

A portfolio of investment grade subordinated bonds

VanEck Vectors Australian Subordinated Debt ETF (ASX: SUBD) gives investors access to a portfolio of investment grade subordinated bonds via a single trade on ASX.

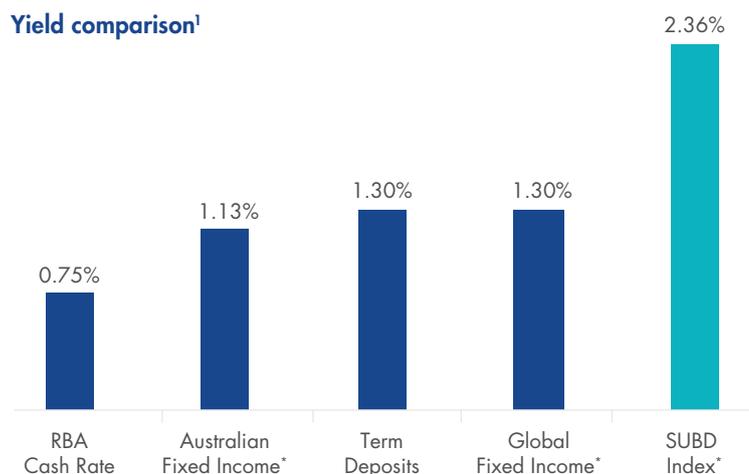
Subordinated debt has similar characteristics to traditional bonds. It is called 'subordinated' because it sits below 'senior debt' or traditional bonds in the capital structure, and sits above and takes priority over Additional Tier 1 Capital and ordinary shares, in the event of insolvency.

SUBD tracks the iBoxx AUD Investment Grade Subordinated Debt Index and only invests in AUD denominated floating rate bonds issued by financial institutions that qualify as Tier 2 Capital under APRA's Rules (or equivalent foreign rules) and hold an iBoxx investment grade credit rating.

SUBD offers:

- **Access to investment grade Tier 2 Capital bonds** – with one trade on ASX.
- **Relative defence** – subordinated bonds are considered less risky than shares because if the issuer becomes insolvent bond holders are repaid in priority to shareholders.
- **Potential for higher yield** – Reflecting their subordination in the issuer capital structure, subordinated bonds generally offer a higher interest rate than senior debt or traditional bonds
- **Monthly income**

Yield comparison¹



¹Please note the yields shown do not consider the differing risk profiles for each asset class. Income received will be different from the yield represented.

Source: Bloomberg, RBA, as at 30 September 2019. Australian Fixed Income = Bloomberg AusBond Composite 0+ Yr Index; Term Deposits = Average interest rate on 12-month bank term deposits in September 2019; Global Fixed Income = Bloomberg Barclays Global Aggregate Bond Hedged AUD Index; SUBD Index = iBoxx AUD Investment Grade Subordinated Debt Index. *Yield to maturity shown. Yield to Maturity (YTM) is the estimated annual rate of return that would be received if the fund's current securities were all held to their maturity and all coupons and principal were made as contracted. YTM does not account for fees or taxes. YTM is not a forecast, and is not a guarantee of, the future return of the fund which will vary from time to time. You cannot invest in an index. Past performance is not a reliable indicator of future performance of the indices or SUBD.

Subordinated debt capital ranking

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 generally offer a higher interest rate than traditional bonds.

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

#Per ASIC Report 365. *Per market convention.

Key Risks: An investment in the Fund 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 PDS for details.

INVESTMENT OBJECTIVE: SUBD invests in a portfolio of investment grade subordinated bonds with the aim of providing investment returns before fees and other costs that track the performance of the index.

INDEX DESCRIPTION: The iBoxx AUD Investment Grade Subordinated Debt Index is designed to reflect the performance of investment grade subordinated bonds denominated in AUD. The index only includes AUD denominated floating rate bonds issued by financial institutions that qualify as Tier 2 Capital under APRA's Rules (or equivalent foreign rules), and hold an iBoxx credit rating of investment grade.

ASX code	SUBD
Commencement date	30 October 2019
Management cost	0.29% p.a.
Index	iBoxx AUD Investment Grade Subordinated Debt Index
Frequency of dividends	Monthly

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Important notice:

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