BetaShares
Exchange Traded Funds

BETASHARES AUSTRALIAN INVESTMENT GRADE CORPORATE BOND ETF
ASX: CRED

Quarterly Report - March 2020

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	-4.77%	-0.51%	-1.67%	6.01%		7.74%
Growth return	*-5.26%*	*-1.73%*	*-3.63%*	*2.08%*		*3.97%*
Income return	*0.49%*	*1.22%*	*1.96%*	*3.93%*		*3.77%*
Index return	*-3.81%*	*0.42%*	*-0.74%*	*7.09%*		*8.47%*

Past performance is not a reliable indicator of future performance.

[1] Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

[2] Inception date for the Fund is 31 May 2018.

Yield and Portfolio Characteristics

Running Yield (% p.a.)[1]	3.59%
Yield to Maturity (% p.a.)[2]	2.84%
Average Maturity (Yrs)[3]	7.76
Modified Duration (Yrs)[4]	6.63
Average Credit Rating[5]	A-

[1] Average coupon (weighted by market value) of the bonds in the portfolio, divided by the current market price of the bonds.Provides an indication of expected current income from making an investment at market price. This value will vary over time as interest rates change.

[2] Total expected return from the bond portfolio, based on current bond prices and assuming no change in prevailing interest rates.This value will vary over time.

[3] Average (weighted by market value) length of time until the current bonds in the portfolio mature.

[4] A measure of the sensitivity of the portfolio's value to a change in interest rates. For example, a Modified Duration of 6 years implies that a 1% rise in the reference interest rate will reduce the value of the portfolio by 6.00%.

[5] Average credit rating for the bonds in the portfolio. Credit ratings should not be used as a basis for assessing investment merit.

Source: Bloomberg. Yields shown do not take into account CRED's management costs of 0.25% p.a.

Investment Objective

The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to a portfolio of investment grade fixed-rate Australian corporate bonds.

Responsible Entity

BetaShares Capital Ltd

Distribution Frequency

Monthly

Fund Facts	
Inception Date	31-May-18
Fund Size	$343.4 million
Historical Tracking Error	0.46%
ASX Code	CRED
Bloomberg Code	CRED.AU
IRESS Code	CRED.AXW

Fees	% p.a.
Management fees	0.22
Recoverable expenses	0.03

Investment Strategy

The Fund will generally seek to invest in a portfolio of bonds that comprises of the Index in proportion to the weightings of these bonds in the Index.

The Index is designed to provide exposure to corporate bonds in Australia, with each bond having a minimum investment grade credit rating. In order to be eligible for inclusion in the Index, each bond must be a senior, fixed rate, investment grade debt security denominated in Australian dollars, issued by companies listed on the ASX or other eligible entities.
In addition, eligible bonds must have amounts outstanding of at least $250 million and a term to maturity ("TTM") of between 5.25 to 10.25 years.

Eligible bonds are ranked by yield above benchmark (being a Commonwealth Government bond of similar maturity), with up to a maximum of 35 bonds selected, with each bond assigned an equal weight as at each rebalance date. To aid with issuer diversification, no single issuer shall have a weight in excess of 7% at each rebalance date.

By selecting bonds based upon expected returns rather than debt outstanding, the Index methodology seeks to avoid shortcomings of traditional debt-weighted indices and provide relatively higher returns.

Top 10 positions	%		%
Fonterra Coop Grp 4% Nov-27	5.8	Met Life Funding I 4% Jul-27	4.7
Lloyds Banking 4.25% Nov-27	5.0	Incitec Pivot Ltd 4.3% Mar-26	4.6
Barclays Plc 4% Jun-29	5.0	Ausnet Services 4.2% Aug-28	4.4
Bpce Sa 4.5% Apr-28	5.0	Vodafone Group 4.2% Dec-27	4.4
Qnb Finance Ltd 4.9% Feb-28	5.0	Anheuser-Busch 4.1% Sep-27	4.1

[1] *As at 31 March 2020*

Sector exposure	Fund Weight %[1]	Index Weight%[1]
Financial	41.3	34.2
Communications	14.9	14.3
Consumer, Non-cyclical	20.2	20.0
Utilities	9.7	14.3
Industrial	2.8	8.6
Consumer, Cyclical	4.8	2.9
Energy	1.6	2.9
Basic Materials	4.7	2.9
TOTAL	100.00	100.00

[1] *As at 31 March 2020*

Fund Performance Summary

CRED lost 0.51% during the March quarter as COVID-19 and oil-related credit concerns sent global corporate credit spreads surging to GFC levels, after having compressed to around post-GFC tights during 2019. Spreads on 5-10y AUD investment grade (IG) bonds widened around 100 basis points to trade as wide as +250bps above government, while USD IG spreads widened considerably more, reaching +400bps over Treasuries in the 5-10y sector.

Fund Performance Summary continued

With credit markets already under pressure heading into the month of March, as fears of COVID-19 spreading globally emerged alongside expectations of global shutdowns, news of an oil price war between Russia and Saudi Arabia saw risk assets plunge to fresh depths. With weakness in energy high yield (with spreads blowing out to +2300bps in the sector) now spreading across to all credit sectors and qualities, and with measures of cross-asset implied and realised volatility surging, a large liquidation of financial assets ensued in the middle of the month. This broad based institutional de-leveraging, de-risking and move to cash combined with corporates globally drawing down on credit lines and revolvers, saw liquidity largely disappear completely from many parts of the corporate bond market, with dealer banks unable to warehouse risk. The liquidation was so great than even government bonds (including US Treasuries) were not spared, with the situation compounded by the large unwind of risk parity strategies.

In response to the worst liquidity conditions since the GFC, central banks around the world undertook a coordinated round of unprecedented easing measures. The US Federal Reserve took the Federal Funds Target back to the lower bound (0-0.25%), announced an unlimited QE programme, a commercial paper facility, and took the unprecedented step of announcing it will purchase corporate bonds and corporate bond ETFs via a US Treasury Special Purpose Vehicle. In addition, the US Federal Government also passed several stimulus measures to take the fiscal response to around 10 per cent of GDP. In line with other central banks, the RBA cut rates aggressively to 0.25 per cent and announced a government bond buying programme to help facilitate Australia's own fiscal stimulus, currently around 10 per cent of GDP.

Although liquidity conditions have improved following these stimulus measures, credit spreads remain at levels consistent with recessionary conditions. Downgrade risk remains in focus, but many BBB-rated names are already trading at levels normally associated with high yield, reflecting the fact that a significant amount of economic downside is already priced into investment grade spreads.