BETASHARES AUSTRALIAN INVESTMENT GRADE CORPORATE BOND ETF
ASX: CRED
Quarterly Report - September 2020

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	0.98%	3.19%	5.42%	3.66%		8.45%
Growth return	*0.79%*	*1.78%*	*2.70%*	*-1.03%*		*4.28%*
Income return	*0.19%*	*1.41%*	*2.72%*	*4.69%*		*4.17%*
Index return	*0.93%*	*3.07%*	*5.31%*	*4.53%*		*8.98%*

Past performance is not a reliable indicator of future performance.

[1] Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

[2] Inception date for the Fund is 31 May 2018.

Yield and portfolio characteristics

Running Yield (% p.a.)[1]	3.31%
Yield to Maturity (% p.a.)[2]	2.28%
Average Maturity (Yrs)[3]	7.52
Modified Duration (Yrs)[4]	6.48
Average Credit Rating[5]	A-

[1] Average coupon (weighted by market value) of the bonds in the portfolio, divided by the current market price of the bonds.Provides an indication of expected current income from making an investment at market price. This value will vary over time as interest rates change.

[2] Total expected return from the bond portfolio, based on current bond prices and assuming no change in prevailing interest rates.This value will vary over time.

[3] Average (weighted by market value) length of time until the current bonds in the portfolio mature.

[4] A measure of the sensitivity of the portfolio’s value to a change in interest rates. For example, a Modified Duration of 6 years implies that a 1% rise in the reference interest rate will reduce the value of the portfolio by 6.00%.

[5] Average credit rating for the bonds in the portfolio. Credit ratings should not be used as a basis for assessing investment merit.

Source: Bloomberg. Yields shown do not take into account CRED's management costs of 0.25% p.a.

Investment objective

The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to a portfolio of investment grade fixed-rate Australian corporate bonds.

Responsible entity

BetaShares Capital Ltd

Distribution frequency

Monthly

Fund Facts	
Inception Date	31-May-18
Fund Size	$412.78m
Historical Tracking Error	0.49%
ASX Code	CRED
Bloomberg Code	CRED.AU
IRESS Code	CRED.AXW

Fees	% p.a.
Management fees	0.22
Recoverable expenses	0.03

Investment strategy

The Fund will generally seek to invest in a portfolio of bonds that comprises of the Index in proportion to the weightings of these bonds in the Index.

The Index is designed to provide exposure to corporate bonds in Australia, with each bond having a minimum investment grade credit rating. In order to be eligible for inclusion in the Index, each bond must be a senior, fixed rate, investment grade debt security denominated in Australian dollars, issued by companies listed on the ASX or other eligible entities.
In addition, eligible bonds must have amounts outstanding of at least $250 million and a term to maturity ("TTM") of between 5.25 to 10.25 years.

Eligible bonds are ranked by yield above benchmark (being a Commonwealth Government bond of similar maturity), with up to a maximum of 35 bonds selected, with each bond assigned an equal weight as at each rebalance date. To aid with issuer diversification, no single issuer shall have a weight in excess of 7% at each rebalance date.

By selecting bonds based upon expected returns rather than debt outstanding, the Index methodology seeks to avoid shortcomings of traditional debt-weighted indices and provide relatively higher returns.

Top 10 positions	%		%
Lloyds Banking 4.25% Nov-27	4.4	UTS Sydney 3.75% Jul-27	3.9
Woolworths Group 2.8% May-30	4.3	Barclays PLC 4% Jun-29	3.8
Emirates NBD Bank 4.75% Feb-28	4.1	BPCE SA 4.5% Apr-28	3.7
Ausnet Services 4.2% Aug-28	4.0	McDonald's Corp 3.8% Mar-29	3.7
Verizon Comms 4.5% Aug-27	4.0	Met Life Global I 4% Jul-27	3.7

[1] As at 30 September 2020

Sector exposure	Fund Weight %[1]	Index Weight%[1]
Financial	31.1	25.9
Communications	13.2	14.3
Consumer, Non-cyclical	25.5	25.8
Utilities	13.5	17.1
Industrial	5.0	8.5
Consumer, Cyclical	8.4	5.6
Technology	0.0	0.0
Basic Materials	3.4	2.8
TOTAL	100.00	100.00

[1] As at 30 September 2020

Fund performance summary

CRED returned 3.19% during the September quarter, as global credit sentiment remained broadly constructive alongside a move lower in benchmark Australian government yields, with the RBA having indicated additional near-term easing measures are likely. Credit spread compression (-30bps) contributed 1.93% to quarterly returns, while declines in benchmark government yields added 0.56%.

Broad global economic activity indicators remained resilient during Q3, but showed fading momentum during the latter part of the period. Amid a resurgence in COVID-19 infections in Europe and a declining fiscal and monetary policy impulse in the U.S., 5-10 year US$ IG spreads compressed 13 basis points. Risk sentiment remained buoyed by a continued move higher in inflation expectations, a deal among EU members to allow for more meaningful fiscal policy and a dovish shift in the Fed's inflation targeting framework (allowing inflation to exceed 2 per cent to make up for prior periods of undershooting). Supply was also in focus during the quarter, with year-to-date investment grade corporate issuance reaching a record US$1.6 trillion, which came alongside US$2.7 trillion of year-to-date U.S. Treasury issuance. The Fed's September FOMC meeting provided no major surprises, with members expecting the Fed Funds Rate to remain on hold until at least 2023.

Fund performance summary continued

Domestic credit market conditions were favourable during the quarter, amid a lack of AUD corporate supply and the relative attractiveness of domestic credit spreads, driving outperformance against USD equivalents. There was further support in the dovish rhetoric from the RBA, driving expectations of further easing this year, sponsoring a meaningful move lower in 3-7-year yields. Commonwealth issuance was significant during the quarter, with $117 billion sold across the curve, driving a steepening bias at the long end, with RBA purchases of $12 billion providing little offset.

The competing forces of deteriorating global economic momentum and abundant domestic liquidity will likely be the main drivers for domestic credit spreads over the rest of the year. Tightening credit conditions in the U.S. and heightened risk aversion heading into the U.S. election will be key headwinds, alongside the ongoing COVID-19 concerns and the sporadic nature of economices re-opening globally. However, further RBA easing measures, the relative steepness of Australian sovereign and investment grade yield curves against global peers, and the comparatively rich valuations in senior bank debt may see 5-10-year AUD corporate bonds remain well supported.