BETASHARES AUSTRALIAN BANK SENIOR FLOATING RATE BOND ETF
ASX: QPON
Quarterly Report - March 2020

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	-1.55%	-1.31%	-0.78%	0.81%		2.25%
Growth return	*-1.69%*	*-1.75%*	*-1.67%*	*-1.17%*		*0.05%*
Income return	*0.14%*	*0.44%*	*0.89%*	*1.98%*		*2.20%*
Index return	-1.47%	-1.19%	-0.63%	1.08%		2.43%

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	$764.5 million
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 Apr-24	10.2	CBA Frn Jan-24	9.4
ANZ Frn Aug-24	10.1	CBA Frn Aug-23	9.1
NAB Frn Jun-24	10.1	ANZ Frn Jan-25	8.7
WBC Frn Aug-24	9.9	Bendigo Frn Sep-22	4.5
NAB Frn Jan-25	9.8	BOQ Frn Feb-23	4.3

[1] *As at 31 March 2020*

Fund Performance Summary

QPON returned -1.31 per cent during the March quarter. Credit spreads widened significantly, as the combined shocks of COVID-19, ensuing economic shutdowns and a collapse in oil prices roiled credit markets and risk assets more broadly. Spreads on 5-year major bank paper reached as high as +130 basis points (comparable to levels seen during the European debt crisis), although tradeable bids in the market blew out considerably wider during the worst periods of the liquidity dislocation in mid-March.

In response to the liquidity and economic crisis, the RBA cut the official cash rate by a total of 50 basis points across two meetings in March to 0.25% and announced two major liquidity support tools, following an earlier ramp-up of open market operations. These support tools included a government bond buying programme (targeting Federal and State securities across the curve) and a term funding facility (TFF), which would provide 3-year secured loans to Australian ADIs (at 0.25%) to facilitate business lending into the real economy. In addition, capital adequacy rules (both here and globally) have also been eased in order to ensure the continued flow of credit.

With liquidity returning to the market on the back of global monetary and fiscal stimulus, credit markets have stabilised in recent weeks, albeit at much wider spreads from where they were trading at the start of the year. Spreads on bank FRNs widened less than spreads on non-financial corporate bonds, largely owing to the strong capital buffers that have been built up post-GFC. Further, the provision of central bank liquidity, a relaxation of regulatory rules and a broad acceptance from policymakers that the financial sector is crucial in facilitating the post-COVID recovery, may see bank credit relatively well supported at the margin. Furthermore, the introduction of the TFF will eliminate the need for a large proportion of major bank senior debt issuance over the next 12 months.