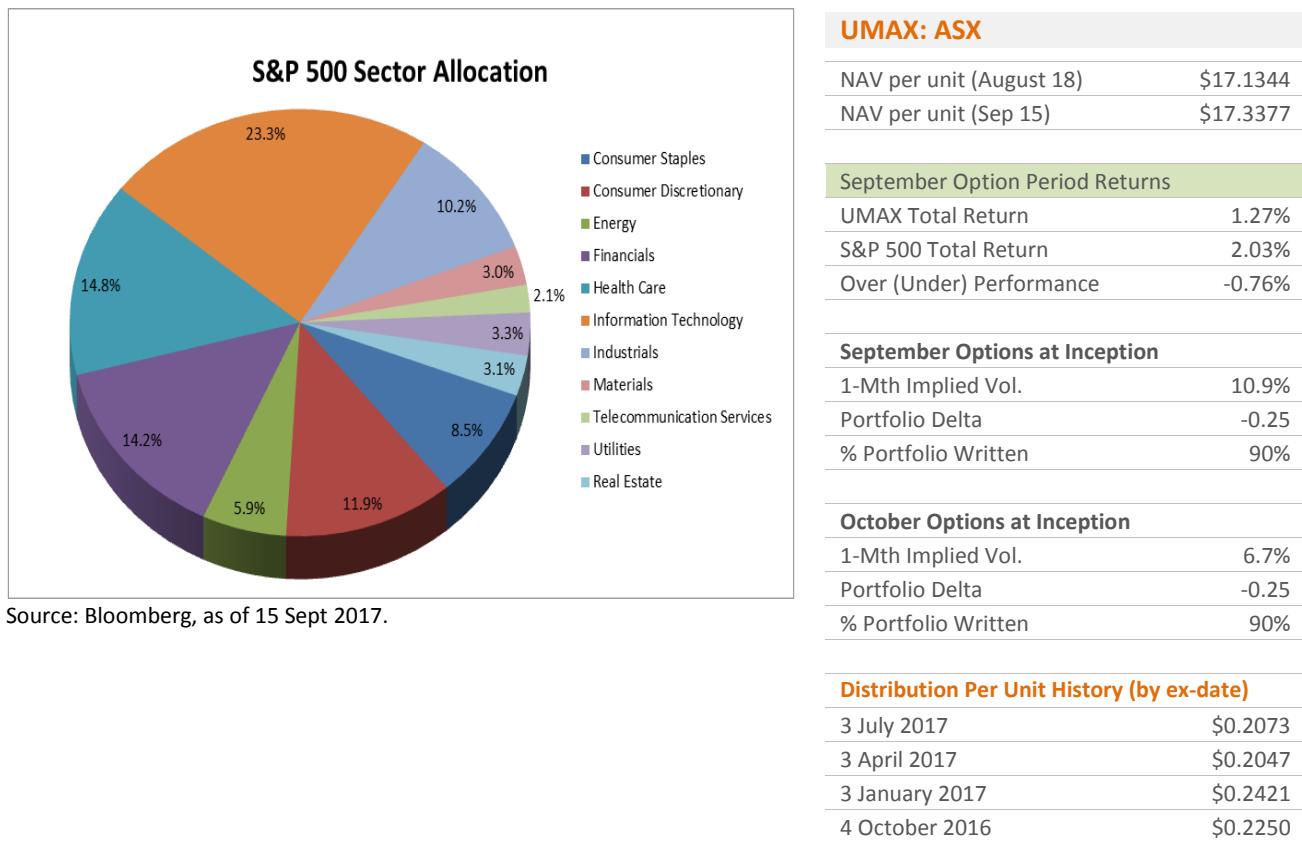


## UMAX commentary – October 2017 (September Option Period) Adviser Use Only



The UMAX total return was 1.27% between 18 August 2017 and 15 September 2017 ("September Option Period" or "September Period"). The S&P 500® Index (the "S&P 500" or "Index") had a total return of 2.03%, in AUD terms. A weaker US dollar resulted in a weaker monthly performance for UMAX than expected. The S&P500 gained 2.43% in US dollar terms in the September Period but when calculated in domestic currency this performance became a 2.03% gain. As has been the case for much of 2017 the Australian dollar continued to strengthen versus the US Greenback, albeit somewhat more mildly in the current period. The Index drifted more or less sideways, until early September strength took hold and equities began to power higher. Already impressive yearly gains were built upon and option pricing began to collapse across the equity landscape. A continuing theme of ever-shrinking realized, or actual, volatility persisted in the second half of the period. Additional VIX closing levels below 10 underscored a market that has become all-too accustomed to anemic measures of close-to-close market movement. As a result of this compression of observed volatility, Index option pricing was pulled sharply lower in the period and implied volatility struggled to remain elevated in the face of multi-decade lows in movement. Information Technology, the leading sector this year, continued higher but it was Healthcare and Energy that led the way in this period. Telecommunication names were slightly weaker as a group but most sectors in the Index performed very well and moved higher into the final days of options expiry. Materials and Industrials firmed up substantially and even natural gas and oil moved higher as a pair for a change. Risk-on sentiment returned in full force to markets. On 15 September 2017, when the new October Options were written, 1-month implied volatility was lower from the September Period at 6.7%, a substantial drop from the prior period's double digit level of 10.90%. The new October 2017 options were written with approximately 90% coverage, 1.11% out-of-the money and to an initial portfolio delta of -0.25.

**Information Technology (Index weight: 23.3%)**

The year's strong run continued as the heavily weighted Information Technology sector surged another 3.5% in the September Period. Semiconductors and Internet subsectors were standout performers with most names up solidly in the September Period. Incredibly, only 3 of 68 sector names were negative in the cycle. Implied volatility in the sector fell along with the broader softness in option pricing observed during this time.

**Financials (Index weight: 14.2%)**

Financial stocks ticked higher as a whole, held back substantially by Florida hurricane-stricken insurance constituents. Nonetheless the Financials were up 1% in the September Period. Not surprisingly option pricing in the sector softened on balance.

**Real Estate (Index weight: 3.1%)**

The Real Estate sector rose strongly with only 1 of 33 names retreated in the group. Public Storage ("PSA") led all names with a 9.10% rally in the September cycle.

**Healthcare (Index weight: 14.8%)**

The Healthcare sector soared once again by 6.1% in the September Period. Most names in the sector were positive in the period, with no less than 12 of those up by at least 10%.

**Consumer Discretionary (Index weight: 11.9%)**

The Consumer Discretionary sector edged higher once again, returning 1.8% during the September Option Period. Consumer heavyweight Amazon.com Inc ("AMZN") edged out a small gain of 2.95%, while retail names like GAP Inc ("GAP") and DollarTree ("DLTR") rose 23.58% and 12.43% respectively.

**Industrials (Index weight: 10.2%)**

The Industrial sector shot higher, up 3.4% in the period, but commercial service constituent Equifax ("EFX") plunged 33.53% on massive data breach. Other names like Jacobs Engineering ("JEC") fared much better with a 12.24% rise in the period. Option implied volatility in

most names compressed throughout the period's underlying strength.

**Consumer Staples (Index weight: 8.5%)**

Consumer staples rose a tepid 0.4% in the September Options Period as results were mixed across the sector. Cosmetic name COTY INC ("COTY") fell -12.32% while drug store operator CVS Health ("CVS") improved by 7.10% in the same period.

**Energy (Index weight: 5.9%)**

Energy sector names finally soared by 6.7% in the period as oil and natural gas pricing firmed. Crude Oil traded 2.8% higher by the end of the cycle and Natural Gas prices were rose 4.5%. Energy names rallied strongly into this reflationary backdrop. Implied volatility levels suffered as a result of the rally.

**Materials (Index weight: 3.0%)**

Material stocks also performed strongly in the period, increasing 4.5%. Chemical producers Albemarle ("ALB") and CF Industries Holdings ("CF") went on another strong run higher, rising by 13.06% and 13.30% respectively in the September Option Period.

**Telecommunication Services (Index weight: 2.1%)**

As expected in a risk-on environment the Telecommunication sector posted some weakness as a whole, a UMAX worst -0.2% performance in the September Period. Of the four sector constituents two were slightly up and two were slightly down for the cycle.

**Utilities (Index weight: 3.3%)**

The utilities sector rose 0.9% in the September Option Period, despite a -11.02% drop in NRG Energy ("NRG"). Option pricing compressed into the broader relaxation of option premiums observed in the period.

The Fund's equity exposures continue to be obtained indirectly via its holding of one or more US-listed exchange traded funds.

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