Betashares Australian Hybrids Active ETF

ASX: HBRD

Quarterly Report - December 2025

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Performance[1]	1 month %	3 month %	6 month %	1 year %	3 years % p.a.	Inception % p.a.[2]
Fund Return (net)	0.52%	1.11%	2.86%	4.86%	5.31%	4.24%
Growth return	0.13%	-0.15%	0.23%	-0.62%	-0.27%	0.18%
Income return	0.39%	1.26%	2.63%	5.48%	5.58%	4.06%
Solactive Australian Hybrid Securities Index (Solactive Index)	1.01%	1.54%	3.17%	4.73%	4.98%	4.31%
Active Return	-0.49%	-0.43%	-0.31%	0.13%	0.33%	-0.07%

Past performance is not a reliable indicator of future performance.

[1]As at 31 December 2025. Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

[2]Inception date for the Fund is 13 November 2017.

Yield and portfolio characteristics	
Running Yield (% p.a.)[1]	5.17%
Gross Running Yield (% p.a.)[2]	5.33%
Fund Constituents	157

[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

Coolahbah 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	$2571.81m
Historical Tracking Error (annualised)	1.01%
ASX Code	HBRD
Bloomberg Code	HBRD.AU
IRESS Code	HBRD.ASX

Fees	% p.a.
Management fee	0.45
Recoverable expenses	~0.10
Performance fee[1]	15.5

[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 invests 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[1]	
AN3PL	CBAAU Float 04/14/32
ANZ 6.124 07/25/39	CBAAU Float 09/12/35
ANZ Float 01/15/35	NAB Float 11/18/31
ANZ Float 01/16/34	WSTP Float 01/29/31
ANZ Float 05/16/33	WSTP Float 06/23/33

[1]As at 31 December 2025

Sector exposure[1]	Fund Weight %	Index Weight %	Active Weight %
Preference Shares	9.3	100.0	-90.7
Capital Notes	0.0	0.0	0.0
Sub Bonds	56.8	0.0	56.8
Senior Bonds	31.8	0.0	31.8
Cash	2.1	0.0	2.1
TOTAL	100.00	100.00	0.00

[1]As at 31 December 2025

Fund performance summary

Over 2025, HBRD returned 4.86% unfranked after fees and 5.34% franked after fees, outperforming the benchmark Solactive Australian Bank Hybrid Securities Index's unfranked return of 4.73%. HBRD closed the year with a gross running yield of 5.39% p.a. and a credit rating of investment grade A-.

Credit spreads on five-year major bank hybrids started the year at 203bps above the three-month Bank Bill Swap Rate (BBSW) and remained in the 200–210bps range until 'Liberation Day' tariffs were announced. This event immediately pushed spreads to 262bps above BBSW as markets sold off and investors demanded greater compensation for risk. However, as with equities, the shock was short-lived, and spreads returned to 215bps within a fortnight, remaining in the 215–230bps range until mid-year. Price movements in the back half of the year were much more subdued, with spreads to BBSW generally tightening from around 215bps in July to close the year at +174bps above BBSW.

The flexibility of the fund to move up and down the bank credit stack in search of mispriced assets drove outperformance relative to the benchmark. The fund has a relatively small 8.5% weighting in hybrids, which tightened by 29bps over the year, while lower risk and higher liquidity bank subordinated debt (representing 58.0% of the fund) tightened by 28bps, and bank senior debt (representing 32.3% of the fund) tightened by 7bps.

Hybrid yields declined over the year alongside falling interest rates. The three-month BBSW rate climbed from 0% in 2021 to 4.42% in December 2024, before declining to 3.49% in October 2025 in line with RBA cash rate expectations. It then rose again to 3.74% by the end of December 2025 in anticipation of future RBA hikes, boosting baseline yields. In particular, five-year major bank hybrids paid a running yield of 5.48% p.a. (a combination of the five-year hybrid spread of 174bps and the three-month BBSW rate of 374bps), which was unchanged over the December quarter as tightening spreads were almost exactly offset by the higher BBSW rate. The yield-to-call was 5.98% p.a. (a combination of the five-year hybrid spread of 174bps and the five-year quarterly swap rate of 424bps), which was 38bps higher than at the end of the September quarter.

Hybrid market and outlook

During the quarter, we saw another over-the-counter (OTC) hybrid issuance from BNP that was not directly available to retail investors (access was limited to institutional investors or funds such as HBRD). The BNP deal followed the success of the UBS transaction in September. It attracted 3.75bn of demand and printed 750m, and the fund participated.

In the subordinated debt (Tier 2) space, we saw a NAB 10-year deal with a five-year call option, along with another 20-year bullet deal from Westpac which followed the success of ANZ's 20-year bullet issuance discussed in the September update. The fund participated in both deals. We also saw Tier 2 deals from AMP and Dexus, which we investigated but chose not to participate in, as pricing was not attractive relative to the risk.

The biggest surprise of the quarter was an announcement from Macquarie Bank (which is distinct from Macquarie Group), which chose not to call its MBLPC issue due in December 2025. Macquarie Bank decided that, with the hybrid market effectively closed, it was preferable to retain the outstanding security (although it pays a high coupon of 470bps over BBSW) rather than issue equity at the group level to fund the bank. While this was an unusual decision, their team felt it made economic sense. We do not anticipate that other bank issuers will follow suit, given the reputational risk associated with failing to call a security at the first call date, combined with their adequate Tier 1 capital buffers. Nor do we expect insurer issuers have the same motivation as Macquarie Bank, as they are not subject to the new APRA rules prohibiting new issuance.

Last quarter, we commented that we expected more offshore banks to issue OTC hybrid securities in Australia to take advantage of the gap left by Australian banks, and this has eventuated. We believe this trend will continue, with retail investors only able to access these new hybrids via funds such as HBRD. We expect markets to continue tightening in the near future and believe that access to more liquid debt instruments higher up the capital stack will provide opportunities for the fund to manage risk should markets turn risk-off.

There are risks associated with an investment in HBRD, including interest rate risk, credit risk, hybrids complexity risk and sector concentration risk. For more information on risks and other features of HBRD, please see the Product Disclosure Statement.

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