

BETASHARES AUSTRALIAN BANK SENIOR FLOATING RATE BOND ETF

ASX: QPON

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)	-0.10%	0.79%	1.44%	2.48%	2.66%	2.85%
Growth return	-0.15%	0.64%	1.13%	1.46%	0.66%	0.86%
Income return	0.05%	0.15%	0.31%	1.02%	2.00%	1.99%
Index return	-0.09%	0.84%	1.55%	2.75%	2.90%	3.04%

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

Fund Facts

Inception Date	1-Jun-17
Fund Size	\$760.27m
Historical Tracking Error	0.09%
ASX Code	QPON
Bloomberg Code	QPON.AU
IRESS Code	QPON.ASW

Distribution frequency

Monthly

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	%		%
NAB FRN Jun-24	10.0	ANZ FRN Jan-25	9.6
ANZ FRN Aug-24	9.9	WBC FRN Apr-24	9.6
WBC FRN Aug-24	9.9	NAB FRN Jan-25	9.5
CBA FRN Aug-23	9.8	BOQ FRN Feb-23	4.8
CBA FRN Jan-24	9.7	Macquarie Group FRN Dec-25	4.7

¹ As at 31 December 2020

Fund performance summary

QPON returned 0.79% during the December quarter, as credit spreads continued their compression to fresh post-GFC tights. Credit spreads on 4 and 5-year domestic bank senior FRNs generally tightened around 20 basis points over the quarter. The benchmark 3-month BBSW rate itself also reaching a fresh all-time low of just 0.01%, following the RBA's decision at the November Board meeting to lower the cash rate target to 0.10% (from 0.25%) and the interest paid on ES balances to 0% (from 0.10% previously). Over the calendar year, QPON returned 2.48%, with approximately 1.8% accounted for by credit spread compression.

Despite the Term Funding Facility (TFF) still being in effect, both Bendigo & Adelaide Bank and Macquarie Bank came to market with new 5-year deals, supporting a consolidation in spreads across the broader sector into year-end.

With the RBA giving no clear timeline on the TFF's removal and expectations it will maintain an accommodative policy stance overall, it is likely that major bank credit spreads will remain tight relative to historical averages over the coming months. However, given where spreads currently sit and the emergence of some supply, a modest widening should be anticipated, particularly if the reflation impulse loses momentum into the new year.

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