VanEck®

SUBD VanEck Australian Subordinated Debt ETF

FSUB VanEck Australian Fixed Rate Subordinated Debt ETF

Monthly income powered by financial giants

Subordinated bonds are issued by banks and other financial institutions such as insurers. These bonds have similar characteristics to traditional bonds, being that they represent a loan from the bondholder to the issuer, have a fixed or floating interest rate and set maturity or redemption terms.

They are known as "subordinated" because in the event of issuer default or insolvency, subordinated bonds are paid out after deposits, senior debt and other higher ranking obligations. To compensate for this elevated risk, subordinated bonds typically offer a higher interest rate. On the other hand, subordinated bonds are considered less risky than shares and Additional Tier 1 (AT1) instruments (commonly known as hybrids).

Subordinated debt, also known as Tier 2 capital, forms part of the buffer banks and insurers are required to have to absorb potential losses in the event of financial distress and is set by the Australian Prudential Regulation Authority (APRA).

With APRA phasing out the use of ASX hybrids to simplify bank capital structures and improve their effectiveness in times of stress, major banks are expected to replace their ASX hybrids with predominantly Tier 2 capital.

Simplified capital structure of a financial institution

The following chart provides a simplified example of the capital structure in a financial institution to illustrate how different securities issued by financial institutions rank in priority of payment in the event of insolvency. Priority is given to depositors and senior debt. Shareholders get paid last, if at all.

You can see that subordinated bond holders rank above ordinary shareholders and Additional Tier 1 Capital but below senior debt. For this reason, subordinated bonds carry more risk than deposits and traditional bonds but are considered less risky than shares and hybrids.

Investment risk/return	Capital structure		Priority on insolvency
Low	Senior debt	Secured debts	High
		Deposits	
		Unsecured debts	
	Hybrids#	Tier 2 Capital (Subordinated debt)	
		Additional Tier 1 Capital ("Hybrids"*)	
High	Common Equity Tier 1 Capital (Ordinary shares)		Low

#Per ASIC Report 365. *Per market convention.

VanEck offers a suite of Australian subordinated bond ETFs allowing investors the optionality for either fixed or floating rate exposure.

Each provides a portfolio of investment-grade subordinated bonds

- **Convenient and liquid** access to an OTC institutional market
- **Relative defence** – subordinated bonds are considered less risky than shares or hybrids (Additional Tier 1 Capital) because if the issuer becomes insolvent bond holders are repaid in priority to shareholders.
- **Potential for higher returns** relative to cash, term deposits and traditional bonds – cash and term deposits have minimal risk but offer low returns. Reflecting their subordination in the issuer capital structure, subordinated bonds generally offer a higher interest rate than senior debt or traditional bonds.
- **Income paid monthly**

Key Risks: An investment in FSUB and SUB carries risks associated with: subordinated debt, bond markets generally, interest rate movements, issuer default, credit ratings, fund operations, liquidity and tracking an index. See the relevant PDS and TMD for more details.

VanEck Australian Subordinated Debt ETF

ASX code:	SUBD
ASX commencement:	28 October 2019
Management fees:	0.29% p.a.*
Index:	iBoxx AUD Investment Grade Subordinated Debt Mid Price Index

VanEck Australian Fixed Rate Subordinated Debt ETF

ASX code:	FSUB
ASX commencement:	12 December 2025
Management fees:	0.29% p.a.*
Index:	iBoxx AUD Fixed Investment Grade Subordinated Debt Mid Price Index

*Other costs may apply. Please refer to the PDS

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