betashares

ASX: YMAX, UMAX, QMAX

Betashares Yield Maximiser Funds

Introduction to Betashares Yield Maximiser Funds

A significant cohort of Australians have income generation as a core investment objective. Yields from cash, term deposits and bonds remain low by historical standards, leading to continued challenges for investors seeking income.

Dividends from equities can be attractive – however equities as an asset class can be volatile, something that can be unwelcome for investors who are unwilling to take on this level of risk.

With this in mind, Betashares developed our range of Yield Maximiser Funds.

These funds provide exposure to a portfolio of shares, and employ an active strategy that aims to generate income that exceeds the dividend yield from the portfolio over the medium term, but with lower volatility. The Betashares Yield Maximiser Funds do not aim to track an index.

The current Yield Maximiser Funds include:

- Betashares Australian Top 20 Equity Yield Maximiser Fund (managed fund) (YMAX)
- Betashares S&P 500 Yield Maximiser Fund (managed fund) (UMAX)
- Betashares Nasdaq 100 Yield Maximiser Fund (managed fund) (QMAX)

Betashares Yield Maximiser Funds aim to:

- provide an attractive income stream on a portfolio of equities
- provide the potential for some capital growth, with smooth equity returns through reduced volatility

Enhanced income + Portfolio diversification + Reduced votality = Betashares Yield Maximiser Funds

What is the strategy the Betashares Yield Maximiser Funds employ?

The two core elements of the Betashares Yield Maximiser Funds are:

- providing exposure to a portfolio of shares (Australian or US shares, depending on the Fund), and
- implementing an active covered call strategy

What is a covered call strategy?

The 'covered call' strategy (also known as a 'buy write' strategy) is a widely used options-based strategy. It seeks to collect the income from selling (or 'writing') options while capping the upside potential of the equity portfolio. In relation to the Yield Maximiser Funds, the relevant Fund sells (writes) exchange-traded call options over the relevant Index or over securities held in the share portfolio.

The buyer of a call option has the right to purchase specified shares at a set price (the 'strike' or 'exercise' price), on or before a fixed date (the 'expiry date'). For this, they pay a 'premium' – the cost of the option.

On the other side of the option transaction, the writer accepts the obligation to potentially have to sell the underlying shares at the strike price, if the option is exercised. For this, the option writer receives the option premium.

What are the benefits of writing covered calls?

The main benefit to the writer of the call option is the premium received, which acts as extra income. The premium in a way can be seen as an additional source of income, like an extra dividend, on the shares you hold.

On the other hand, selling a call option over your shares limits your upside. If the share price rises strongly, once it reaches the strike price of the option you have sold, you won't benefit any further – no matter how high the share price rises.

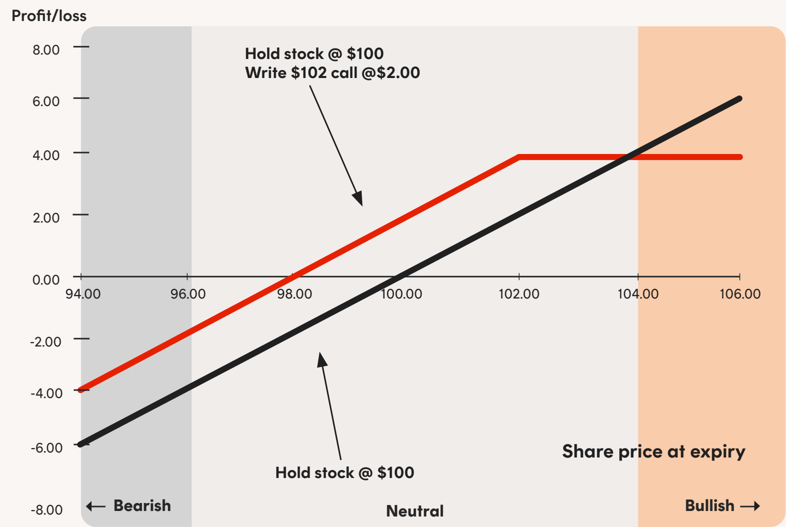
As a result, the covered call strategy is one that is best suited to sideways trading markets. It will also be expected to outperform an 'uncovered' shareholding in falling markets –the shares you hold will still fall in value, but the option premium serves to cushion some of the loss.

However, in a strongly rising market the covered call strategy can be expected to underperform an uncovered holding of the shares, as you have forfeited the potential upside from your shares, once the share price reaches the option exercise price, in return for the option premium.

This is illustrated in the chart below. The chart compares two strategies:

- Long strategy: hold/buy shares @ $100 (i.e. holding shares alone, without writing call options)
- Covered call strategy: hold/buy shares @ $100 and write a $102 call option for a premium of $2.00

The diagram shows the profit or loss from both strategies for a range of share prices at expiry of the option, making it straightforward to see which strategy performs better for a given share price.



Source: Betashares. Profit/loss analysis shown above does not represent the performance of any Betashares fund. Information is provided for illustrative purposes only.

You can see that in bearish markets, both strategies will suffer a loss, because the shares will fall in value. However, under this market scenario the covered call strategy will be expected to outperform the long strategy because the option premium reduces the loss.
Similarly, in neutral to gradually rising markets, the covered call will be expected to outperform, again due to the receipt of the premium.

If, however, the share price rises strongly, the covered call will be expected to underperform. In the example above, the maximum profit the investor implementing this strategy can make is $4.00, as they will have to sell their shares for $102 (the strike price), plus the receipt of the option premium.

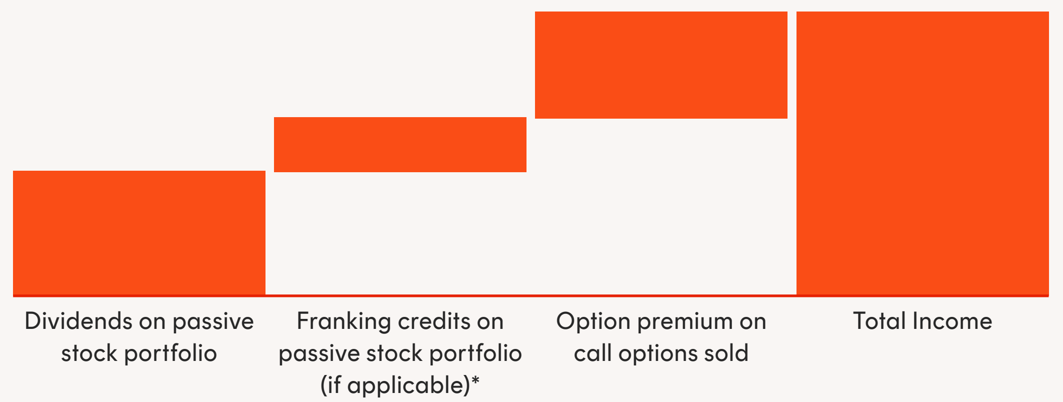
Therefore, under a covered call strategy an investor inherently forfeits potential upside (of their share position) in exchange for current income (from receiving premiums for selling call options on that share position).

It's important to note that the call writing strategy is taken care of within the Fund. You are not personally writing calls over any shares. You invest in a Betashares Yield Maximiser Fund in a single trade on the ASX.

What are the sources of income from the Betashares Yield Maximiser Funds?

Your income from an investment in the Fund will comprise the dividends received on the underlying shares in the portfolio, plus the option premiums, net of fees and costs. In the case of YMAX, you may also be eligible to receive franking credits on the dividends.

Sources of Income in Betashares Yield Maximiser Funds



*Franking credits are not applicable for international equities products (such as UMAX and QMAX). In relation to YMAX, not all investors will be able to receive the full benefit of franking credits. For illustrative purposes only.

The amount of option premium depends primarily on two things:

- the strike price of the written options, and
- the volatility of the underlying shares.

The further out of the money the option is (i.e. the higher the strike price), the greater the potential upside, but the lower the premium received for writing the option. By contrast, selling an at-the-money option will generate greater income, but results in lower potential upside in a rising market.

The higher the expected volatility, the higher the option premium. A reduction in the expected level of price volatility of the Index, or of the security, can therefore be expected to reduce the option premiums received by the Fund, potentially reducing the amount of income available for distribution to investors.

The Yield Maximiser Funds will typically write call options with exercise prices between 2% and 7% above the current level of the underlying index/shares, which we believe strikes a balance between generating meaningful income and allowing some potential upside in rising markets.

Income payments are made quarterly.

As the Yield Maximiser Funds have been designed for investors who prioritise high income over capital growth, income returns can exceed total returns (i.e. income returns plus capital returns) in some circumstances.

How do the Betashares Yield Maximiser Funds seek to reduce volatility?

Volatility can be thought of as the extent to which an investment fluctuates in value over time. The Betashares Yield Maximiser Funds will typically be less volatile than the underlying portfolio of shares, because the option premium will cushion downside movements by partly offsetting some of the share price decline, while the sale of the call options also limits potential upside of the share position. Therefore, movements both up and down will be less extreme than simply holding a passive share portfolio.

In other words, the covered call strategy can be expected to give you a smoother ride by reducing overall volatility of returns.

It's important to understand that in a falling market, the capital value of your investment will typically fall in line with the fall in the value of the underlying shares. The 'cushion' of the option premium is distributed to you in the form of income.

Betashares Yield Maximiser Series			
Exposure	Australian shares	U.S. shares	
Fund	Betashares Australian Top 20 Equity Yield Maximiser Fund (managed fund)	Betashares S&P 500 Yield Maximiser Fund (managed fund)	Betashares Nasdaq 100 Yield Maximiser Fund (managed fund)
ASX Code	YMAX	UMAX	QMAX
Underlying share portfolio	Australian top 20 blue chip shares	S&P 500 Index (500 large cap US equities)	Index of top 100 non-financial stocks listed on the NASDAQ exchange)

How to use the Yield Maximiser Funds in your portfolio

The Betashares Yield Maximiser Funds may suit investors for whom income is a priority, who are comfortable taking on sharemarket risk, and who are seeking to reduce portfolio volatility.

For more information on the Betashares Yield Maximiser Funds please refer to:

- Betashares Australian Top 20 Equity Yield Maximiser Fund (managed fund) (YMAX)
- Betashares S&P 500 Yield Maximiser Fund (managed fund) (UMAX)
- Betashares Nasdaq 100 Yield Maximiser Fund (managed fund) (QMAX) (insert link)

There are risks associated with an investment in the Funds including market risk, use of options risk, sector concentration risk and in the case of UMAX and QMAX, currency risk. Investment value can go up and down and returns are not guaranteed. An investment in the Funds should only be considered as part of a broader portfolio, taking into account your particular circumstances, including your tolerance for risk. For more information on risks and other features of the Funds, please see the Product Disclosure Statement (PDS) and the Target Market Determination (TMD), available at www.betashares.com.au.