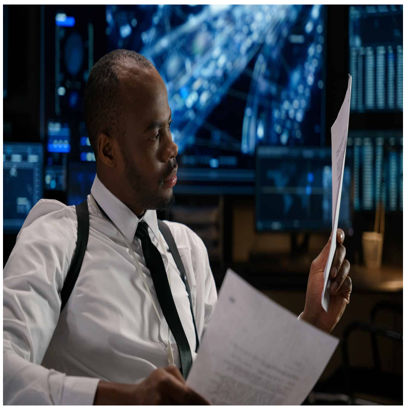

Horizons Growth TRI ETF Portfolio (HGRO) Review: A Great Option for Tax Efficiency

Description

I love the use of exchange-traded funds (ETFs), especially those that go out of their way to be cheap and tax efficient. Minimizing sources of controllable risk like high fees and taxes paid can go a long way toward boosting your long-term returns.

In that respect, the ETF lineup from **Horizons ETFs** rank among some of my favourites. Using a unique swap structure, Horizon's suite of total return (TR) ETFs are designed with tax efficiency and close tracking of their indexes in mind.

While you can mix and match different Horizons ETFs to create your ideal portfolio, hands-off, passive investors can keep things even simpler by buying an all-in-one asset-allocation ETF. Today, I'll be reviewing **Horizons Growth TRI ETF Portfolio** (TSX:HGRO).

What's under the hood?

Traditional ETFs hold a basket of underlying stocks and sell you shares of that basket. These ETF shares trade on an exchange, and their prices fluctuate based on the underlying holdings.

Horizons ETFs such as HGRO are different. Instead of holding stocks, HGRO holds six other Horizons TR ETFs. These six ETFs each use a derivative called a TR swap to replicate the performance of their underlying indexes.

To do this, Horizons enters into a swap agreement with a counterparty. When you buy units of a TR ETF, your investment is held in cash as collateral. The counterparty is then obligated to remit to Horizons the total return of the index (capital gains + dividends).

For example, if the stocks in the TR ETF increase by 8% and pay a 2% dividend, the counterparty will pay 10% to Horizons (minus fees), and the TR ETF will increase in price by 10% (again, minus the fee).

HGRO is intended to be a all-in-one ETF covering equities from around the world. The ETF is split into roughly 33% U.S. large-cap stocks, 21% NASDAQ 100, 18% S&P/TSX 60, 14% international developed markets, 7% international emerging markets, and 7% Stoxx 50 Index (European large cap).

What I like

A good reason to pick HGRO is for its minimal tracking error. Because the counterparty is obligated to deliver the total return of the index, they minimize turnover and the trading costs that come with traditional ETFs. The dividends are also perfectly reinvested, which boosts returns.

More importantly, holding HGRO in your taxable account is highly efficient. The current 12-month trailing yield sits at just 0.02%, which is minuscule and greatly reduces the amount of dividend tax payable. Your only tax drag will be capital gains tax when you choose to sell, which can be deferred.

What I don't like

A gripe of mine is with the heavy allocation to large-cap stocks. There are no Canadian or U.S. mid- or small-cap stocks represented. The 20% overweight to the tech-heavy NASDAQ 100 also seems like performance chasing and recency bias to me.

Personally, I would like to see the S&P/TSX 60 replaced with the S&P/TSX Capped Composite Index, the U.S. large-cap and NASDAQ replaced with the CRSP Total U.S. Market Index, and the Stoxx 50 allocated towards the existing international markets ETFs. Then again, I'm not a portfolio manager, so YMMV.

The Foolish takeaway

Horizons has created a very tax-efficient one-ticket solution for Canadian investors. Holding HGRO in a taxable account is advantageous over traditional asset allocation ETFs and even dividend stocks. While some investors (like me) might dislike the heavy allocation to large caps, it's unlikely to make a huge difference over long periods of time. Overall, HGRO is a great ETF and an excellent choice for buy-and-hold investors seeking tax efficiency.

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