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YMAX commentary – April 2015 (March Option Period)
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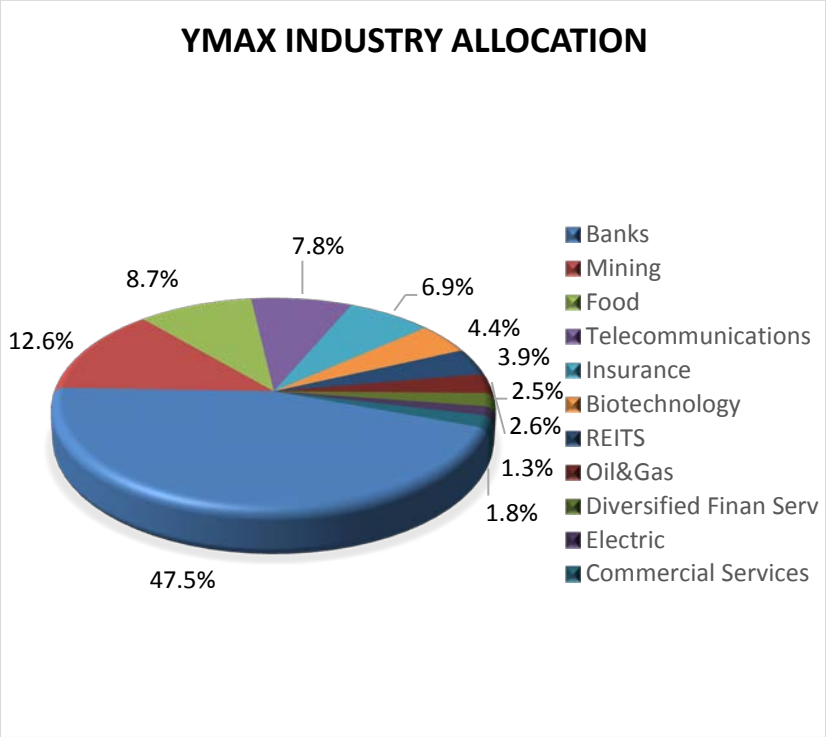

Source: Horizons ETFs, as of 1 Mar, 2015.

YMAX: ASX	
NAV per unit (February 26)	$11.4048
NAV per unit (March 26)	$11.3829

March Option Period Returns	
YMAX Total Return	-0.19%
S&P/ASX 20 Total Return	0.25%
Over (Under) Performance	(0.44)%

March Options at Inception	
1-Mth Implied Vol.	16.65%
Portfolio Delta	-0.23
% Portfolio Written	66%

April Options at Inception	
1-Mth Implied Vol.	17.70%
Portfolio Delta	-0.23
% Portfolio Written	64%

Distribution Per Unit History (by ex-date)	
1 April 2014	$0.2019
1 July 2014	$0.1598
1 October 2014	$0.2704
2 January 2015	$0.3107
1 April 2015	$0.20042

The YMAX total return was -0.19% between 26 February 2015 and 26 March 2015 ("March Option Period" or "March Period"). The S&P/ASX 20 Index ("S&P/ASX 20" or "Index") total return was 0.25%, outperforming YMAX by 0.44% for the March Period. While the overall move in the Index was fairly muted the intra period swings were not. From a single name perspective the theme for the period was one of widely diverging performances between sectors – there were a number of names that performed very well and some that performed very poorly. Iron ore prices continued to weaken in the March Period, dragging down our mining names, after pausing briefly in the prior period. Higher yielding names such as banks again experienced follow through and performed well as investors continued to accumulate yield bearing names in their portfolios. Consumer staples names were generally beaten down in the March Period, with Woolworths ("WOW") in particular, having the worst YMAX constituent performance contribution. YMAX's energy constituents continued to be volatile but ultimately delivered a mixed performance with one constituent up and one down. Insurers reversed course from the previous period to fall in the March Period. Overall, Index gains were not as broad based as last period with materials and consumer staples suffering the most, and industrials and financials faring the best. Option coverage in banking names was lowered ahead of the March Period in light of the higher realized volatility observed in that sector in recent months. This move reduced the net amount of higher buyback costs in the financials sector options for the month. The top performing YMAX constituent was Macquarie ("MQG"), up 7.63%. The bottom performing constituent was Woolworths ("WOW"), falling back a heavy -14.76% over the March Period. Options on some constituents were rolled down multiple times in the March Period, increasing the net option premium in the YMAX portfolio. An interesting development was that overall YMAX implied vols rose to higher levels despite the Index rise. This could be mostly attributed to vols rising sharply in materials and energy names but also to a lesser extent in insurers and banks. Upside realized volatility has been exceptionally high in the financial names and implied vol has reflected this fact. The high point delta for the YMAX portfolio was -.27 in the March Option Period. Average implied volatility increased from 16.65% for the March option positions to 17.70% for the April option positions which resulted in writing strikes slightly farther from the money, approximately 2.65% out-of-the money ("OTM"). The YMAX March options were written to approximately 66% coverage and an initial portfolio delta of approximately -0.23. A quarterly distribution of 0.20042 was declared for unitholders, having had an ex-dividend date of April 1.

Banks (portfolio weight: 47.5%)

The sector continues to be the most significant equity component in the portfolio and tends to set the tone for overall performance in YMAX. The S&P/ASX 200 Financial Index was up yet again with a 2.38% gain, and large cap YMAX banking names fared somewhat better on the whole with an average increase of 3.36%. Westpac ("WBC") rose 3.37%, Australia and New Zealand Bank ("ANZ") increased 3.53%, National Australia Bank ("NAB") soared 2.74% and Commonwealth Bank of Australia ("CBA") followed suit with a 3.78% gain. This resulted in many strikes being challenged and higher buyback costs in all banking names. Implied vols increased for the roll into March options due to higher realized volatility.

Mining (portfolio weight: 12.6%)

Iron ore names remain a large weighting in the YMAX portfolio and once again reversed course from their prior period performance, falling in the March Period against a backdrop of continued weakness in underlying iron ore. Rio Tinto ("RIO") took an -11.30% drubbing and BHP Billiton ("BHP") dropped -8.28% in the period. This resulted in retention of all March option premiums. Implied vols moved up in tandem with underlying weakness and remained favourable for April option writing opportunities. BHP options were rolled down to take advantage of higher implied vols into underlying weakness. These additional premiums were successfully retained. BHP and RIO options continue to be priced at some of the higher implied volatility levels observed in YMAX.

Food (portfolio weight: 8.7%)

The two constituents in this sector could not hold on to calendar year gains and fell precipitously in the March Period. Woolworths ("WOW"), which remained persistently weak for much of 2014, dropped -14.76%, the lowest in YMAX in the March Period as certain segments of its business continue to struggle. Wesfarmers ("WES") followed WOW with a -4.47% drop in the same period. Together, WOW and WES underperformed the broader S&P/ASX 200 Consumer Staples Sector Index, which fell by a more muted -6.95%. All written option premiums were retained in both names. Implied vols rose sharply in tandem with market weakness with those names.

Telecommunications (portfolio weight: 7.8%)

Telstra Corporation ("TLS"), the sole portfolio constituent in the telecommunications sector, continued to pause for air following recent market strength and fell an almost imperceptible -0.16% in the March Period. Yet TLS underperformed the broader S&P/ASX Telecomm Sector Index, which was up 0.84% in the March Period. The net option premium was positive in the period. We have maintained lower coverage in the name as realized volatility has remained somewhat elevated and option spreads challenging.

Insurance (portfolio weight: 6.9%)

The four insurance names generally performed poorly in the March period with three out of four names falling. QBE Insurance ("QBE") initially surged higher but ultimately pulled back and consolidated following an exceptional February upside performance. QBE, AMP Limited ("AMP") and Suncorp FPO ("SUN") all decreased by -0.99%, -1.81% and -2.37% respectively in the March Period The lone gainer for the period was Insurance Australia Group Ltd ("IAG") with a minimal 0.67% rise following a more than -6% drop the previous period. From a covered call standpoint there was success as most of the premiums written were retained. Implied vols rose with the bump up in general index premium levels.

Biotechnology (portfolio weight: 4.4%)

The only constituent in the biotechnology sector is CSL Limited ("CSL"), which posted a sixth consecutive period of gains, rising by 1.37% in the March Period. This increase resulted in challenged strikes and higher buyback costs in the name. Again, given the elevated upside realized volatility we are seeing in the name we are less inclined to aggressively write calls. As a general rule we continue to monitor implied volatility relative to realized volatility over 30 day periods to calculate the "risk premium".

REITS (portfolio weight: 3.9%)

Westfield Corporation ("WFD") and Scentre Group ("SCG") are the two constituents in this sector. WFD rose a paltry 0.21% in the March Period, resulting in the retention of all written call premiums. SCG once again moved very little and posted a -0.78% drop for the Period. This resulted in the successful harvesting of all written call premiums. With generally poor options liquidity and low implied volatility levels in these names, we continue to be cautious when looking for acceptable call writing opportunities.

Oil & Gas (portfolio weight: 2.5%)

Australia's biggest oil producer Woodside Petroleum ("WPL") is the sole YMAX oil and gas constituent. Crude oil continued to stabilize and our oil producer followed suit. WPL was posted an increase of 1.06% in the March Period. But the move was contained below our strikes and thus all written call premiums were retained. We

also successfully rolled down coverage for added call income in the period. Implied volatility moved up and risk premiums in this sector continue to remain very favourable for call writing and yield enhancement.

Diversified Financial Services (portfolio weight: 2.6%)
This sector's only constituent, Macquarie Group Ltd ("MQG"), followed January's strong 10.35% rise and February's 16.29% move up with yet another impressive gain, up 7.63% in the March Period. In light of this elevated realized vol we adjusted total coverage down which fortunately resulted in a lower buyback cost in the name. Implied vols moved up slightly but continue to remain somewhat low and less compelling for yield enhancement through continued covered call writing. Coverage amounts have again been appropriately adjusted.

Electric (portfolio weight: 1.3%)
Origin Energy Limited ("ORG"), one of Australia's leading integrated energy companies, paused following February's outsized 16.29% gain and posted a -4.35% drop in the March Period. All written premiums were retained. ORG options continue to have some of the highest implied vols of the YMAX constituents.

Commercial Services (portfolio weight: 1.8%)
The lone name in the sector is Brambles ("BXB"), which again increased by 5.68%, in the March Period. The written strike was challenged and this resulted in higher BXB option buyback costs. Implied vols were unchanged in the period but still represent compelling value for continued yield enhancement via covered calls.