BetaShares
Exchange Traded Funds

BETASHARES AUSTRALIAN INVESTMENT GRADE CORPORATE BOND ETF
ASX: CRED
Quarterly Report - June 2020

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	1.69%	2.16%	1.63%	3.76%		7.88%
Growth return	*1.27%*	*1.14%*	*-1.22%*	*-0.45%*		*3.92%*
Income return	*0.42%*	*1.02%*	*2.85%*	*4.21%*		*3.96%*
Index return	*1.80%*	*2.18%*	*2.61%*	*4.84%*		*8.54%*

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]	3.47%
Yield to Maturity (% p.a.)[2]	2.59%
Average Maturity (Yrs)[3]	7.63
Modified Duration (Yrs)[4]	6.54
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	$348.99m
Historical Tracking Error	0.50%
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	%		%
Qnb Finance Ltd 4.9% Feb-28	5.0	Barclays Plc 4% Jun-29	4.4
Lloyds Banking Plc 4.25% Nov-27	4.9	Emirates Nbd Bank 4.75% Feb-28	4.2
Bpce Sa 4.5% Apr-28	4.7	Incitec Pivot Ltd 4.3% Mar-26	4.0
Met Life Glob Fund I 4% Jul-27	4.5	Macquarie Group 4.15% Dec-27	4.0
Ausnet Services 4.2% Aug-28	4.5	Vodafone Group Plc 4.2% Dec-27	3.9

[1] *As at 30 June 2020*

Sector exposure	Fund Weight %[1]	Index Weight%[1]
Financial	39.4	31.2
Communications	14.4	14.4
Consumer, Non-cyclical	22.1	22.9
Utilities	11.3	14.3
Industrial	3.1	5.7
Consumer, Cyclical	5.7	5.9
Energy	0.0	2.8
Basic Materials	4.0	2.9
TOTAL	100.00	100.00

[1] *As at 30 June 2020*

Fund Performance Summary

CRED returned 2.16% during the June quarter as a meaningful compression in credit spreads more than offset a modest move higher in benchmark government bond yields. Credit spread compression and excess yield over government bonds added 1.94% and 0.37% respectively, while rate duration exposure detracted 0.34% from the quarterly return.

Credit spreads on CRED's bonds currently trade at around +190bps over government, well below the +250bps seen in mid-March, but still above the pre-COVID spreads of +140bps in February. Supporting the retracement in spreads was a dramatic improvement in risk sentiment globally, particularly in US credit markets, following unprecedented liquidity and income support measures from the U.S. and other major monetary and fiscal authorities. After having widened to +385bps over U.S. Treasuries, spreads on 5-10-year US dollar investment grade corporate bonds have since compressed dramatically to +130bps, although remain above the pre-COVID levels of +87bps in early February.

Fund Performance Summary continued

The FOMC's announcement of the Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF) in late March and the subsequent relaxation of eligibility (to include fallen angels and high yield credit ETFs) in early April had a profound impact on not only secondary market liquidity and spreads but also primary market issuance. Year-to-date, U.S. Dollar investment grade corporate bond issuance sits at US$1.3 trillion, well above the issuance seen in the full calendar years of 2019 and 2018, with the vast majority of issuance following the PMCCF/SMCCF announcement. Flows into U.S. credit ETFs were also very strong during the quarter, more than making up for the March liquidations, potentially on the back of investor anticipation of the well telegraphed Fed purchases. In contrast to the volume of primary market issuance and investor fund flows, the actual quantity of corporate bonds and credit ETFS held by the Fed at the end of the quarter was relatively modest at US$42 billion.

With central banks and governments seen as committed to backstopping financial conditions and buttressing economies from further shocks, risk sentiment is constructive at the time of writing. In addition, global economic data in recent weeks has generally surprised on the upside, with the broad US economic surprise index currently sitting at a record high level, with base effects and a high degree of forecasting uncertainty likely contributing. However, focus may soon shift from the velocity of the rebound to the likelihood of reaching pre-COVID activity levels within a reasonable timeframe, particularly with the virus still not contained across many developed and emerging countries.