

## BETASHARES ACTIVE AUSTRALIAN HYBRIDS FUND (MANAGED FUND)

ASX: HBRD

### Quarterly Report - March 2022

Performance <sup>1</sup>	1 Month	3 Months	6 Months	1 Year	3 Years	Inception <sup>2</sup>
	%	%	%	%	% p.a.	% p.a.
Fund Return (net)	-0.11%	-0.49%	0.67%	2.25%	3.59%	3.66%
Growth return	-0.30%	-1.08%	-0.52%	-0.25%	0.70%	0.51%
Income return	0.19%	0.59%	1.19%	2.50%	2.89%	3.15%
Solactive Australian Hybrid Securities Index (Solactive Index)	-0.03%	-0.35%	1.13%	2.90%	3.79%	3.86%
Active Return	-0.08%	-0.14%	-0.46%	-0.65%	-0.20%	-0.20%

**Past performance is not a reliable indicator of future performance.**

<sup>1</sup> Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

<sup>2</sup> Inception date for the Fund is 13 Nov 2017.

### Yield and Portfolio Characteristics

Running Yield (% p.a.) <sup>1</sup>	2.46%
Gross Running Yield (% p.a.) <sup>2</sup>	3.42%
Fund Constituents	35

<sup>1</sup> 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.

<sup>2</sup> 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

### Fund Facts

Inception Date	13-Nov-17
Fund Size	\$1748.51m
Historical Tracking Error	0.74%
ASX Code	HBRD
Bloomberg Code	HBRD.AU
IRESS Code	HBRD.ASX

### Distribution frequency

Monthly

### Fees

	% p.a.
Management fees	0.45
Recoverable expenses	~0.10
Performance fee <sup>1</sup>	

<sup>1</sup> A performance fee may be payable. This fee is 15.5% of the Fund's performance above the performance benchmark in a calendar quarter.

### Suggested minimum investment timeframe

At least three years

## 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<sup>1</sup>

CBAPD	ANZPG
NABPH	WBCPI
NABPF	CBAPJ
WBCPJ	CBAPH
WBCPH	ANZPI

<sup>1</sup> As at 31 March 2022

Sector exposure	Fund Weight % <sup>1</sup>	Index Weight% <sup>1</sup>	Active Weight%
Listed Hybrids	96.9	95.0	1.9
Capital Notes	0.0	0.5	-0.5
Subordinated Bonds	0.0	0.0	0.0
Senior Bonds	0.4	4.4	-4.0
Cash	2.7	0.0	2.7
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>

<sup>1</sup> As at 31 March 2022

## Fund performance summary

In March 2022, HBRD returned -0.11% before franking credits and after fees. HBRD ended the month with a net running yield of 2.46% (gross running yield of 3.42%). Over the last 12 months, HBRD has returned 2.06% before franking credits and after fees, and 3.02% after franking credits and after fees. Since inception, HBRD has returned an unfranked 3.62% and franked 4.59% annualised after fees, with only an average 89.4% portfolio weight to ASX hybrids, relative to the Solactive Australian Hybrid Securities Index's (Solactive Index) 3.86% unfranked, return and the RBA Cash Rate + 2.5% return of 3.22%.

HBRD's since inception volatility of 5.02% has been materially lower than the benchmark Solactive Index's volatility of 5.39% and less than a third of the 17.05% volatility of the All Ords Accumulation Index. At the end of March, HBRD was diversified across 34 hybrids/bonds, and had a 97.2% allocation to hybrids, 0.4% to subordinated bonds, and 2.4% to cash.

## Hybrids market and outlook

Over the March quarter, HBRD returned -0.49% unfranked after fees or -0.28% franked after fees. Credit spreads on investment-grade (BBB- and above rated) 5-year rated major bank hybrids widened from 212bps above BBSW at the end of December 2021 to 270bps at their peak in mid-March before tightening to 240bps by the end of March. Over the quarter, there was a total of \$1.37bn of secondary turnover in ASX hybrids.

The sector's negative performance for the quarter started in January, following the seasonal December rally. This weakness accelerated in early March when Aussie credit spreads played catch-up to the widening of U.S. and European spreads as a result of the Ukraine-Russian conflict, and fears of much higher interest rates to cauterise the burgeoning global inflation problem. As confidence returned to global credit markets in late March, we saw hybrid spreads tighten around 30bps.

The price action in the March quarter was also heavily influenced by the issuance of two new ASX-listed hybrid deals from ANZ and CBA, which were the first following the new Design and Distribution Obligation (DDO) legislation introduced in October 2021. The DDO legislation generally made it difficult for retail investors to participate in the new money, reinvestment offer and security holder offerings of the two new ASX-listed hybrids, unless it was recommended to them under a personal financial advice model. This however did not affect institutional and wholesale investors, nor investors in hybrid ETPs, who can still access the concessions (or wider credit spreads) that typically come from a new issue.

## Hybrids market and outlook continued.

ANZ printed the \$1.31bn ANZPJ hybrid at 270bps over BBSW, with 7 years-to-call to refinance the maturing \$1.61bn ANZPE hybrid in late March. CBA refinanced the maturing \$1.64bn CBAPF hybrid with the new \$1.75bn CBAPK hybrid at 275bps over BBSW and with 7.2 years-to-call. HBRD bought both securities in size because they appeared very cheap, with a circa 15-30bps spread concession to our quantitative fair value estimates (i.e. we were being paid more income than was required). It was speculated that CBAPK was also used to pre-emptively finance the \$3bn CBAPD hybrid, which is the largest ASX-listed hybrid, maturing at the end of the year.

The impact of the DDO laws was also felt in the secondary market. Retail investors who could not participate in the primary deal, paid a premium when ANZPJ and CBAPK began trading. Both traded around \$101 on their first day in large volume (hybrids get issued at a par value of \$100) and have since traded even higher. The repayment of the existing ANZPE and CBAPF hybrids in March resulted in additional heavy demand for ASX-listed hybrids leading into the end of the month, which helped bring 5-year hybrid spreads back down to 240bps from 270bps at their peak.

In the second quarter of 2022, we anticipate a redemption of the \$1.5bn NABPD at the start of July. This should trigger a replacement deal launching sometime in June. We also hope to see some unlisted hybrid deals emerge from the major banks.

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