



# Betashares Active Australian Hybrids Fund (Managed Fund)

**ASX: HBRD**

**Quarterly Report - September 2023**

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Performance <sup>1</sup>	1 month %	3 month %	6 month %	1 year %	3 years % p.a.	Inception % p.a. <sup>2</sup>
Fund Return (net)	0.85%	2.19%	3.39%	4.49%	3.31%	3.61%
Growth return	0.37%	0.77%	0.69%	-0.40%	-0.07%	0.19%
Income return	0.48%	1.42%	2.70%	4.89%	3.38%	3.42%
Solactive Australian Hybrid Securities Index (Solactive Index)	1.29%	2.47%	3.71%	4.71%	3.69%	3.83%
Active Return	-0.44%	-0.28%	-0.32%	-0.22%	-0.38%	-0.22%

Past performance is not a reliable indicator of future performance.

<sup>1</sup> As at 30 September 2023. Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

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

Yield and portfolio characteristics	
Running Yield (% p.a.) <sup>1</sup>	5.62%
Gross Running Yield (% p.a.) <sup>2</sup>	6.56%
Fund Constituents	82

<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

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	\$2098.42m
Historical Tracking Error (annualised)	0.72%
ASX Code	HBRD
Bloomberg Code	HBRD.AU
IRESS Code	HBRD.ASX

Fees	% p.a.
Management fee	0.45
Recoverable expenses	~0.10
Performance fee <sup>1</sup>	15.5

<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>	
ANZ 0 05/16/33	WBCPI
NABPH	NABPI
NAB 0 11/18/2031	CBAAU
WSTP	AN3PG
WBCPJ	CBAAU

<sup>1</sup> As at 30 September 2023

Sector exposure <sup>1</sup>	Fund Weight % <sup>2</sup>	Index Weight % <sup>2</sup>	Active Weight %
Listed Hybrids	43.4	97.3	-53.9
Capital Notes	0.0	2.7	-2.7
Subordinated Bonds	46.3	0.0	46.3
Senior Bonds	7.7	0.0	7.7
Cash	2.6	0.0	2.6
TOTAL	100.00	100.00	0.00

<sup>1</sup> As at 30 September 2023

## Fund performance summary

Over the September 2023 quarter, HBRD returned 2.19% unfranked after fees and 2.36% franked after fees. HBRD closed the quarter with a gross running yield of 6.56% pa and yield to call of 6.08% pa. Credit spreads on 5-year investment-grade (BBB- rated) major bank hybrids tightened from 292bps above 3-month BBSW at the end of June to 253bps at the end of the period, reaching a tight of 239bps in early August.

Hybrid yields have benefitted from rising interest rates with the 3-month BBSW rate climbing from 0% in 2021 to 4.14% in September, giving investors greater baseline yields regardless of overall spread levels. In particular, 5-year major bank hybrids paid a running yield of 6.67% (a combination of the 5-year hybrid spread level of 253bps and the 3-month BBSW rate of 414 bps) and a yield-to-call of 6.83% (a combination of the 5-year hybrid spread level of 253 bps and the 5-year quarterly swap rate of 430 bps) at the end of September.

## Hybrid market and outlook

During the quarter, we saw the issuance of the \$1.25bn NABPJ hybrid. This was issued at 280bps above 3-month BBSW and remained at that level for the rest of the quarter. The only maturity in the listed sector was the \$940m NABPE, the last remaining bank Tier 2 security listed on the ASX. There are no hybrids with a call or maturity for the rest of the year, but there are two major bank calls with a total size of \$3.2bn early next year. We are likely to see the major banks replenish these maturities with primary issuance in the upcoming months.

HBRD continued to increase its allocation to Australian bank Tier 2 subordinated bonds from 39% to 46% over the quarter. Tier 2 bonds rank higher in the bank capital structure than hybrids and have superior credit ratings. The fund benefited from 5-year major bank Tier 2 spreads tightening from 215bps at the beginning of the quarter to 193bps by the end of the September quarter as spreads continued to revert to their long-term mean. During the quarter, Suncorp issued \$600m of Tier 2 bonds with 5.75 years to call at 235bps over 3-month BBSW. The deal performed well, tightening by 10bps by quarter-end. The Fund participated in the deal.

HBRD also increased its exposure to Australian bank senior bonds from 0% to 8.4% over the quarter. These bonds are even safer and more liquid than Tier 2 bonds

and hybrid securities yet remain attractively priced versus historical levels. This allocation to highly liquid securities provides the Fund with the optionality to participate in any attractively priced hybrid issuance over the next few months.

APRA released a discussion paper on options to improve the effectiveness of AT1 in Australia. Coolabah discussed this paper in detail [in this article here](#) and on this [podcast episode here](#).

Hybrid spreads are currently paying a multiple of 1.36 times Tier 2 spreads, which is higher than its historically low levels last year but below its long-term mean of 1.8. This indicates that while hybrids remain attractive due to their overall yields, Tier 2 bonds are relatively cheaper and a source of possible alpha for the Fund at the moment.

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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## Important

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## Betashares

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