BetaShares
Exchange Traded Funds

BETASHARES ACTIVE AUSTRALIAN HYBRIDS FUND (MANAGED FUND)
ASX: HBRD
Quarterly Report - June 2021

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	0.68%	1.22%	2.25%	5.48%	4.41%	4.14%
Growth return	*0.47%*	*0.56%*	*0.96%*	*2.75%*	*1.11%*	*0.84%*
Income return	*0.21%*	*0.66%*	*1.29%*	*2.73%*	*3.30%*	*3.30%*
Solactive Australian Hybrid Securities Index (Solactive Index)	*0.73%*	*1.43%*	*2.58%*	*5.80%*	*4.72%*	*4.26%*
Active Return	-0.05%	-0.21%	-0.33%	-0.32%	-0.31%	-0.12%

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 13 Nov 2017.

Yield and Portfolio Characteristics

Running Yield (% p.a.)[1]	2.51%
Gross Running Yield (% p.a.)[2]	3.53%
Fund Constituents	39

[1] Average yield (weighted by market value) of the hybrids portfolio, divided by the current market price of the securities. This provides an indication of expected current income from making an investment at market price. This value will vary over time.

[2] Average estimated gross yield (weighted by market values and inclusive of franking credits) of the hybrids in the portfolio, divided by the current market price of the securities. This provides an indication of the expected current income from making an investment at market price. This figure is indicative only and will vary over time. Not all investors will be able to obtain the full value of franking credits.

Investment objective

The Fund provides investors with a convenient way to access attractive income returns, including franking credits, from an actively managed, diversified portfolio of hybrid securities. As the Fund is overseen by a professional investment manager it actively seeks to reduce the volatility and downside risk that may otherwise be experienced by direct holders of hybrids.

Responsible entity

BetaShares Capital Ltd

Investment manager

Coolabah Capital Institutional Investments Pty Ltd

Distribution frequency

Monthly

Suggested minimum investment timeframe

At least three years

Fund Facts	
Inception Date	13-Nov-17
Fund Size	$1228.31m
Historical Tracking Error	0.80%
ASX Code	HBRD
Bloomberg Code	HBRD.AU
IRESS Code	HBRD.ASX

Fees	% p.a.
Management fees	0.45
Recoverable expenses	~0.10
Performance fee[1]	

[1] A performance fee may be payable. This fee is 15.5% of the Fund's performance above the performance benchmark in a calendar quarter.

Investment strategy

The Fund will invest in an actively managed portfolio of hybrid securities, bonds and cash. If and when the hybrids market is assessed to be overvalued or to present a heightened risk of capital loss, the Fund can allocate more of the portfolio to lower risk securities.

Top 10 positions[1]	
CBAPD	WBCPI
NABPH	WBCPG
ANZPE	WBCPH
NABPF	CBAPF
ANZPG	WBCPJ

[1] As at 30 June 2021

Sector exposure	Fund Weight %[1]	Index Weight%[1]	Active Weight%
Listed Hybrids	96.0	95.2	0.8
Capital Notes	0.0	0.5	-0.5
Subordinated Bonds	1.2	4.3	-3.1
Senior Bonds	0.0	0.0	0.0
Cash	2.8	0.0	2.8
TOTAL	100.00	100.00	0.00

[1] As at 30 June 2021

Fund performance summary

HBRD returned 0.68% before franking credits and after fees in June 2021, ending the month with a net running yield of 2.51% (gross running yield of 3.53%). Over the last 12 months, HBRD has returned 5.48% before franking and after fees. Since inception, HBRD has returned an unfranked 4.14% annualised after fees, with only an average 88% portfolio weight to ASX hybrids, relative to the Solactive Australian Hybrid Securities Index's (Solactive Index) 4.26% unfranked, return and the RBA Cash Rate + 2.5% return of 3.36%.

HBRD's since inception volatility of 5.48% has been lower than the Solactive Index's volatility of 5.89%, and for broad context less than a third of the 17.82% volatility of the All Ords Accumulation Index. At the end of June, HBRD was diversified across 38 hybrids/bonds, and had a 96.3% allocation to hybrids, 1.2% to subordinated bonds, and 2.5% to cash.

Hybrids market and outlook

Over the June quarter, HBRD gained 1.22% (net of fees but before the benefit of franking credits), with credit spreads on 5-year major bank hybrids tightening from 271bps above BBSW at end March 2021, to 247bps by end June. This performance was robust, especially as ANZ came to market with a new issue towards the end of the quarter - its first deal in almost 4 years.

The new ANZ hybrid (ANZPI) was a re-financing of the existing ANZPD hybrid as expected, and consistent with CCI's expectations, did not significantly increase in size over the $1.12bn ANZPD line. The remainder of ANZPD outstanding is also expected to be called in September this year. Given the high demand for higher yielding assets in the existing low rate environment, ANZPI's price of 300bps over BBSW saw it in high demand and should see the new security perform well when it starts trading in early July.

June also saw Bendigo & Adelaide Bank repay their $282m BENPF hybrid, with no new hybrid issued in accompaniment. This was expected, as the issue of the $502m BENPH hybrid last year was designed to pre-fund the repayment of BENPF.

Looking ahead at expected issuance, CCI are expecting new hybrid deals towards the end of 2021 to refinance the existing CBAPE ($1.45bn callable in October) and WBCPG ($1.70bn callable in December) hybrids. Additionally AMP has its $268m AMPPA hybrid callable in December, though this is not expected to be re-financed into a new deal due to a number of asset sales within AMP.

Hybrids market and outlook continued

The June quarter saw a major announcement from S&P, they put the Australian banking system's Industry Risk score on positive trend in April. This means that S&P see a one-in-three chance that the score will be upgraded from '3' to '2' in the next two years. An upgrade would mean an automatic one notch improvement in the anchor rating and Stand-Alone Credit Profile of all Australian banks. While this would have limited impact on banks' senior unsecured bonds, the credit rating of subordinated bonds and hybrid securities would be upgraded by one notch.

Should this upgrade occur, nearly all of HBRD's portfolio would be rated one notch higher. Hybrids issued by the major Australian banks would be upgraded from 'BBB-' to 'BBB', while the hybrids of regional banks like Bendigo & Adelaide Banks and Bank of Queensland would go from 'BB' to 'BB+.' This would ensure that Australian major banks' hybrids would continue to attract one of the highest credit ratings globally, reflecting their capital strength and prudent risk management records.

Finally the Australian major banks released their latest set of results in June, showing that their CET1 ratios continued to grow to record highs, which by implcation is also benefical for their hybrids as well.