BetaShares
Exchange Traded Funds

BETASHARES AUSTRALIAN BANK SENIOR FLOATING RATE BOND ETF
ASX: QPON

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)	0.36%	2.37%	1.03%	2.27%		2.85%
Growth return	*0.31%*	*2.05%*	*0.33%*	*0.62%*		*0.64%*
Income return	*0.05%*	*0.32%*	*0.70%*	*1.65%*		*2.21%*
Index return	0.38%	2.41%	1.18%	2.55%		3.03%

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 1 June 2017*

Investment Objective

The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to a portfolio of some of the largest and most liquid senior floating rate bonds issued by Australian banks.

Responsible Entity

BetaShares Capital Ltd

Distribution Frequency

Monthly

Fund Facts	
Inception Date	1-Jun-17
Fund Size	$710.38m
Historical Tracking Error	0.09%
ASX Code	QPON
Bloomberg Code	QPON.AU
IRESS Code	QPON.ASW

Fees	% p.a.
Management fees	0.19
Recoverable expenses	0.03

Investment Strategy

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

In order to be eligible for inclusion in the Index, each bond must be a senior floating rate debt security denominated in AUD and issued by an eligible Australian bank. In addition, eligible bonds must have amounts outstanding of at least $500 million and a term to maturity (“TTM”) of between one to five years. Current eligible banks are classified into two bands as follows:

- **Band 1**: ANZ Bank, Commonwealth Bank of Australia, National Australia Bank, Westpac
- **Band 2**: AMP Bank, Bank of Queensland, Bendigo & Adelaide Bank, Macquarie Bank, Members Equity

Eligible bonds with the longest TTM are selected with up to two bonds selected from each Band 1 bank, and one bond from each Band 2 bank. Bonds from Band 1 are given a total weight of at least 80% based on market value, with each bond equal weighted. Bonds from Band 2 are given a total weight of up to 20% based on market value, with each bond equal weighted (with no Band 2 bond allowed to have a weight in excess of 5%).

Top 10 Exposures[1]	%		%
WBC FRN Aug-24	10.7	ANZ FRN Aug-24	9.9
NAB FRN Jan-25	10.4	WBC FRN Apr-24	9.9
ANZ FRN Jan-25	10.3	NAB FRN Jun-24	9.8
CBA FRN Aug-23	10.0	Bendigo FRN Sep-22	5.3
CBA FRN Jan-24	9.9	Macquarie FRN Feb-25	5.1

[1] As at 30 June 2020

Fund Performance Summary

QPON returned +2.37% during the June quarter as credit spreads retraced aggressively following the sharp widening in March on COVID-19 concerns. Excess yield over bank bills contributed +0.20% to quarterly returns, while spread compression added +2.14%.

Moves in Australian bank credit broadly reflected the global risk-on move as support from monetary and fiscal authorities helped stabilise financial conditions. The gradual re-opening of the global economy and the emergence of better-than-expected economic data over the latter part of the quarter further fuelled gains in risk assets.

After having widened out to as much as +150 basis points over 3 month BBSW, spreads on Australian major bank credit has reversed to trade below pre-COVID levels (BBSW +60bps), outperforming non-financial AUD credit, which continues to trade wider than in February. The RBA's Term Funding Facility (TFF), announced at the March 19 emergency Board Meeting, continues to be supportive for the sector, with the facility seen as significantly reducing the need for wholesale funding over the medium term. Usage of the TFF currently sits at $15 billion, roughly equivalent to the annual issuance of AUD senior FRNs from the major banks.

With credit spreads on major bank FRNs trading at their tightest levels in the post-GFC period, the expected return environment is subdued. Although credit spreads could still compress amid a scarcity of paper, bank FRNs will likely struggle if renewed global credit fears emerge. On balance we view the risks to credit as skewed to the downside. Furthermore, with the RBA not expected to raise the cash rate in the foreseeable future, the benchmark for income returns on Australian FRNs may also remained anchored around current levels for several years.