

# INTRODUCTION TO BETASHARES YIELD MAXIMISER FUNDS

ASX CODE: YMAX (Australian Equities) & UMAX (US Equities)



**BetaShares**  
Exchange Traded Funds

One of the more enduring investment themes in recent times has been the desire for income combined with less volatility. In a low interest rate environment, and with high levels of volatility in the equity markets, investors are finding it increasingly difficult to rely upon traditional exposures to cash, bonds or equities to deliver adequate income with reasonable levels of volatility. A different approach is required.

One approach that has recently gained popularity among investors is focused on ways to earn higher income from a share portfolio. For example, investors can buy shares and, at the same time, generate additional income through the sale of some of the upside price potential of the shares. Such a strategy, which has received support in a number of research studies, represents a more conservative approach to equity investing, potentially offering a number of advantages over the purchase of shares alone, including:

- Greater yield than dividends alone
- Franking credits (where applicable)
- The opportunity for some capital appreciation
- Reduced volatility
- Downside risk management

BetaShares' Yield Maximiser Funds offer investors a simple to use, low-cost way to access yield focused equity strategies as easily as buying any share on ASX. Currently, the Yield Maximiser Series includes:

- **Australian Shares:** BetaShares Australian Top 20 Equity Yield Maximiser Fund (managed fund) (ASX code: **YMAX**): a yield based strategy over the largest 20 Australian blue-chip shares
- **U.S. Shares:** BetaShares S&P 500 Yield Maximiser Fund (managed fund) (ASX code: **UMAX**): a yield based strategy over the S&P 500 Index (which tracks 500 large capitalisation U.S. equities)

Using the BetaShares Yield Maximiser Funds, investors have the potential to:

- **Enhance the yield** on a diversified portfolio of equities
- Earn an attractive **quarterly income** (including franking credits in the case of YMAX)
- Gain exposure to an equity strategy that offers **potential downside risk management**
- Smooth equity returns through **reduced volatility**
- Avoid increasing **credit and interest rate risk** by chasing yield on riskier bonds
- Access a simple to use, low cost tool to implement an equity income investment strategy, which may be suitable for a number of investor types

## Objective of Yield Maximiser Funds

BetaShares' Yield Maximiser Funds aim to provide investors with exposure to a diversified portfolio of shares, while providing attractive income, paid quarterly, that, over the medium term, exceeds the dividend yield of the underlying share portfolio. In addition, the Funds aim to provide lower overall volatility than the underlying share portfolio.

## How can an investor earn higher income from shares?

An investor can generate additional income from a share portfolio, over and above dividends and franking credits (where applicable), by selling away some of the upside share price potential of the portfolio. This additional income can be generated using options.

To implement such a strategy, an investor buys a share (or a share portfolio), and simultaneously sells, or "writes", call options on the relevant shares. By selling call options, the investor is selling to the buyer of the option, for a premium, the right to buy the relevant share from the investor at a certain exercise price. By doing this, the investor will receive option premiums, which provide an additional source of income to the investor and will be earned regardless of how the underlying shares perform. In addition, the option premium earned will partially hedge against any decline in the price of the relevant shares.

By writing call options the investor forgoes potential returns resulting from any share price appreciation above the exercise price. This is because the share will likely be 'called away' by the option holder or the investor will pay to close out the option by repurchasing the option at the then current market price of the option.

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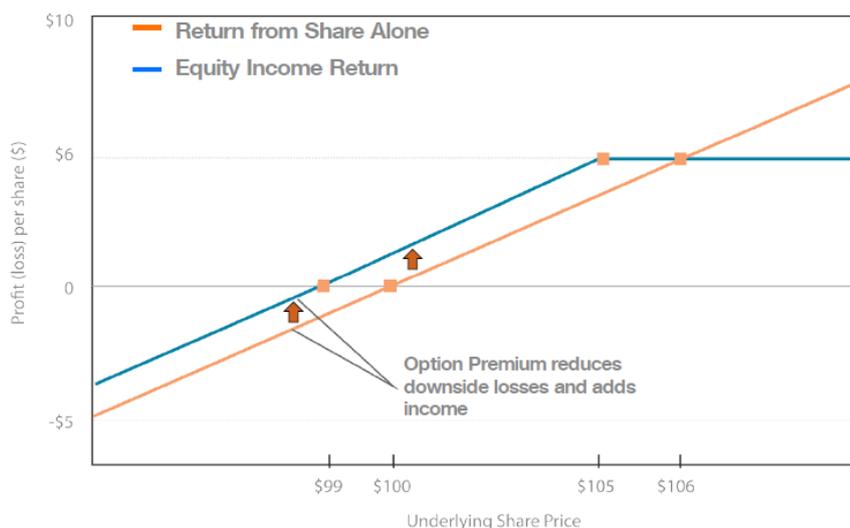


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The figure below provides an illustration of how this strategy works:

ILLUSTRATION: RETURNS OF A SHARE VS. A SHARE + A CALL

Assumptions: Share purchased at \$100, Call Option written at \$105 exercise price and premium received is \$1.00



For illustrative purposes only

The orange line represents the return from a strategy of simply buying a share for, say, \$100. If the price rises to \$105, a \$5 profit is made. The blue line represents the return from buying the same share for \$100 and simultaneously selling a call option over that share, with an exercise price of \$105, for a price (or “premium”) of \$1. As can be seen, the \$1 premium received from selling the option results in a superior outcome for the investor in situations where the share price falls, is flat or rises moderately (up to \$106). If the share price rises strongly, this strategy will underperform, since the stock will be “called away” by the holder of the option for the exercise price of \$105. In this scenario, a maximum profit of \$6 can be made (representing a \$5 profit on the stock plus the \$1 of premium).

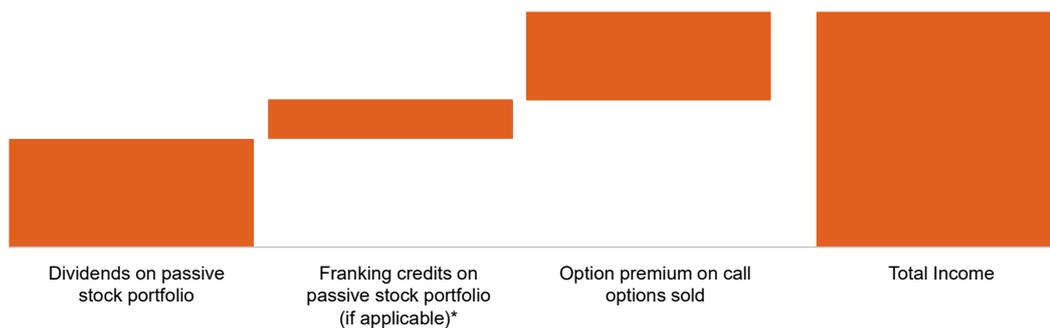
## BetaShares’ Yield Maximiser Strategy

The strategy employed by the BetaShares Yield Maximiser Funds involves holding a share portfolio that provides exposure to either Australian or US shares (the “share portfolio”). Because the share portfolio is passively managed, portfolio turnover within the Fund is very low, which results in a low cost, tax-efficient outcome for investors. All dividends and franking credits (where applicable) earned on this portfolio are passed through to the investor.

The Funds will also sell (or “write”) exchange-traded call options on securities in the share portfolio (in the case of YMAX) or on the index (in the case of UMAX). The call options will be written with terms of less than three months and exercise prices that are generally ‘out of the money’ i.e. expected to be above the then current market prices of the securities. The Funds will thus earn option premiums, along with dividends and franking credits (where applicable) on the share portfolio. The dividends (including any franking credits earned) and option premiums will generally be distributed to the Funds’ unitholders quarterly.

The figure below sets out the three sources of income received by unitholders in BetaShares Yield Maximiser Funds.

SOURCES OF INCOME IN BETASHARES YIELD MAXIMISER FUNDS



\*Franking credits are not applicable for international equities products (such as UMAX)

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## Academic Research

The performance of strategies of the type employed by the Yield Maximiser Funds has been the subject of significant academic and empirical research in Australia and globally. For example, Goldman Sachs released, in January 2012, a study comparing results of the S&P 500 Index vs. a passively managed, equity income strategy over the S&P 500 Index using 'out of the money' options over a long term period. This research found that the equity income strategies outperformed the S&P 500 Index by 0.9%-3.0% per year over the 16 year period studied, depending on the strike prices chosen<sup>(1)</sup>.

In another example, in August 2012, the ASX in conjunction with the University of Sydney released a research paper which examined the risk and return characteristics of various equity income strategies using options for stocks traded on ASX<sup>(2)</sup>. This paper demonstrated that share returns were improved using equity income investing strategies over the six and a half year study period. In fact, over the period of the study, each of the various equity income strategies examined generated a higher risk-adjusted return relative to a long-only stock portfolio. A summary is set out below:

ASX/UNIVERSITY OF SYDNEY PORTFOLIO PERFORMANCE: APRIL 2005 TO DECEMBER 2011

	Stocks Only	Basic	Equity Income (Buy Write) Sell signal	Momentum	Strategies Volatility	Delta
Annualised Return*	-3.55	3.74	3.20	5.03	0.15	<b>7.25</b>
Annualised Standard Deviation	14.79	12.06	13.21	11.44	14.61	12.77
Sharpe Ratio	-0.61	-0.43	-0.44	-0.34	-0.60	-0.14
Maximum Drawdown	-6.72	-5.04	-6.25	-5.04	-6.63	-6.00
Correlation with Stock	1	0.96853	0.97153	0.95757	0.99888	0.97411
Min Monthly Return	-41.26	-37.67	-37.67	-34.71	-37.67	-37.67
Max Monthly Return	15.19	5.74	6.04	5.96	15.19	6.60
% Up Months	49	52	51	52	49	56
% Down Months	51	48	49	48	51	44

\*The return for the stock is the annualised return; returns for the strategies are the annualised excess returns (difference between strategies and stock returns)

Past performance is not an indicator of future performance.

(1) Source: Goldman Sachs, "Overwriting Observations: a 16 year study" (January 2012). Study examined the period 1996-2011 inclusive.

(2) ASX Market Insights "An Encyclopaedia of Australian Buy-Write Returns" (August 2012).

The Goldman Sachs and ASX studies are general illustrations of how various equity income strategies have performed in different market conditions. The BetaShares Yield Maximiser Funds will use strategies that combine elements from the different buy-write strategies examined in the ASX and Goldman Sachs research, along with some modifications that seek to optimise the investment outcomes. As a result the strategies of the Yield Maximiser Funds are not identical to that described in the research noted above and the performance described in this research is not indicative of the future performance of the BetaShares Funds.

## Academic Research

The Funds' strategies can typically be expected to outperform a stock-only portfolio (i.e. without writing call options) in certain market environments, namely:

- Outperform in a modest bull market
- Outperform in a range bound market
- Outperform in a bear market (although the Fund may still incur negative returns)

As the strategies involve forgoing returns resulting from the price appreciation of the relevant security above the exercise price of the option, the Funds' strategies can be expected to underperform in a strongly rising market when security exposures regularly rise through their exercise prices.

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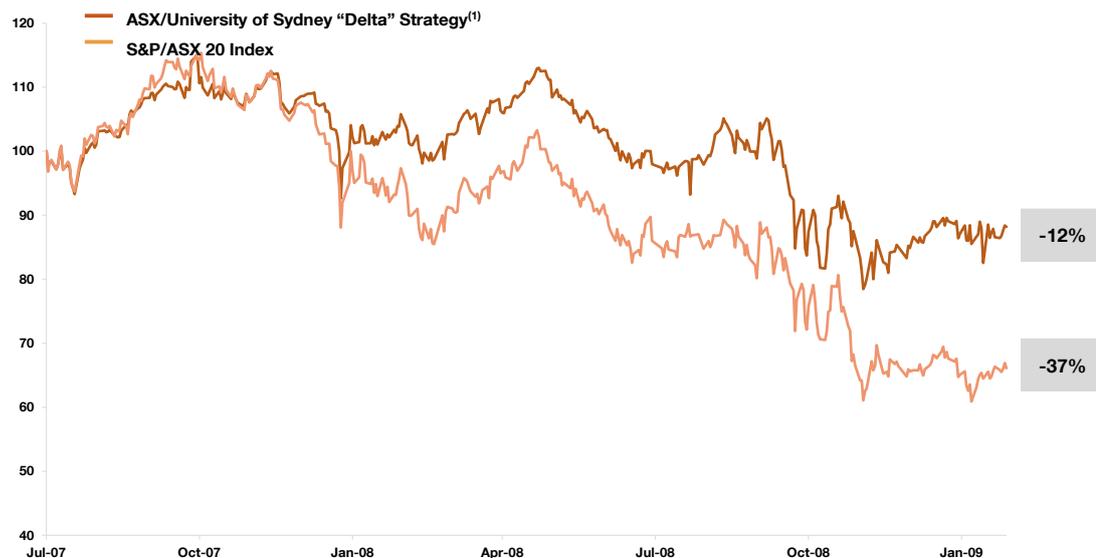
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The performance of an equity income strategy using options in different market environments is illustrated in the charts below, where the performance of the S&P/ASX 20 index is compared with the performance of the 'Delta' Strategy examined in the ASX/University of Sydney study:

## Example: Equity Income Strategy outperforming in a bear market

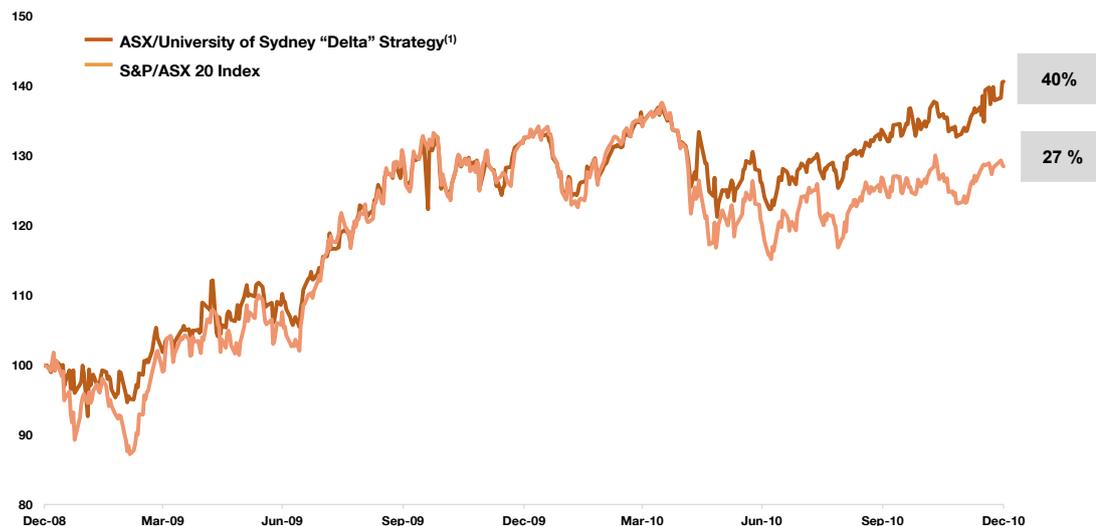
S&P/ASX 20 INDEX V ASX/UNIVERSITY OF SYDNEY 'DELTA' BUY-WRITE STRATEGY: JULY 2007-MARCH 2009



Source: Bloomberg, ASX.(1) ASX Market Insights "An Encyclopaedia of Australian Buy-Write Returns" (August 2012). The performance of BetaShares' Yield Maximiser Funds will differ from that described in this research. Past performance is not an indicator of future performance.

## Example: Equity Income Strategy outperforming in a modest bull market

S&P/ASX 20 INDEX V ASX/UNIVERSITY OF SYDNEY 'DELTA' BUY-WRITE STRATEGY: JANUARY 2009-JANUARY 2011



Source: Bloomberg, ASX.(1) ASX Market Insights "An Encyclopaedia of Australian Buy-Write Returns" (August 2012). The performance of BetaShares' Yield Maximiser Funds will differ from that described in this research. Past performance is not an indicator of future performance.

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## Example: Equity Income Strategy outperforming in a range-bound market

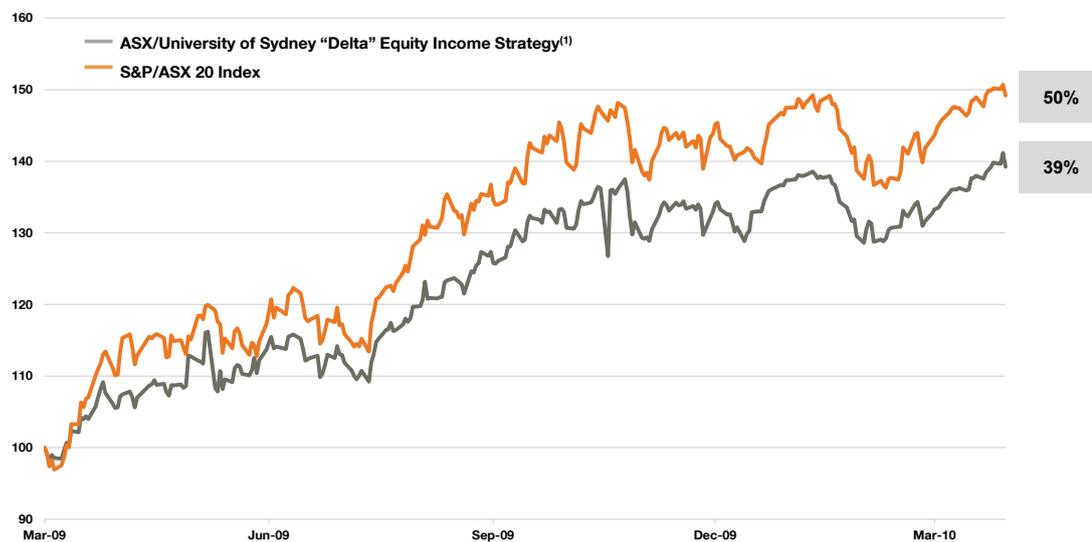
S&P/ASX 20 INDEX V ASX/UNIVERSITY OF SYDNEY 'DELTA' BUY-WRITE STRATEGY: OCTOBER 2009-JANUARY 2011



Source: Bloomberg, ASX.(1) ASX Market Insights "An Encyclopaedia of Australian Buy-Write Returns" (August 2012). The performance of BetaShares' Yield Maximiser Funds will differ from that described in this research. Past performance is not an indicator of future performance.

## Example: Equity Income Strategy lagging in a strong bull market

S&P/ASX 20 INDEX V ASX/UNIVERSITY OF SYDNEY 'DELTA' BUY-WRITE STRATEGY: MARCH 2009-MARCH 2010



Source: Bloomberg, ASX.(1) ASX Market Insights "An Encyclopaedia of Australian Buy-Write Returns" (August 2012). The performance of BetaShares' Yield Maximiser Funds will differ from that described in this research. Past performance is not an indicator of future performance.

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## Benefits of the BetaShares Yield Maximiser Funds

- **Income** – earn quarterly income, that is expected to exceed the yield performance of the underlying share portfolio over the medium term
- **Higher yields** – Fund yields over the medium term are expected to be higher than dividends of the share portfolio, cash instruments or bonds in the relevant market
- **Diversified equities exposure** – obtain exposure to a diversified portfolio of Australian or U.S. shares (depending on the product)
- **Downside protection** – strategies offer potential downside risk management against a falling market
- **Reduced volatility** – strategies are expected to reduce the volatility of equity returns
- **Convenience** – an investment in a BetaShares Yield Maximiser Fund allows investors to obtain exposure to an income-generating share portfolio without the need to invest in individual stocks or trade options
- **Low cost** – cost effective way to implement an equity income strategy; no performance fees
- **Liquid** – trade on ASX throughout the day with attractive bid-offer spreads

## BetaShares Trading Information

BetaShares ETFs can be bought or sold during the trading day on the ASX, and trade like ordinary shares.

EXCHANGE	ASX
ASX CODE	YMAX / UMAX
CURRENCY	AUD
TRADING	10:00-16:00 (AEST)
BLOOMBERG	YMAX AU / UMAX AU
IRESS CODE	YMAX.AXW / UMAX.AXW

## Fund Information - YMAX

ISSUER	BetaShares Capital Ltd
DISTRIBUTIONS	Quarterly
MANAGEMENT FEE	0.59% p.a
EXPENSES	Capped at 0.17% p.a

## Fund Information - UMAX

ISSUER	BetaShares Capital Ltd
DISTRIBUTIONS	Quarterly
MANAGEMENT FEE	0.59% p.a
EXPENSES	Capped at 0.20% p.a

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