

**YMAX Commentary - August 2016 (July Option Period)**  
*Adviser Use Only*
**YMAX: ASX**

NAV per unit (June 23)	\$9.0036
NAV per unit (July 28)	\$9.2125

**July Option Period Returns**

YMAX Total Return	4.47%
S&P/ASX 20 Total Return	5.12%
Over (Under) Performance	-0.65%

**July Options at Inception**

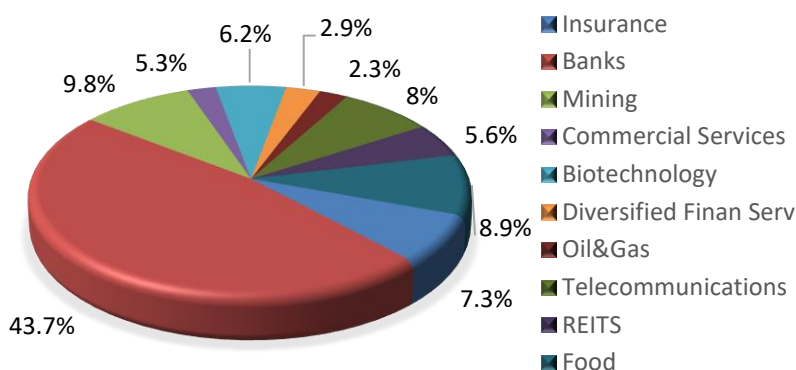
1-Mth Implied Vol.	23.75%
Portfolio Delta	-0.19
% Portfolio Written	79%

**August Options at Inception**

1-Mth Implied Vol.	18.49%
Portfolio Delta	-0.19
% Portfolio Written	86%

**Distribution Per Unit History (by ex-date)**

1 July 2015	\$0.1608
2 October 2015	\$0.2940
1 January 2016	\$0.2639
4 April 2016	\$0.2111
1 July 2016	\$0.1841

**ASX 20 INDUSTRY ALLOCATION**


Source: Boomborgs, as at 29 July 2016.

The YMAX total return was 4.47% between 23 June 2016 and 28 July 2016 ("July Option Period" or "Period"). The S&P/ASX 20 Index ("S&P/ASX 20" or "Index") total return was 5.12% and YMAX underperformed by -0.65% in the July

Option Period. The Period began with a relatively unexpected 'leave' result in the United Kingdom's 23 June referendum ("Brexit") on whether or not to remain in the European Union ("EU"). The majority voted to depart the EU which blindsided markets and sent equities plunging across the globe on 24 June 2016, with the Index falling -3.3% that day. Fear gauges, such as the S&P/ASX 200 VIX, soared and option pricing for YMAX constituents increased in tandem. However, equities would not be suppressed for long as investors began to look past any potential economic impact from the Brexit decision. Equities stabilized and began to mount an impressive comeback that would take them sharply higher throughout the remainder of the Period. From the closing lows of 28 June to 28 July the Index increased 7.75% to finish near 11-month highs. Most sectors were positive as financials, materials, industrials, telecom and healthcare companies performed very well in the July Period. Only the S&P/ASX Energy Sector was negative, and by a mere -0.03% over the same period. Strength across most sectors resulted in a lower call premium capture rate and some capped performance in the July Option Period. Index strength challenged our S&P/ASX 200 index option coverage, resulting in higher buyback costs in all written strikes. Some roll down coverage was achieved during the Period, providing extra income to the portfolio. Domestic single name and Index implied volatility levels decreased from the prior option period. Overall, weighted average call implied volatility in the portfolio compressed from 23.75% at the beginning of the June Option Period, to a level of 18.49% as at 29 July 2016. This is consistent with the tendency for implied volatility, or general option pricing levels, to fall into market strength. This resulted in YMAX writing call strikes slightly nearer to the money ("OTM") for the commencement of the August option cycle. S&P/ASX 200 index implied volatility was lower than at the roll into July option positions, approximately 13.3% as at 29 July 2016. July options were written approximately 5.62% OTM on 86% of the portfolio, with a -0.19 portfolio delta as at 29 July 2016. A distribution of \$0.1841 was paid to unitholders at 15 July 2016, with ex-dividend date of 1 July 2016.

#### **Banks (portfolio weight: 43.7%)**

The sector continues to be the most significant equity component in the portfolio and, therefore, contributes greatly to overall YMAX performance. The banking sector was strong in the July Period as all four YMAX large cap banking names advanced. The average gain for the banking sector was 4.05%, in line with the S&P/ASX 200 Financial Index which was 4.01% higher. Australia and New Zealand Bank ("ANZ"), Commonwealth Bank of Australia ("CBA"), Westpac Banking Corp ("WBC") and National Australia Bank ("NAB") increased 5.44%, 3.71%, 3.91% and 3.13%, respectively, during the July Option Period. Implied volatility in banking names fell sharply into this strength. Solid equity performances resulted in some higher buyback costs and minor net negative premium contributions for the portfolio in all names.

#### **Mining (portfolio weight: 9.8%)**

Iron ore names remain heavily weighted in the YMAX portfolio. The broader S&P/ASX 200 Materials Index soared by 8.53% and YMAX iron ore names underperformed slightly. BHP Billiton ("BHP") and Rio Tinto ("RIO") were higher by 4.83% and 10.57%, respectively, in the July Option Period. Implied volatilities fell into the broader general softening of option pricing that was observed in equity markets in the Period. This performance resulted in higher buyback costs and net

negative option premium to the portfolio. Implied volatility in this sector is still the most elevated in YMAX.

#### **Food (portfolio weight: 8.9%)**

Performance in the two YMAX food constituents was also somewhat mixed in the July Period. Woolworths ("WOW") soared 12.23%, in part on store closings and job cuts, while Wesfarmers ("WES") moved up by 4.95% over the Period. On average, this was ahead of the S&P/ASX 200 Consumer Staples sector performance which advanced 6.66% over the same period. WOW and WES implied volatility were slightly lower in the Period. Strong equity performances resulted in higher buyback costs in these names.

#### **Telecommunications (portfolio weight: 8.0%)**

Telstra Corporation ("TLS"), the sole portfolio constituent in the telecommunications sector, pulled ahead by 7.49% in the Period, slightly improved over the broader S&P/ASX 200 Telecommunications Index which advanced by 7.21%. Despite the strength this resulted in a net positive option premium contribution to the portfolio. Fortunately the addition of S&P/ASX 200 Index coverage has allowed YMAX to maintain lesser coverage in select lower liquidity and wider spread names. This methodology has kept buybacks to a minimum in TLS. TLS implied volatility was unchanged from the previous period.

#### **Insurance (portfolio weight: 7.3%)**

YMAX insurance names performances were varied in the July Option Period. Insurers were sold off sharply in the

aftermath of the referendum - QBE Insurance Group (“QBE”) fell approximately 10% over 2 sessions as investors focused on concerns regarding the insurer’s significant exposure to the UK and wider European region. While all YMAX insurance names managed to ultimately rally with the broader market QBE failed to do so in a significant way and remained down a YMAX worst -6.07% in the period. Suncorp Group Ltd. (“SUN”), AMP Group Ltd. (“AMP”) and Insurance Australia Group Ltd (“IAG”) improved by 10.12%, 8.75% and 4.71% in the Period. Implied volatilities moved down in the advancers and up in QBE. The sector’s mixed performance resulted in a net neutral option premium contribution to the portfolio. We continue to use a staggered duration approach in a number of these names in order to maintain low, yet nearer-the-money, multi-month coverage for the group.

#### **Biotechnology (portfolio weight: 6.2%)**

The only constituent in the biotechnology sector is CSL Ltd. (“CSL”). Inconsistent month to month performances continued as CSL advanced 7.77% in the July Period. This resulted in higher buyback costs and net negative option premium to the portfolio. Implied volatility was unchanged for the roll into August call positions.

#### **REITS (portfolio weight: 5.6%)**

Westfield Corporation (“WFD”) and Scentre Group (“SCG”) are the two YMAX constituents in this sector. WFD retreated by -1.66% and SCG powered ahead by an uncharacteristic YMAX-best 13.53%. The strong SCG price movement led to some challenged strikes and net negative option premium in the portfolio. Efforts continue to be made to stagger coverage in REIT names over the two near-term expiry months to maximize option premium benefits. Fortunately, lower SCG option

coverage kept the capped performance to a minimum. The addition of S&P/ASX 200 Index coverage has allowed YMAX to benefit from lower coverage, in lower volatility names like SCG, which has kept buybacks to a minimum in periods like the current one. WFD implied volatility was slightly higher while that of SCG was sharply lower despite the very large realized movement.

#### **Oil & Gas (portfolio weight: 2.3%)**

Australia’s biggest oil producer, Woodside Petroleum (“WPL”), is the sole YMAX oil and gas constituent. WPL managed to eke out some gains, increasing by 1.92%, although West Texas Intermediate (“WTI”) crude oil decreased by approximately -16% over the period. Still, WPL options finished the July Option Period OTM, resulting in net positive option premium to the YMAX portfolio. WPL implied volatility fell sharply in the period.

#### **Diversified Financial Services (portfolio weight: 2.9%)**

Macquarie Group Ltd (“MQG”) is this sector’s only constituent. MQG bucked the overall trend once again and eased by -2.32% in the July Option Period. This resulted in net positive option premium to the portfolio. Implied volatility levels fell with the broader weak financial sector option pricing observed in the cycle.

#### **Commercial Services (portfolio weight: 5.3%)**

Toll road operator, Transurban Corp (“TCL”), increased by 5.40% in the July Option Period. Brambles (“BXB”) also increased by 6.59%. TCL and BXB call writing resulted in a net positive option premium contribution to the portfolio despite their large increases over the period. TCL and BXB near-month implied volatility levels were slightly higher at the close of the period.

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