



Introduction to Betashares Geared Long and Short Bond Funds

ASX: GGAB

Betashares Geared Long Australian Government Bond Fund (hedge fund)

ASX: BBAB

Betashares Geared Short Australian Government Bond Fund (hedge fund)

ASX: GGFD

Betashares Geared Long U.S. Treasury Bond Fund – Currency Hedged (hedge fund)

ASX: BBFD

Betashares Geared Short U.S. Treasury Bond Fund – Currency Hedged (hedge fund)

Investors seeking an efficient way to express their view on bond prices and interest rates historically have had limited options.

Accessing the bond market directly is beyond the reach of most non-institutional investors. The process of establishing a meaningful position in physical bonds requires significant capital. And if you are seeking geared long or short exposure to bonds, the options have been extremely limited, and typically involve significant complexity and risk.

With that in mind, Betashares has launched the **Betashares Geared Long and Short Bond Funds**, which aim to provide a convenient, capital-efficient way to take a view on future bond price movements. The Fund range:

- includes both long funds and short funds – enabling you take a view in either direction i.e. that bond prices will rise or that they will fall
- is geared, providing leveraged exposure – and lowering the amount of capital you need to invest compared to an unleveraged position (albeit with higher levels of risk)
- offers exposure to both Australian government and US Treasury bonds.

Betashares Geared Long Australian Government Bond Fund (hedge fund) (ASX: GGAB)

Provides cost-effective geared exposure to 10-year Australian Treasury Bonds

Betashares Geared Short Australian Government Bond Fund (hedge fund) (ASX: BBAB)

Aims to generate magnified returns that are negatively correlated to the returns of 10-year Australian Treasury Bonds

Betashares Geared Long U.S. Treasury Bond Fund – Currency Hedged (hedge fund) (ASX: GGFD)

Provides cost-effective geared exposure to 10-year US Treasury Bonds

Betashares Geared Short U.S. Treasury Bond Fund – Currency Hedged (hedge fund) (ASX: BBFD)

Aims to generate magnified returns that are negatively correlated to the returns of 10-year US Treasury Bonds

Convenient access, exchange-traded

The options for obtaining geared or short exposure to bonds are extremely limited for most investors, and involve significant complexity, costs and risk. Betashares Geared Long and Short Bond Funds offer a number of advantages, including:

- ease of access
- no margin calls for investors
- reduced counterparty risk, as bond exposure is obtained with exchange traded futures.

The Funds are traded on the ASX, and so are bought and sold like any share.

In addition, the presence of ETF market makers aims to help you trade units at prices that are close to the unit's Net Asset Value (NAV).

Betashares Geared Long and Short Bond Funds

Leverage factor	+2.5x – +3.0x (long), -2.5x – -3.0x (short)
Access	Bought and sold like shares
Trade both directions	Provide exposure to either rising or falling bond prices
Downside risk	Limited to capital invested
Potential for margin calls	None for investors, as gearing is implemented within each Fund
Regulation	Registered managed fund – high level of Australian investment vehicle regulation
Counterparty risk	The Fund invests in cash and buys / sells exchange-traded futures (which are centrally cleared), which reduces counterparty risk.

Product structure

Betashares Geared Long and Short Bond Funds are registered managed funds (i.e. unit trusts) that trade on the ASX, and employ a simple structure to implement their investment strategies.

The Funds invest all their assets in cash and cash equivalents, and either buy or sell bond futures contracts:

- The Australian Funds obtain their exposure via ASX 10-year Australian Treasury Bond Futures.
- The US Funds obtain their exposure via CME Ultra 10-year US Treasury Note Futures.

The two futures contracts reflect the returns of an underlying Australian or US government bond, respectively, with 10 years to maturity (each the 'reference bond').

	Geared Long Funds	Geared Short Funds
Australian Funds	Buy 10-year Australian Treasury Bond Futures	Sell 10-year Australian Treasury Bond Futures
US Funds	Buy 10-year US Treasury Note Futures	Sell 10-year US Treasury Note Futures

Bond pricing fundamentals

There is an inverse relationship between the price of a bond and its yield – as a bond's yield falls, its price rises (and vice versa). This means that if your view is that bond yields are likely to rise, you are expecting bond prices to fall. Conversely, if you think bond yields will fall, you are expecting bond prices to rise.



Buying bond futures can generally be expected to generate a positive return for the Long Funds when the reference bond **rises** in value (and a negative return when the bond falls in value). Buying bond futures typically reflects a view that long-term interest rates will **fall**.

Selling bond futures can generally be expected to generate a positive return for the Short Funds when the reference bond **falls** in value (and a negative return when the bond rises in value). Selling bond futures typically reflects a view that long-term interest rates will **rise**.

The Funds' cash and cash equivalents (other than relatively small amounts of cash held as collateral for futures positions) are held by a third-party custodian for the benefit of the Funds' unitholders. The Funds employ no borrowing.

Gain leveraged exposure

Betashares Geared Long and Short Bond Funds are designed to generate magnified returns.

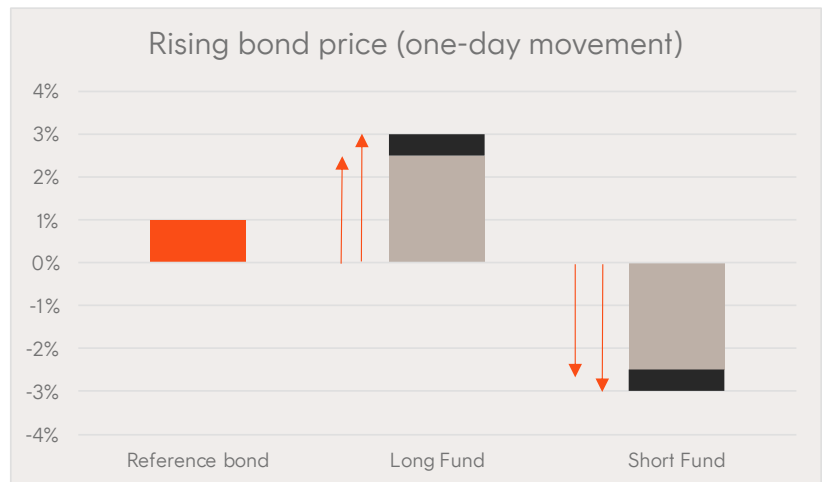
The **Long Funds** seek to generate magnified returns that are positively correlated with the returns of the relevant reference bond, and would typically be used by investors whose view is that Australian (GGAB) or US (GGFD) long-term interest rates will fall.

An **increase** of 1% in the value of the reference bond on a given day can generally be expected to result in a 2.5 – 3.0% increase in the value of the relevant Long Fund (and a corresponding decrease in the value of the Long Fund if the reference bond falls in value).

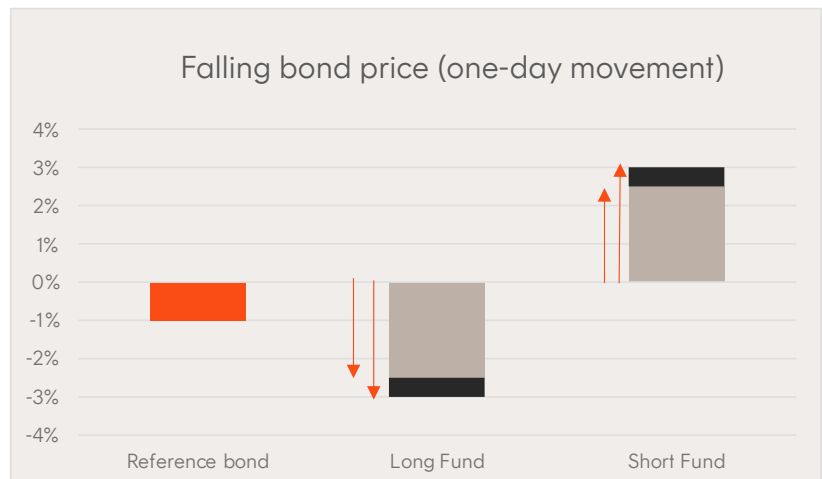
The **Short Funds** seek to generate magnified returns that are negatively correlated with the returns of the relevant reference bond, enabling you to express a view that bond prices will fall, and would typically be used by investors whose view is that Australian (BBAB) or US (BBFD) long-term interest rates will rise.

A **decrease** of 1% in the value of the reference bond on a given day can generally be expected to result in a 2.5 – 3.0% increase in the value of the relevant Short Fund (and a corresponding decrease in the value of the Short Fund if the reference bond increases in value).

The chart on the right shows the expected price movements in the value of the Funds, given a 1% rise in the value of the relevant reference bond on a given day.



The chart on the right shows the expected price movement in the value of the Funds, given a 1% fall in the value of the relevant reference bond on a given day.



Charts are illustrative examples only. Returns exclude the effect of fund management costs of 0.99% p.a.

The Funds' investment exposure is monitored on a daily basis and rebalanced as required, with the aim of keeping gearing within the range of +250 to +300% of net asset value for the Long Funds, and -250 to -300% of net asset value for the Short Funds.



It is essential to understand that because of the rebalancing process, each Fund's returns will not necessarily be in the relevant target range over periods longer than a day. The more volatile the bond market, and the longer an investor's holding period, the greater the deviation may be from the daily target exposure range.

Use Betashares Geared Long and Short Bond Funds to adjust interest rate risk

If you hold physical bonds, or bond funds, you can use the Betashares Geared Long and Short Bond Funds to change the sensitivity of your overall fixed income exposure to movements in Australian or US long-term interest rates – or, in fixed income terminology, change the ‘duration’ of your bond portfolio.

Increasing the duration of your bond portfolio will add interest rate risk i.e. make it more sensitive to changes in interest rates. Decreasing duration will reduce interest rate risk i.e. make your bond portfolio less sensitive to changes in interest rates.

Investing in the Long Funds can increase the duration of a bond portfolio, while investing in the Short Funds can decrease the duration of a bond portfolio.

Investors might employ this strategy to:

- adjust their portfolio back towards a fixed income benchmark or other target, or
- reflect their view on likely movements in bond yields.

For example, an investor who has exposure to Australian government bonds via a portfolio of physical bonds, or an ETF such as the **Betashares Australian Government Bond ETF (AGVT)**, and is concerned about a potential increase in long-term interest rates, could reduce their interest rate risk by investing in the Betashares Geared Short Australian Government Bond Fund (hedge fund) (ASX: BBAB).

Summary

Betashares Geared Long and Short Bond Funds provide geared exposure to movements in the price of 10-year Australian and US government bonds. They can be used to implement a number of investment strategies, including:

- to adjust the interest rate risk of a portfolio’s allocation to fixed income, or
- as a convenient, capital-efficient way to gain geared exposure to movements in bond prices.

There are risks associated with an investment in the Funds, including market risk, gearing risk, rebalancing and compounding risk, and futures risk. Investment value can go up and down. An investment in a Fund should only be considered as a small part of a broader portfolio, taking into account your particular circumstances, including your tolerance for risk.

Gearing magnifies gains and losses and may not be a suitable strategy for all investors. An investment in the Funds is very high risk in nature and should only be made by informed investors who fully understand the risks of gearing. Investors should seek professional financial advice before investing, and actively monitor their investment to ensure it continues to meet their investment objectives. The Funds do not track a published benchmark.

For more information on the risks and other features of a Fund, please see the Product Disclosure Statement and relevant Target Market Determination, available at www.betashares.com.au.

Frequently Asked Questions

What can I expect the performance of the Funds to be, relative to the performance of physical bonds? How much leverage is provided by these Funds?

The Funds' exposure to movements in either Australian or US bonds can generally be expected to vary between +250% and +300% of the Fund's NAV (in the case of the Long Funds) and between -250% and -300% of the Fund's NAV (in the case of the Short Funds) on a given day. Therefore a 1% change in the value of the relevant reference bond on a given day can generally be expected to deliver a change of +/-2.5 – 3.0% in the value of the Fund.

What do the Funds invest in?

The Funds invest all of their assets in cash and cash equivalents, and obtain their exposure by either buying or selling bond futures contracts. The Australian Funds (GGAB and BBAB) buy or sell ASX 10-year Australian Treasury Bond Futures, while the US Funds (GGFD and BBFD) buy or sell CME Ultra 10-year US Treasury Note Futures.

Are the Geared Long and Short Bond Funds 'buy and hold' products?

Investors can hold the Funds for as long as they continue to meet their investment objectives. However, it is essential to understand that due to the effects of rebalancing the Funds' investment exposure and compounding of investment returns over time, each Fund's returns over periods longer than one day may differ in amount and possibly direction from the daily target return range. This effect on returns over time can be expected to be more pronounced the more volatile the relevant reference bond market and the longer an investor's holding period. Investors should therefore actively monitor their investment as frequently as daily to ensure it continues to meet their investment objectives. Each Fund's suggested investment timeframe is short (up to 3 months).

Who are the Funds suitable for?

These products may suit experienced investors seeking to manage the duration profile of their bond portfolio, and who are comfortable with and fully understand the higher risks associated with geared investments. Investors should read the PDS, consider their circumstances and seek professional financial advice before making any investment decision.

What is 'Portfolio Exposure'?

The Funds' 'portfolio exposures' are displayed on the Betashares website and updated daily.

Portfolio exposure represents the approximate exposure that the Fund will have, on any given day, to movements in the relevant reference bond.

In the case of the Long Funds (ASX: GGAB and GGFD), the portfolio exposure will generally vary between +250% and +300% of the Fund's Net Asset Value on any given day. As a result, a 1% rise in the value of the relevant reference bond on a given day can generally be expected to deliver a +2.5% to +3.0% increase in the value of the Fund (and vice versa).

In the case of the Short Funds (ASX: BBAB and BBFD), the portfolio exposure will generally vary between -250% and -300% of the Fund's Net Asset Value on any given day. As a result, a 1% fall in the value of the relevant reference bond on a given day can generally be expected to deliver a +2.5% to +3.0% increase in the value of the Fund (and vice versa).

Although they follow rules-based strategies, the Funds are managed actively. Investors should check the Betashares website frequently for details of the relevant Fund's current portfolio exposure, to ensure that the Fund continues to meet their investment objectives.

Can I lose more than my initial investment when investing in the Funds?

No. An investor in the Betashares Geared Long and Short Bond Funds cannot lose more than their initial investment.