

# BETASHARES ACTIVE AUSTRALIAN HYBRIDS FUND (MANAGED FUND)

ASX: HBRD

## Quarterly Report - September 2021

Performance <sup>1</sup>	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception <sup>2</sup> % p.a.
Fund Return (net)	0.23%	0.35%	1.57%	4.08%	3.88%	3.96%
Growth return	0.01%	-0.28%	0.28%	1.46%	0.73%	0.71%
Income return	0.22%	0.63%	1.29%	2.62%	3.15%	3.25%
Solactive Australian Hybrid Securities Index (Solactive Index)	0.27%	0.32%	1.75%	4.35%	4.04%	4.07%
Active Return	-0.04%	0.03%	-0.18%	-0.27%	-0.16%	-0.11%

**Past performance is not a reliable indicator of future performance.**

<sup>1</sup> Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

<sup>2</sup> Inception date for the Fund is 13 Nov 2017.

## Yield and Portfolio Characteristics

Running Yield (% p.a.) <sup>1</sup>	2.44%
Gross Running Yield (% p.a.) <sup>2</sup>	3.40%
Fund Constituents	38

<sup>1</sup> 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.

<sup>2</sup> 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	\$1412.47m
Historical Tracking Error	0.78%
ASX Code	HBRD
Bloomberg Code	HBRD.AU
IRESS Code	HBRD.ASX

## Fees

	% p.a.
Management fees	0.45
Recoverable expenses	~0.10
Performance fee <sup>1</sup>	

<sup>1</sup> 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 presents a heightened risk of capital loss, the Fund can allocate more of the portfolio to lower risk securities.

## Top 10 positions<sup>1</sup>

CBAPD	WBCPH
NABPH	WBCPI
NABPF	CBAPF
ANZPE	WBCPJ
ANZPG	CBAPH

<sup>1</sup> As at 30 September 2021

Sector exposure	Fund Weight % <sup>1</sup>	Index Weight% <sup>1</sup>	Active Weight%
Listed Hybrids	94.9	95.4	-0.5
Capital Notes	0.0	0.5	-0.5
Subordinated Bonds	0.5	4.1	-3.6
Senior Bonds	0.0	0.0	0.0
Cash	4.6	0.0	4.6
TOTAL	100.00	100.00	0.00

<sup>1</sup> As at 30 September 2021

## Fund performance summary

HBRD returned 0.23% before franking credits and after fees in September 2021, ending the month with a net running yield of 2.44% (gross running yield of 3.40%). Over the last 12 months, HBRD has returned 4.08% before franking and after fees. Since inception, HBRD has returned an unfranked 3.96% annualised after fees, with only an average 88% portfolio weight to ASX hybrids, relative to the Solactive Australian Hybrid Index's (Solactive Index) 4.07% unfranked, return and the RBA Cash Rate + 2.5% return of 3.31%.

HBRD's since inception volatility of 5.31% has been lower than the benchmark Solactive Index's volatility of 5.70% and less than a third of the 17.43% volatility of the All Ords Accumulation Index. At the end of September, HBRD was diversified across 40 hybrids/bonds, and had a 95.3% allocation to hybrids, 0.5% to subordinated bonds, and 4.2% to cash.

## Hybrids market and outlook

Over the September quarter, HBRD gained 0.35% unfranked after fees and increased by 0.47% franked after fees. Credit spreads on 5-year, BBB- rated major bank hybrids ended at 235bps above BBSW by 30 September. This translates into a franked running yield of approximately 3.33%, which is notably higher than the credit spreads on BBB rated corporate bonds, and slightly above BB rated high-yield spreads in the U.S.

The sector's performance was relatively resilient given several issuers came to market with new deals towards the end of the quarter, providing investors with supply in advance of regulatory changes (described below). Over the quarter, there was a total of \$1.79bn of secondary turnover in ASX hybrids.

During August and September three new hybrid deals launched and settled, which we consider was a result of the new "design and distribution obligations" (DDO) that have now come into effect. The implementation of the DDO regime could make it more onerous for banks to sell hybrids to retail investors, as they require hybrid issuers to ensure products are sold to specific types of investors that form the target market.

We believe that in time, banks will focus on distributing hybrids to wholesale/institutional investors, which will likely mean smaller ASX hybrid deals and a greater number of securities issued into the unlisted market. This will be a positive for the listed hybrids as supply could be less than it has been in the past.

## Hybrids market and outlook continued.

The new deals that we saw over the quarter included: the new MBLPD from Macquarie Bank, which printed \$655m at BBSW+290bps for an expected repayment date 7 years from issue; the new WBCPK hybrid which was a refinancing of the existing \$1.7bn WBCPG hybrid from Westpac, printing \$1.75bn at BBSW+290bps for an expected repayment date 8 years from issue; and the new SUNPI hybrid from Suncorp, which printed \$405m at BBSW+290bps for an expected repayment date 6.75 years from issue.

HBRD participated in all these deals, and they have provided reasonable gains since they started trading. The WBCPK deal has performed best, currently trading close to \$101, which is unsurprising given that the deal attracted over \$3bn when it was announced (including around \$1bn of re-investment from existing WBCPG holders into the new WBCPK hybrid).

On a longer-term horizon, we believe that it is likely that S&P will upgrade the Australian banking system's Industry Risk score from '3' to '2'. S&P see a one-in-three chance that the score will be upgraded in the next two years, though we place the likelihood of this at greater than 50%. An upgrade would mean an automatic one notch improvement in the anchor rating and Stand-Alone Credit Profile of all Australian banks. In turn, this would result in major bank hybrid ratings upgraded from BBB- to BBB.

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