BETASHARES ACTIVE AUSTRALIAN HYBRIDS FUND (MANAGED FUND)
ASX: HBRD
Quarterly Report - December 2021

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	0.82%	1.17%	1.52%	3.81%	4.18%	4.01%
Growth return	*0.61%*	*0.56%*	*0.28%*	*1.25%*	*1.14%*	*0.81%*
Income return	*0.21%*	*0.61%*	*1.24%*	*2.56%*	*3.04%*	*3.20%*
Solactive Australian Hybrid Securities Index (Solactive Index)	*0.85%*	*1.49%*	*1.81%*	*4.44%*	*4.41%*	*4.19%*
Active Return	-0.03%	-0.32%	-0.29%	-0.63%	-0.23%	-0.18%

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 13 Nov 2017.

Yield and Portfolio Characteristics

Running Yield (% p.a.)[1]	2.40%
Gross Running Yield (% p.a.)[2]	3.37%
Fund Constituents	34

[1] Average yield (weighted by market value) of the hybrids portfolio, divided by the current market price of the securities. This provides an indication of expected current income from making an investment at market price. This value will vary over time.

[2] Average estimated gross yield (weighted by market values and inclusive of franking credits) of the hybrids in the portfolio, divided by the current market price of the securities. This provides an indication of the expected current income from making an investment at market price. This figure is indicative only and will vary over time. Not all investors will be able to obtain the full value of franking credits.

Investment objective

The Fund provides investors with a convenient way to access attractive income returns, including franking credits, from an actively managed, diversified portfolio of hybrid securities. As the Fund is overseen by a professional investment manager, it actively seeks to reduce the volatility and downside risk that may otherwise be experienced by direct holders of hybrids.

Responsible entity

BetaShares Capital Ltd

Investment manager

Coolabah Capital Institutional Investments Pty Ltd

Distribution frequency

Monthly

Suggested minimum investment timeframe

At least three years

Fund Facts	
Inception Date	13-Nov-17
Fund Size	$1612.42m
Historical Tracking Error	0.76%
ASX Code	HBRD
Bloomberg Code	HBRD.AU
IRESS Code	HBRD.ASX

Fees	% p.a.
Management fees	0.45
Recoverable expenses	~0.10
Performance fee[1]	

[1] A performance fee may be payable. This fee is 15.5% of the Fund's performance above the performance benchmark in a calendar quarter.

Investment strategy

The Fund will invest in an actively managed portfolio of hybrid securities, bonds and cash. If and when the hybrids market is assessed to be overvalued or presents a heightened risk of capital loss, the Fund can allocate more of the portfolio to lower risk securities.

Top 10 positions[1]	
CBAPD	WBCPI
NABPH	ANZPE
NABPF	WBCPJ
ANZPG	CBAPH
WBCPH	ANZPI

[1] As at 31 December 2021

Sector exposure	Fund Weight %[1]	Index Weight%[1]	Active Weight%
Listed Hybrids	96.7	95.4	1.3
Capital Notes	0.0	0.5	-0.5
Subordinated Bonds	0.0	0.0	0.0
Senior Bonds	0.4	4.1	-3.7
Cash	2.8	0.0	2.8
TOTAL	100.00	100.00	0.00

[1] As at 31 December 2021

Fund performance summary

HBRD returned 1.02% before franking credits and after fees in December 2021, ending the month with a net running yield of 2.40% (gross running yield of 3.32%). Over the last 12 months, HBRD has returned 4.02% before franking and after fees. Since inception, HBRD has returned an unfranked 4.06% annualised after fees, with only an average 89.0% portfolio weight to ASX hybrids, relative to the Solactive Australian Hybrid Securities Index's (Solactive Index) 4.19% unfranked, return and the RBA Cash Rate + 2.5% return of 3.26%.

HBRD's since inception volatility of 5.15% has been materially lower than the benchmark Solactive Index's volatility of 5.53% and less than a third of the 17.07% volatility of the All Ords Accumulation Index. At the end of December, HBRD was diversified across 37 hybrids/bonds, and had a 96.5% allocation to hybrids, 0.4% to subordinated bonds, and 3.1% to cash.

Hybrids market and outlook

Over the December quarter HBRD gained 1.37% unfranked after fees and 1.60% franked after fees. Over the same period, credit spreads on 5-year, BBB- rated major bank hybrids tightened from 237bps above BBSW at the end of September, to 210bps by the end of December.

The sector's positive performance was driven by a reduction in net bonds outstanding due to ASX hybrid maturities paired with a lack of new primary issues, and the seasonal year-end rally. Over the quarter, there was a total of $1.81bn of secondary turnover in ASX hybrids.

The quarter saw the maturities of the ASX-listed AMPPA, CBAPE and WBCPG hybrids, handing around $2.4bn back to retail investors. This, combined with a lack of new listed hybrid deals, drove an uptick in demand for the existing ASX hybrids as investors looked to reinvest their cash into a high-yielding home.

An important development during the quarter was the introduction of the Design and Distribution Obligation (DDO) legislation in October. At a high level, the DDO legislation requires hybrid issuers to consider the appropriateness of their products for retail investors using prescribed criteria.

Hybrids market and outlook continued.

Associated with the DDO requirements, we anticipate there will be a move of new hybrid supply shift off the ASX and into the OTC domain. ASX deals will almost certainly be somewhat smaller in size. Westpac has already flagged it will consider an OTC hybrid issue following the pioneering footsteps of NAB, which has consummated two OTC deals thus far. If the technical of reduced ASX supply plays-out, we could see listed hybrids to trade tighter than they have in the past.

Finally, the performance this quarter was capped off by the seasonal rally in the ASX hybrids sector as the market headed into the year end. This steered the 5-year major bank hybrid credit spread to the tightest level it has seen in 10 years at 210bps. The previous tight in the same period was in mid-2014 where the credit spread tested 235bps.

Looking at regional hybrids, S&P upgraded Suncorp Group one notch higher in mid-December as a result of their consistently strong operating performance. This resulted in an upgrade to the ASX-listed Suncorp hybrids' S&P rating from BBB- to BBB. This saw Suncorp hybrids outperform the rest of the regional bank sector over the month of December.

Looking forward at the first quarter of 2022, we have the expected redemption of the $1.61bn ANZPE and the $1.64bn CBAPF hybrids towards the tail end of March. This should trigger replacement deals in the first few months of the year.