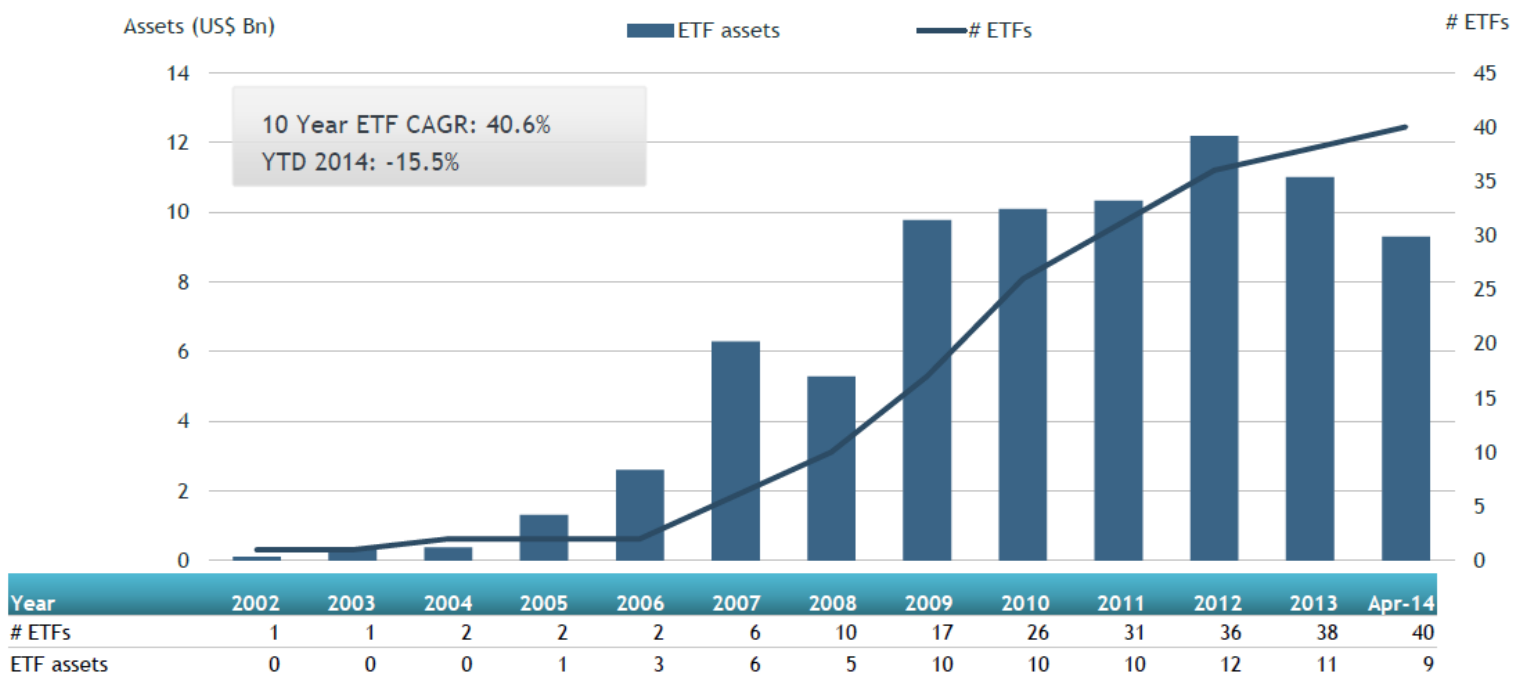
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Why is the Latin American ETF market declining?

- Primarily due to stock valuations – large global outflows in emerging market stocks has hurt Latin American stocks

At the end of April 2014, the Latin American ETF industry had 40 ETFs, with 568 listings, assets of US\$9 Bn, from 20 providers on 4 exchanges.



Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.

Foreign ETF Flows into EM Securities

- Colombian equities represent about 1 to 1.5% of the holdings of emerging market index ETFs, according to FTSE and MSCI Indices
- There is more than \$110 billion invested in broad emerging market index ETFs*
- We estimate \$1.0 to \$1.5 billion alone from ETFs into Colombian securities, a substantial amount of money when you consider the market cap of the entire Colombian stock market is \$262 billion
- ETFs already impact domestic LatAm markets



*Source: ETFGI as at April 30, 2014.

Investors Are Buying EM, Not Colombia

- Globally we're seeing investors using ETFs to get their emerging market exposure, this is a function of the underlying liquidity of emerging market ETFs
- \$7 billion went into EM index ETFs in April of 2014 as valuations became attractive
- Investors like the built-in liquidity and low cost of emerging market ETFs

YTD correlation of Colombian equities and Emerging Market Indices

Index	MSCI Emerging Market Index	S&P Colombia Select Index	COLCAP	FTSE Emerging Index
MSCI Emerging Market Index	1.00	0.923	0.915	0.996
S&P Colombia Select Index	0.923	1.00	0.978	0.954
COLCAP Index	0.915	0.978	1.00	0.946
FTSE Emerging Index	0.996	0.954	0.946	1.00

Source: Bloomberg as at May 28, 2014.

The historical performance is shown for illustrative purposes only. It is only meant to illustrate the effects of the compound growth rate and is not meant to forecast, imply or guarantee the future performance of any particular investment or index, which will vary. Performance results for the S&P Colombia Select Index prior to its inception (10/24/2013) are hypothetical, back-tested daily price returns. Past performance is no guarantee of future results. Calculations are based on price return index levels in USD.

COLCAP Index inception date is 01/15/2008

A Need For Better Regional ETF Industry

- Domestically listed ETFs can enhance the appeal of regional investing
- A more robust local ETF industry will enhance the liquidity of securities
- Foreign investors need to feel more comfortable with index methodologies. Using index providers with established global track records helps
- As both retail and institutional investment sector grows so too will demand for low-cost investment solutions



Predictions For 2014 / 2015 ETF Market

- Regulatory environment will likely result in more advisors gravitating to ETFs due to their fee transparency
- More investors will start to embrace more alternatively weighted index strategies similar to their U.S. counterparts
 - Equal Weight Indices
 - Low Vol / Momentum Indices
 - Alternative Beta/Hedge Fund Replication
- The active ETF space will continue to see strong asset growth in developed markets
- We will see strong growth of index ETF development in the emerging markets

Biography



Howard J. Atkinson, CFA, CIMA®, ICD.D

President, Horizons ETFs Management (Canada) Inc.

Mr. Atkinson has 26 years of investment management industry experience. He joined Horizons ETFs Management (Canada) Inc. (formerly named BetaPro Management Inc.) as Executive Vice-President in October 2006. Since then, he has led the growth of assets under management from \$100 million to more than \$4 billion with 70 ETFs listed on the TSX (as at April 30, 2014). The Horizons ETFs family makes up one of the largest families of ETFs in Canada. Horizons ETFs is a member of the Mirae Asset Financial Group. Prior to joining Horizons ETFs, Mr. Atkinson was responsible for the Exchange Traded Products business at Barclays Global Investors Canada Limited and has held positions with a national investment dealer and major mutual fund companies.

Mr. Atkinson serves on the board of directors of both Horizons ETFs and its subsidiary BetaShares Capital Ltd., an Australian firm providing exchange traded funds under the “BetaShares ETFs” brand. In addition, Mr. Atkinson is a past president of the Toronto CFA Society and is a member of the S&P/TSX Canada Index Advisory Panel. In 2009, he achieved the ICD.D designation from the Institute of Corporate Directors.

He is also a co-author of *Market Efficiency*, a chapter in the CFA Institute Investment Series book entitled *Investments: Principles of Portfolio and Equity Analysis* (Wiley, 2011), which is currently used as Level 1 material within the Candidate Body of Knowledge.

Mr. Atkinson is a regular guest on BNN (Canada’s Business News Network) and has appeared several times on CNBC Europe and Global TV. In February 2010, he was recognized by ACTIF, Quebec’s premier financial education co-operative, as the Top Educator for his efforts to foster financial literacy among Canadians.

Mr. Atkinson is also the current chair of the Canadian ETF Association (CETFA), an independent national association that represents and promotes the Canadian ETF industry. CETFA was founded by three leading Canadian ETF firms in May 2011 and is the first organization of its kind in the world.

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Thank you!



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Appendix



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We Believe

We believe that every investor, regardless of portfolio size, should have access to the best investment strategies and money managers at the best possible price. Our Canadian suite of exchange traded funds includes innovative tools and solutions for:

1. **Tactical Trading:** Leveraged, inverse and volatility ETFs
2. **Index Exposure (Beta):** Low cost, tax efficient index ETFs
3. **Active Management (Alpha):** Actively managed and alternative ETFs

“ “ We’re passionate about helping investors achieve their investment goals. Whether you’re looking for market returns delivered by an ultra low cost index ETF or the added value of active management or alternatives, we offer ETF solutions for every investor. ” ”

— Howard Atkinson, President Horizons ETFs

A Global ETF Platform

141 ETF listings globally

Canada Horizons ETFs



Canada 70 ETFs

- \$4.1B in AUM
- One of the World's largest Active ETF managers with US\$1.84B in AUM
- Provider of the most liquid ETFs on the TSX
- Proven track record in bringing innovative and market leading ETFs to market

USA Horizons ETFs



USA 3 ETFs

- \$40M in AUM
- First covered call ETF in U.S. that writes options on the individual stocks in the S&P 500®
- Listed on the NYSE under ticker symbol HSPX

Hong Kong Horizons ETFs



Hong Kong 10 ETFs

- \$154M in AUM
- One of the earliest entrants into the HK ETF market
- Launched a suite of Asian sector ETFs, the first products of their kind in the HK market

Colombia Horizons ETFs



Colombia 1 ETF

- \$2.9M in AUM
- Second Colombian ETF launched on Oct 23, 2013
- First MILA Index ETF listed in LATAM

Korea TIGER ETFs

TIGERETF

South Korea 44 ETFs

- \$3.2B in AUM
- Largest family of ETF products in Korea
- Launched the first agriculture, energy and inverse fixed income ETFs in Korea
- Lowest cost provider of Market index tracking ETFs

Australia BetaShares ETFs



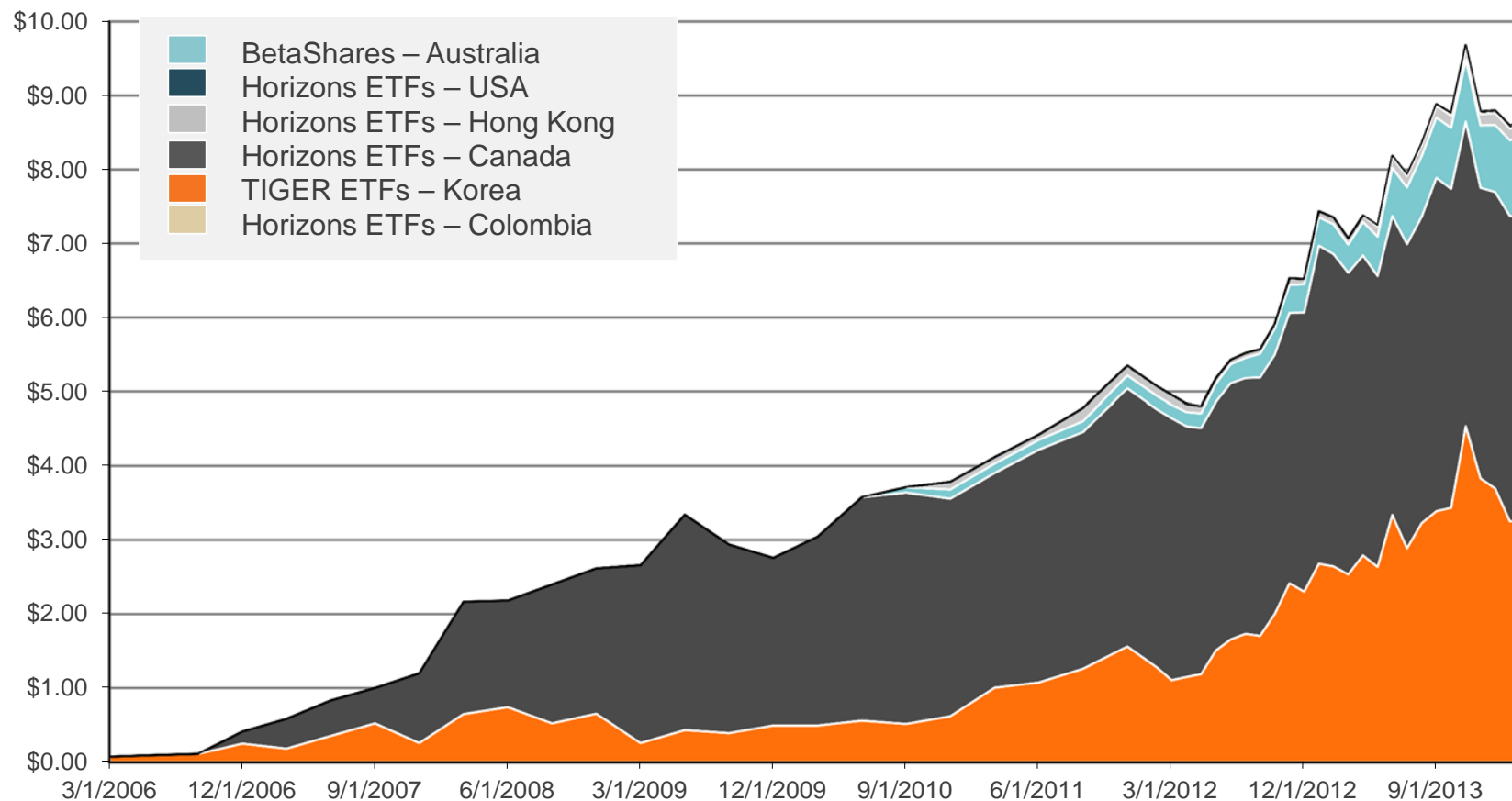
Australia 13 ETFs

- \$1.1B in AUM
- One of the leading providers of ETFs in Australia
- Received Money magazine "Best of the Best 2012 – Best Innovative product" award for USD ETF
- Launched first cash ETF on the ASX

As at April 30, 2014.

Global Horizons ETFs Total AUM \$8.6B

Total AUM
(Billions)



As at April 30, 2014.

Disclaimer

Commissions, trailing commissions, management fees and expenses all may be associated with an investment in exchange traded products managed by AlphaPro Management Inc. and Horizons ETFs Management (Canada) Inc. (the "Horizons Exchange Traded Products"). The Horizons Exchange Traded Products are not guaranteed, their values change frequently and past performance may not be repeated. Certain Horizons Exchange Traded Products may have exposure to leveraged investment techniques that can magnify gains and losses which may result in greater volatility of returns and could be subject to aggressive investment risk and price volatility risk, which are described in their respective prospectuses. The Prospectuses contain important detailed information about the Horizons Exchange Traded Products. **Please read the relevant prospectus before investing.**

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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.

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