# GLCC Quarterly Commentary

## Horizons Gold Producer Equity Covered Call ETF

Q2 2022

### Market Overview

Gold traded in close tandem with broader risk markets in the second quarter of 2022 as volatility continued unabated in most asset classes. April began with a severe and unrelenting selloff that brought some major U.S. indices down almost 18% in 40 days. By mid-May, the S&P 500 came close to realizing a closing bear-market print of almost -20% below the all-time highs reached in 2021. A subsequent brief two-week relief rally then gave way to selling once again as the Index reached new lows and closed officially in bear market territory halfway through June. The Russia-Ukraine war continues to rage on, with a resulting inflationary effect on commodities, energy, and grain pricing, in particular. Gasoline and diesel prices posted record highs as constrained refinery capacity kept prices high at the pumps. Consumer confidence plunged as inflationary woes joined company with economic slowdown worries in the face of rapidly rising rates. Some large big-box retailers missed earnings as supply chain concerns were evident for even the most powerful of retail names. Durable goods orders, the mainstay of economic lockdown revenue, dried up considerably for retail outlets that had aggressively pushed to bolster inventory levels, only to face a sharp drop-off in demand.

Realized volatility soared in May and June as panicked investors found no place to hide. Bonds and risk assets alike plunged by measures not seen in decades in some cases. The aggregate global bond basket suffered an almost inconceivable -20% drop from the highs of 2021. The U.S. Federal Reserve (Fed), not long ago in support of assets in general, had become a foe of asset inflation. Mortgage rates soared as rate hikes sucked liquidity from the system. This new picture roiled investors. For gold, however, the story has been one of a safe haven in this recent backdrop. It has held relatively steady, performing well as a flight to safety on a relative basis to risk assets. While not exactly shining to the upside, it has well outperformed most other assets, including Bitcoin. Despite a very strong U.S. dollar that has experienced considerable flows, thanks to an aggressively hawkish Fed, gold remains above long-term support dating back to early 2018. Gold producers have underperformed the underlying commodity to some extent. A challenging world growth outlook also remains of paramount concern to investors. Rate hikes and balance sheet tightening in the face of a tapped-out consumer and slowing growth could prove to be challenging for hawkish central banks. De-globalization trends will likely keep upward pressure on inflation and global trade friction. Supply chain and cost challenges, while at the moment excessively stretched, may ultimately find a resting level that is considerably higher than that of recent times. This more entrenched and stubborn pricing, combined with significant debt levels and demographic influences, may prove to ultimately limit the upward trajectory of real interest rates for years to come.

### Quarter in Review

Gold miner option premiums, broadly speaking, have improved markedly this year over levels observed in the recent fall gold lull. As gold potentially rises we see option premiums continuing to firm somewhat as has been the case historically. Potfolio managers continue to evaluate appropriate coverage and "moneyness" measures for future writes. As investors await the next move higher for gold, "clipping the rent" of option premiums may be of some value in generating distributions going forward. Option premiums may also help to generate better overall yields and contribute to lower volatility relative to the underlying basket without call premiums. The covered call strategy can also potentially reduce the volatility relative to a comparative basket of equities over time.

At the end of the Q2 period, unitholders of the Horizons Enhanced Income Gold Producers ETF (HEP) approved a name change to the Horizons Gold Producer Equity Covered Call ETF (GLCC) and a change in the investment objective for the ETF. The ETF will now track, to the extent possible, the Solactive North American Listed Gold Producers Index.

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### Outlook and Positioning

Option premiums were volatile in the quarter and closed higher on balance at the end of the period as market turmoil remained at the forefront for international investors. Risk premiums will continue to be monitored to apply appropriate coverage levels throughout the cycle. We anticipate continuing uncertainty surrounding interest rate, pandemic response, supply chain, and economic realities that may continue to keep option premiums more elevated than pre-pandemic levels. The covered call strategy is favourably positioned to potentially provide value from a yield, and upside capture perspective in the current environment.

During each month, options are dynamically written on the equities in the portfolio of the ETF. The ETF's monthly distributions are not fixed, but vary as the premiums generated from covered call writing are earned and passed through, and will change with changes in implied volatility and time to option expiration. Distributions also vary based on the dividends received from the underlying securities in the ETF's portfolio during the period.

HORIZONS ETFs by Mirae Asset

**Effective June 24, 2022, the investment objectives of the Horizons Gold Producer Equity Covered Call ETF (GLCC") (formerly Horizons Enhanced Income Gold Producers ETF ("HEP")), were changed following receipt of the required unitholder and regulatory approvals. The ETF began to trade under its new fund name and ticker symbol on June 27, 2022. For more information, please refer to the disclosure documents of GLCC on www.HorizonsETFs.com**