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# HBRD

# An expanded credit income universe

The phasing out of bank hybrids by APRA is driving a structural shift in the Australian credit market that will materially reduce the size and relevance of the domestic hybrid market over the coming years.

The Betashares Australian Credit Income Active ETF (ASX:HBRD) is responding proactively, with changes that expand its opportunity set while preserving the strategy's core focus on high quality, floating rate investment grade financial credit.

> **For investors, the proposition is largely unchanged – actively managed, investment grade floating rate credit with monthly income – but now with a wider opportunity set, no performance fee and a portfolio that (overall) sits higher in the capital structure than before.**

## What's actually changing – and what isn't

### Benchmark

Historically, HBRD's performance benchmark has been the Solactive Australian Hybrid Securities Index. However, with the phasing out of Australian bank hybrids, a hybrid-centric benchmark is no longer appropriate.

HBRD's benchmark has shifted to an objective of RBA cash rate + 2% p.a. (after fees) over a rolling three-year period – a more meaningful and forward-looking target given where the market is heading.

### Investment universe

HBRD has always held a mix of senior bonds, subordinated bonds, hybrids, and cash and the investment manager has always had the flexibility to adjust the fund's allocation across the range of eligible securities, based on its views of the relative values offered.

HBRD's core focus will remain high quality, floating rate investment grade credit securities. However, the range of eligible investment opportunities have increased.

The Fund will continue to be able to invest in:

- Cash and cash equivalents
- Senior bonds
- Subordinated bonds
- Hybrid securities

Derivatives for the purposes of hedging interest rate and foreign exchange risks.

Additionally, HBRD will also be able to invest in:

- Securitised credit, being AUD investment grade asset-backed securities (ABS) and residential mortgage-backed securities (RMBS)
- Derivatives for the purposes of hedging credit risk.

The broader range of investments available to the fund increases the value of the investible universe from $1.8 trillion to circa $32 trillion.

To reflect the wider range of opportunities available to the Fund, HBRD has been renamed the Betashares Australian Credit Income Active ETF.

It's also important to note that while Australian bank hybrids are being phased out, other hybrid securities are not, and we have been seeing an issuance 'boom' in corporate hybrids and other types of bank-issued securities, much of which HBRD will be able to invest in.

### Fees

Management fees and costs will remain at 0.55% p.a., but the performance fee has been removed.

# Advantages of the new strategy

While the changes don't significantly alter the core nature of HBRD or its risk profile, the broader investment universe does deliver some genuine advantage worth understanding. Hedged access to non-Australian dollar denominated bonds opens up a much deeper global opportunity set, providing greater diversification potential and enhancing the Fund's ability to allocate to attractive global risk adjusted opportunities.

Importantly, the inclusion of AAA-rated residential mortgage-backed securities (RMBS) introduces a large and well-established segment of the credit market that historically has tended to provide resilient income with a similar risk profile to bank-issued senior bonds. This is an area where Coolabah brings meaningful experience – having traded approximately $4.7 billion in RMBS and asset-back securities (ABS) over the past decade, supported by proprietary models that analyse deal-level cashflows, default risks and housing market dynamics. Alongside this, the ability to use credit default swaps for hedging means the fund now has an explicit mechanism that can help to reduce drawdown risk during periods of credit stress, rather than just riding out volatility.

# Why HBRD can continue to play the same role in portfolios

### 1. Yield

**HBRD continues to target attractive, regular income through monthly distributions.**

As at 13 March 2026, HBRD's running yield was 5.5% p.a. and its 12 month gross distribution yield to end February 2026 was 5.6% p.a., while a major bank hybrid with 5 years to call would yield around 5.8% p.a. (including franking), below the Fund's new objective, being the RBA cash rate + 2% p.a. over a rolling three-year period (after fees and expenses).

If the RBA cash rate rises further over 2026 as the market is currently forecasting, the Fund's yield would also be expected to rise. It's important to remember that past performance is not indicative of future performance, yields are subject to change and actual yields may differ.

### 2. Continued focus on securities issued by large, well-known issuers such as the Big 4 banks

Historically the Fund has had very large allocations (over 80%) to securities issued by Australia's major banks, and this is expected to continue to be the case in the future.

Investors in HBRD will continue to have exposure to bonds issued by the Big Four banks.

### 3. Safety and liquidity

Senior and subordinated bonds generally have higher credit ratings than hybrids issued by the same issuer. For Australia's major banks, hybrids are typically rated 'BBB' by Standard & Poor's, subordinated bonds are typically rated 'A-', and senior bonds are typically rated 'AA-, reflecting their position in the capital structure.

Senior and subordinated bonds also tend to be more liquid than hybrids because they trade in the large and deep OTC bond market.

# Coolabah's management approach

HBRD's investment manager Coolabah has a 14-year track record of delivering attractive income and returns through active management of global fixed income portfolios.

Many 'conventional' fixed income investors aim to boost yield by chasing risk to enhance returns. In contrast, Coolabah aims to minimise these risks within its portfolios and instead seeks to drive returns through buying mispriced bonds, selling them when they return to their fair value and reinvesting in new opportunities.

Coolabah's combination of proprietary research depth, global trading scale and disciplined focus on investment grade quality makes it well-placed to carry forward HBRD's evolving mandate.

For more information on HBRD, get in touch with the Betashares Adviser Services Team on info@betashares.com.au