BETASHARES AUSTRALIAN BANK SENIOR FLOATING RATE BOND ETF
ASX: QPON
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)	-0.06%	0.64%	3.03%	2.22%	2.67%	2.83%
Growth return	*-0.12%*	*0.48%*	*2.61%*	*0.89%*	*0.54%*	*0.73%*
Income return	*0.06%*	*0.16%*	*0.42%*	*1.33%*	*2.13%*	*2.10%*
Index return	-0.05%	0.70%	3.12%	2.48%	2.91%	3.01%

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 1 June 2017*

Investment objective
The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to a portfolio of some of the largest and most liquid senior floating rate bonds issued by Australian banks.

Responsible entity
BetaShares Capital Ltd

Distribution frequency
Monthly

Fund Facts	
Inception Date	1-Jun-17
Fund Size	$717.97m
Historical Tracking Error	0.09%
ASX Code	QPON
Bloomberg Code	QPON.AU
IRESS Code	QPON.ASW

Fees	% p.a.
Management fees	0.19
Recoverable expenses	0.03

Investment strategy
The Fund will generally invest in a portfolio of bonds that comprise the Index in proportion to the weightings of these bonds in the Index.

In order to be eligible for inclusion in the Index, each bond must be a senior floating rate debt security denominated in AUD and issued by an eligible Australian bank. In addition, eligible bonds must have amounts outstanding of at least $500 million and a term to maturity (“TTM”) of between one to five years. Current eligible banks are classified into two bands as follows:

- **Band 1**: ANZ Bank, Commonwealth Bank of Australia, National Australia Bank, Westpac
- **Band 2**: AMP Bank, Bank of Queensland, Bendigo & Adelaide Bank, Macquarie Bank, Members Equity

Eligible bonds with the longest TTM are selected with up to two bonds selected from each Band 1 bank, and one bond from each Band 2 bank. Bonds from Band 1 are given a total weight of at least 80% based on market value, with each bond equal weighted. Bonds from Band 2 are given a total weight of up to 20% based on market value, with each bond equal weighted (with no Band 2 bond allowed to have a weight in excess of 5%).

Top 10 Exposures[1]	%		%
WBC FRN Aug-24	10.6	CBA FRN Jan-24	9.9
NAB FRN Jan-25	10.3	WBC FRN Apr-24	9.8
ANZ FRN Jan-25	10.2	NAB FRN Jun-24	9.7
CBA FRN Aug-23	9.9	Bendigo and Adelaide FRN Sep-22	5.3
ANZ FRN Aug-24	9.9	Macquarie Group FRN Feb-25	5.0

[1] *As at 30 September 2020*

Fund performance summary

QPON returned 0.64% during the September quarter, as credit spreads continued to compress amid a lack of supply against the backdrop of favourable risk sentiment. Spreads on longer-dated major bank FRNs were around 15 basis points tighter over the quarter (settling around 45bps over 3-month BBSW), adding around 0.55% to QPON's performance, while the contribution from yield was negligible as the benchmark BBSW reached a fresh all-time low of 0.08%.

After aggressively compressing in the month of July, bank FRN spreads consolidated during the remainder of the quarter, receiving some further support on the extension of the RBA's term funding facility (TFF) and expectations of additional rate cuts. Following a speech from the RBA Deputy Governor in late September, short term rate futures began pricing in additional easing for this year, with a cut to the cash rate target, the 3-year government yield target and TFF rate to 0.10% (from 0.25% currently) seen as the most likely outcomes.

Bank FRN spreads will likely remain confined to a tight range over the coming months, as fresh supply will be curtailed by the TFF. However, domestic spreads will still be subject to global credit conditions and risks of a contested U.S. presidential election combined with deteriorating economic momentum across the global economy, could still sponsor fresh bouts of risk aversion, leaving risks still skewed to the downside. In addition, the increase in supply of commonwealth and state government bonds and cheap 3-year funding via the TFF will allow the domestic banks to meet the required liquidity coverage ratios using traditional high-quality liquid assets (HQLA) and not rely on the RBA's committed liquidity facility (CLF), which currently allows senior bank bonds, ABS and self-securitised RMBS to be held in lieu of traditional HQLA (given the lack of government supply relative to the banking sector's size). With ADI-issued senior bonds accounting for 11% of CLF collateral, the removal of the facility may reduce demand at the margin from bank balance sheets.