



Betashares Active Australian Hybrids Fund (Managed Fund)

ASX: HBRD

Quarterly Report - June 2023

E: info@betashares.com.au

T: 1300 487 577 (within Australia)

T: +61 2 9290 6888 (outside Australia)



Performance ¹	1 month %	3 month %	6 month %	1 year %	3 years % p.a.	Inception % p.a. ²
Fund Return (net)	0.88%	1.18%	0.45%	5.53%	3.14%	3.38%
Growth return	0.42%	-0.08%	-1.91%	1.16%	0.00%	0.06%
Income return	0.46%	1.26%	2.36%	4.37%	3.14%	3.32%
Solactive Australian Hybrid Securities Index (Solactive Index)	1.13%	1.21%	-0.07%	5.52%	3.43%	3.55%
Active Return	-0.25%	-0.03%	0.52%	0.01%	-0.29%	-0.17%

Past performance is not a reliable indicator of future performance.

¹ As at 30 June 2023. 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	5.58%
Gross Running Yield (% p.a.) ²	6.93%
Fund Constituents	65

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	\$1981.5m
Historical Tracking Error (annualised)	0.70%
ASX Code	HBRD
Bloomberg Code	HBRD.AU
IRESS Code	HBRD.ASX

Fees	% p.a.
Management fee	0.45
Recoverable expenses	~0.10

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 ¹	
NABPH	NABPF
WBCPJ	WBCPK
WBCPI	WSTP
ANZ	CBAPH
AN3PG	NABPI

¹ As at 30 June 2023

Sector exposure ¹	Fund Weight % ²	Index Weight % ²	Active Weight %
Listed Hybrids	60.3	97.3	-37.0
Capital Notes	0.0	0.5	-0.5
Subordinated Bonds	38.4	2.2	36.2
Senior Bonds	0.0	0.0	0.0
Cash	1.3	0.0	1.3
TOTAL	100.00	100.00	0.00

¹ As at 30 June 2023

Fund performance summary

Hybrid yields have benefitted from rising interest rates with the 3-month BBSW rate climbing from 0% in 2021 to 4.35% in June, giving investors greater baseline yields regardless of overall spread levels. In particular, 5-year major bank hybrids paid a running yield of 7.27% (a combination of the 5-year hybrid spread level of 292 bps and the 3-month BBSW rate of 435 bps) and a yield-to-call of 7.09% (a combination of the 5-year hybrid spread level of 292 bps and the 5-year quarterly swap rate of 417 bps) at the end of June.

Hybrid market and outlook

During the quarter, we saw the issuance of the \$1.55bn CBAPM hybrid in late May. This was issued at 300 bps above 3-month BBSW and has remained broadly unchanged, with the security trading around 296 bps by the end of the June quarter. There were no maturities in the major-bank space, but the June quarter saw the maturity of the \$404m IAGPD, and the \$460m CGFPB, the latter of which was replaced by the issuance of the \$360m CGFPD last quarter. Looking ahead to the second half of 2023, the maturity pipeline is sparse; there are no bank hybrids with a call or maturity date for the rest of the year. Banks are likely to use this issuance vacuum to come to market with new deals.

HBRD continued to increase its allocation to Australian bank Tier 2 subordinated bonds from 20% to 39% over the quarter. Tier 2 bonds rank higher in the bank capital structure than hybrids and have superior credit ratings. Major bank Tier 2 bonds remain very cheap, with credit spreads still well above historical averages. The fund benefited from 5-year major bank Tier 2 spreads tightening from 226 bps at the beginning of the quarter

to 209 bps by the end of the June quarter as spreads continue to revert to their long-term mean. During the quarter, ANZ issued \$1.1bn of Tier 2 bonds at 235 bps over 3-month BBSW and Westpac issued a total of \$2.9bn of Tier 2 bonds at 230 bps above BBSW for the 5-years-to-call tranche. Both deals performed very well, tightening by 22 bps and 15 bps respectively by quarter-end. The Fund participated in both deals.

Hybrid spreads are currently paying a multiple of 1.4 of Tier 2 spreads, which is higher than their historically low levels last year but below the long-term mean of 1.8. This indicates that while hybrids remain attractive due to their overall high yields, Tier 2 bonds are cheaper and considered a better source of possible capital gains for the Fund at the moment.

Important

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Any person wishing to invest in Betashares Funds should obtain a copy of the relevant PDS from www.betashares.com.au and obtain financial advice in light of their individual circumstances. You may also wish to consider the relevant Target Market Determination (TMD) which sets out the class of consumers that comprise the target market for the Betashares Fund and is available at www.betashares.com.au/target-market-determinations.

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