BetaShares
Exchange Traded Funds

BETASHARES AUSTRALIAN INVESTMENT GRADE CORPORATE BOND ETF
ASX: CRED
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)	0.12%	2.68%	5.96%	7.69%		8.70%
Growth return	*-0.07%*	*2.10%*	*3.94%*	*3.01%*		*4.70%*
Income return	*0.19%*	*0.58%*	*2.02%*	*4.68%*		*4.00%*
Index return	*0.34%*	*2.83%*	*5.99%*	*8.76%*	*8.40%*	*9.25%*

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]	2.90%
Yield to Maturity (% p.a.)[2]	1.93%
Average Maturity (Yrs)[3]	7.19
Modified Duration (Yrs)[4]	6.69
Average Credit Rating[5]	BBB+

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	$468.8m
Historical Tracking Error	0.48%
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	%		%
Woolworths Group 2.8% May-30	4.6	Barclays PLC 4% Jun-29	3.6
AGI Finance 1.8152% Nov-28	4.5	Coles Group 2.1% Aug-30	3.6
Vodafone Group 4.2% Dec-27	4.0	Verizon Comms 2.65% May-30	3.5
Lloyds Banking 4.25% Nov-27	3.9	UTS Sydney 3.75% Jul-27	3.5
Emirates NBD Bank 4.75% Feb-28	3.7	Aurizon Network 2.9% Sep-30	3.4

[1] As at 31 December 2020

Sector exposure	Fund Weight %[1]	Index Weight%[1]
Financial	32.9	31.4
Communications	13.0	8.5
Consumer, Non-cyclical	21.1	20.0
Utilities	15.5	17.1
Industrial	7.3	14.4
Consumer, Cyclical	6.9	5.7
Technology	0.0	0.0
Basic Materials	3.4	2.9
TOTAL	100.00	100.00

[1] As at 31 December 2020

Fund performance summary

CRED returned 2.68% during the December quarter. An aggressive compression in credit spreads offset an increase in benchmark Australian government yields, as global markets pivoted to a more reflationary bias. The returns from credit (carry and spread compression) accounted for 3.06%, while the "bear steepening" in the Commonwealth government curve detracted 0.39%. For the calendar year, CRED returned 7.66%, with the contribution evenly split between rate duration and credit related returns.

Contributing to the reflationary impulse was the announcement of several successful COVID-19 vaccines in early November, closely followed by an outcome in US Presidential election seen as favourable to risk assets. With markets anticipating more fiscal support under a Democrat-led administration (further reinforced by Senate victories in early January) and an acceleration of the reopening of the global economy, markets rotated heavily towards cyclical exposures, with fixed income markets seeing sovereign curves steepen, credit favoured over duration, and high-yield favoured over investment grade.

Fund performance summary continued

The unveiling of the RBA's formal quantitative easing package in November was also supportive for AUD credit, which exhibited some outperformance against U.S. dollar equivalents during the quarter. Furthermore, issuance into the domestic credit market remained subdued as the relatively high FX-hedged yields (when swapped back to other currencies) may have discouraged foreign issuers at the margin.

Looking ahead, we begin the new year with reflation being overwhelmingly a consensus view. Given the arguably stretched positioning, there are significant downside risks to this narrative that include an evolving pandemic situation, uncertainty over when the global economy, including a deterioration in U.S. labour market indicators. Although vaccine production has begun in earnest, logistical problems have hampered the delivery in many countries. In addition, U.S. political risk and social unrest remains an ongoing issue despite the Presidential election now in the background.