BETASHARES AUSTRALIAN GOVERNMENT BOND ETF
ASX: AGVT
Quarterly Report - December 2020

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	-0.47%	-0.28%	1.03%	6.22%		4.29%
Growth return	*-0.54%*	*-0.48%*	*0.53%*	*5.09%*		*2.66%*
Income return	*0.07%*	*0.20%*	*0.50%*	*1.13%*		*1.63%*
Index return	*-0.46%*	*-0.25%*	*1.12%*	*6.39%*		*4.47%*

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 5 July 2019.

Yield and portfolio characteristics

Running Yield (% p.a.)[1]	2.19%
Yield to Maturity (% p.a.)[2]	0.95%
Average Maturity (Yrs)[3]	8.82
Modified Duration (Yrs)[4]	8.00
Average Credit Rating[5]	AAA

[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 7.00%.

[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 AGVT's management costs of 0.22% p.a.

Investment objective

The Fund aims to track the performance of an index that provides exposure to a portfolio of high-quality bonds issued by Australian federal and state governments, and with a component also issued by supranationals and sovereign agencies.

Responsible entity

BetaShares Capital Ltd

Distribution frequency

Monthly

Fund Facts	
Inception Date	5-Jul-19
Fund Size	$79.98m
Historical Tracking Error	0.39%
ASX Code	AGVT
Bloomberg Code	AGVT.AU
IRESS Code	AGVT.AXW

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

Investment strategy

The Fund's Index is designed to provide exposure to Australian Dollar denominated fixed rate bonds issued primarily by Australian federal and state governments, and with a component issued by supranationals, sovereign agencies and similar issuers. To be eligible for inclusion in the Index, amongst other requirements, each bond must be an Australian Dollar denominated fixed rate bond, have a term to maturity between 7-12 years and meet a minimum issuance size requirements. Securities are market capitalisation weighted, and will be adjusted at rebalance date to ensure that 75% of the Index is comprised of Australian federal and state government bonds; and 25% of the Index comprises of supranationals, sovereign agencies, government-related development banks and non-Australian governments/regional authorities.

Top 10 positions	%		%
Australian Govt 2.5% May-30	7.1	Australian Govt 2.25% May-28	5.7
Australian Govt 3.25% Apr-29	6.8	Australian Govt 1% Nov-31	4.9
Australian Govt 2.75% Nov-29	6.7	Australian Govt 1.5% Jun-31	4.9
Australian Govt 2.75% Nov-28	6.3	Australian Govt 1.25% May-32	3.8
Australian Govt 1% Dec-30	5.7	European Inv Bank 3.3% Feb-28	2.8

[1] *As at 31 December 2020*

Sector exposure	Fund Weight %[1]	Index Weight%[1]
Australian Government	52.1	53.1
Australian State Governments	22.8	21.8
Supranational Banks	12.0	12.0
Government Development Banks/Agencies	13.1	13.1
Regional Authorities	0.0	0.0
Cash	0.0	0.0
TOTAL	100.00	100.00

[1] *As at 31 December 2020*

Fund performance summary

AGVT returned -0.28% for the December quarter as government bond yields rose at the long end, with an improvement on global risk sentiment offsetting further policy accommodation from the RBA. The benchmark 10-year Commonwealth government yield rose 18 basis points over the quarter, while spreads on state government bonds and government-related issuers compressed modestly, helping AGVT outperform both the broad Treasury index (-0.57%) and the 10-year futures contract (-0.92%). AGVT returned +6.21% over the calendar year, as yields across the relevant tenors fell sharply in Q1.

Arguably the biggest development specific to Australian bonds during the quarter was the formal introduction of quantitative easing (QE), involving $100 billion of purchases of 5-12-year Commonwealth and state government bonds over a 6-month period. In addition to QE, the RBA also lowered the official cash rate target, the rate on the 3-year term funding facility and the 3-year government yield target, to 0.10% (from 0.25% previously).

However, any initial flattening pressure created by the QE announcement was quickly unwound. As news of successful vaccines sponsored steepening pressures across sovereign curves globally, investors rotated into reflation assets amid hopes of a near-term economic rebound. This move was further compounded by the outcome of the US Presidential election, which was seen as favourable to risk assets, owing to expectations of continued fiscal stimulus under a Democrat-led administration (further reinforced in early January following the Georgia senate run offs, which give Democrat control over both houses of congress). Domestic economic data was generally stronger than expected during the quarter, with the rebound in the labour market particularly robust. In contrast, global data was more mixed, with global manufacturing PMIs generally showing continued improvement, while services PMIs tended to fade ahead on renewed lockdowns in Europe.

Fund performance summary continued

Going forward, a declining pace of new AOFM issuance combined with an expected extension of the RBA's QE program and unwind of the RBA's Committed Liquidity Facility should be supportive for Australian bonds at the margin, particularly for AGVT, which has a large overlap with the RBA's QE portfolio. During the quarter, the AOFM also revised it's 2020/21 issuance target lower to $230 billion (from $240b announced following the Budget), with over $150 billion already issued since 1 July. However, the long-end of the curve will still be captive to moves in US Treasuries and broad risk sentiment, but with Australian bonds offering compelling FX-hedged yields compared to G7 peers, we expect some outperformance relative to US Treasuries, particularly if the Federal Reserve begins to scale back the pace of asset purchases, as has been alluded to by FOMC members and market commentators.