



Betashares Active Australian Hybrids Fund (Managed Fund)

ASX: HBRD

Quarterly Report - September 2024

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)	0.77%	1.92%	3.70%	6.86%	4.22%	4.07%
Growth return	0.29%	0.46%	0.73%	0.87%	-0.26%	0.29%
Income return	0.48%	1.46%	2.97%	5.99%	4.48%	3.78%
Solactive Australian Hybrid Securities Index (Solactive Index)	1.00%	2.09%	3.54%	6.56%	4.42%	4.22%
Active Return	-0.23%	-0.17%	0.16%	0.30%	-0.20%	-0.15%

Past performance is not a reliable indicator of future performance.

¹As at 30 September 2024. Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

²Inception date for the Fund is 13 November 2017.

Yield and portfolio characteristics	
Running Yield (% p.a.) ¹	5.81%
Gross Running Yield (% p.a.) ²	6.41%
Fund Constituents	120

¹Average 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.

²Average 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	\$2303.93m
Historical Tracking Error (annualised)	0.81%
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

¹A 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	NABPH
ANZ	NABPI
CBAAU	WBCPJ
NAB	WBCPM
NABPF	WSTP

¹As at 30 September 2024

Sector exposure ¹	Fund Weight %	Index Weight %	Active Weight %
Preference Shares	36.4	99.5	-63.1
Capital Notes	0.0	0.5	-0.5
Subordinated	50.8	0.0	50.8
Senior	11.3	0.0	11.3
Cash	1.4	0.0	1.4
TOTAL	100.00	100.00	0.00

¹As at 30 September 2024

Fund performance summary

Over the September 2024 quarter, HBRD returned 1.92% unfranked and after fees, and 1.98% franked after fees, compared to the benchmark Solactive Australian Bank Hybrid Securities Index's return of 2.09% unfranked. HBRD closed the quarter with a gross running yield of 6.42% p.a., and a credit rating of investment grade A-.

Credit spreads on 5-year major bank hybrids started the quarter at 226bps above the 3-month Bank Bill Swap Rate (BBSW), before tightening to 199bps in mid July, then widening to around 230bps around the time Macquarie launched their new MQGPG issue. Soon after, APRA announced their proposal to phase out the listed hybrid market which triggered compression in bank hybrid spreads to 187bps above BBSW, the tightest level seen in the past 10 years. As the market digested this news, spreads stabilised to end the quarter at 204bps above BBSW.

Hybrid yields have benefitted from rising interest rates with the 3-month BBSW rate climbing from 0% in 2021 to 4.43% in September 2024, giving investors greater baseline yields regardless of overall spread levels. In particular, 5-year major bank hybrids paid a running yield of 6.47% p.a. (a combination of the 5-year hybrid spread level of 204bps and the 3-month BBSW rate of 443 bps), 25bps lower than the running yield paid 3 months ago as hybrid spreads above BBSW compressed on buying demand following the APRA announcement discussed below, and a yield-to-call of 5.63% p.a. (a combination of

the 5-year hybrid spread level of 204bps and the 5-year quarterly swap rate of 359bps), which is 85bps lower than the June quarter end and was driven by swap rates moving tighter compounding the spread compression.

Hybrid market and outlook

During the quarter we saw the issuance of the \$1.5bn Macquarie Group Capital Note 7 (MQGPG) hybrid, which rolled their existing \$1bn Capital Note 3 (MQGPC). The new line was issued at a spread of 265bps above BBSW, a 10bps discount to the major banks. The deal was successful for investors, closing at \$102.00 on the first trading day, which was after the release of the APRA note discussed below. The issue closed the quarter at \$102.44 and has since traded above \$103.00. The Fund participated in the deal. Additionally, during the quarter we saw the scheduled call of Bank of Queensland's 350m Capital Note 2 (BOQPE), which the issuer did not replace.

In September, [APRA published a proposal to eliminate bank hybrids](#). This proposal sparked a rally in hybrids as buyers tried to pick up existing issues that now appear unlikely to be replaced by issuers as they mature.

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.

Important

This information is for the use of licensed financial advisers and other wholesale clients only. It must not be distributed to retail clients.

The information contained in this document is general information only and does not constitute personal financial advice. It does not take into account any person's financial objectives, situation or needs. It has been prepared by Betashares Capital Limited (ABN 78 139 566 868, Australian Financial Services Licence No. 341181) ("Betashares").

The information is provided for information purposes only and is not a recommendation to make any investment or adopt any investment strategy. Betashares assumes no responsibility for any reliance on the information in this document. Past performance is not indicative of future performance. Investments in BetaShares Funds are subject to investment risk and the value of units may go down as well as up.

Future results are inherently uncertain. This information may include opinions, views, estimates, projections, assumptions and other forward-looking statements which are, by their very nature, subject to various risks and uncertainties. Actual events or results may differ materially, positively or negatively, from those reflected or contemplated in such forward-looking statements. Forward-looking statements are based on certain assumptions which may not be correct. You should therefore not place undue reliance on such statements.

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.

Betashares

T: 1300 487 577 (within Australia)

T: +61 2 9290 6888 (outside Australia)

E: info@betashares.com.au

W: betashares.com.au

   @betashares

  /betashares

