THE CASE FOR ETHI

BetaShares

Global Sustainability Leaders ETF (ASX Code: ETHI)

BetaShares
Exchange Traded Funds
www.betashares.com.au

JANUARY 2017

A Sustainable Choice: The case for investing in the Betashares Global Sustainability Leaders ETF (ASX Code: ETHI)

Australian investors are increasingly adopting environmental, social and governance (ESG) criteria in their portfolios. This is due to both a desire for these investments to match their values, and the understanding that companies which demonstrate superior ESG performance have the possibility of also demonstrating superior, risk-adjusted, financial performance.

Global ethical and ESG funds available in Australia are largely actively managed, focused on small and mid-cap stocks and charge high management fees. In contrast, the BetaShares Global Sustainability Leaders ETF (ASX: ETHI) is the first global equities exchange traded fund available on the ASX to combine a positive climate leadership screen with a broad set of ESG criteria. ETHI gives investors a cost-effective, transparent option for “true to label” ethical investment.

ETHI aims to track an Index that comprises 100 large global stocks which are climate change leaders and which have no material exposure to a range of negative ESG activities. In doing so, ETHI gives investors access to a portfolio of the world’s leading sustainable, ethical companies in one simple trade.

This document presents the case for investing in ETHI. Part One situates the fund within the broader context of ethical and climate-focused investing. Part Two contains detail about the fund’s construction and methodology, and the historical performance of the Index.

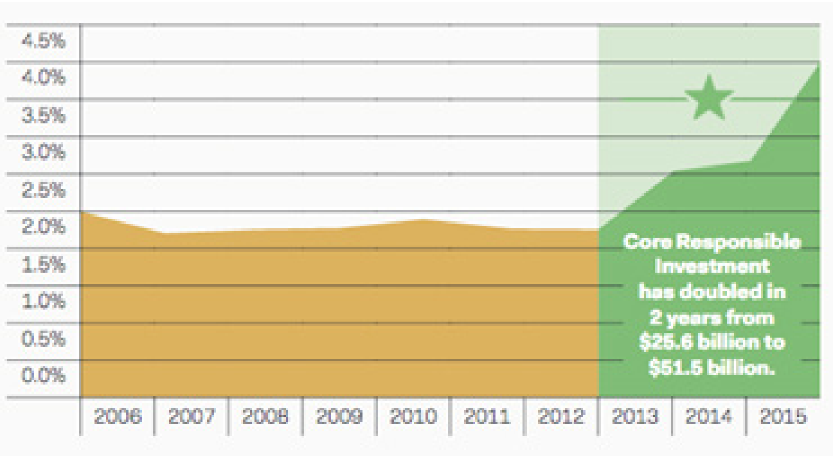
01 Part One: Responsible and Ethical Investment

Growth of Responsible and Ethical Investment

Australian investment in responsible and ethical investment portfolios has grown at a rapid pace in the last few years. The Responsible Investment Association of Australia 2016 Benchmarking Report shows “core” responsible investment funds doubling in size from $25.6B in 2013 to $51.5B in 2015. At the end of 2016 the broader responsible investment industry in Australia accounted for $633 Billion in assets under management *(Source: RIAA Benchmarking Report, 2016)*.

[1] Core responsible investment funds are portfolios which have negative or positive ESG screening, sustainability themed, or which are focused on impact or community investing.

CORE RESPONSIBLE INVESTMENTS AS A PERCENTAGE OF TOTAL INDUSTRY AUM SINCE 2006



Source: Responsible Investment Association of Australia 2016 Benchmarking Report

Consumer demand is the key driver for the increase in responsible investments. Retail investors increasingly expect fund managers to be fully transparent about how ESG criteria are taken into account in investment decision making. The last few years have seen high profile public campaigns around asset manager exposure to ESG risks in activities including fossil fuels, tobacco, and the detention of asylum seekers.

In addition, the fossil fuel divestment movement, driven by climate change concerns, is a powerful and fast growing movement. According to Arabella Advisors, by the end of 2016 global commitments to divest from fossil fuels had reached 688 institutions across 76 countries, representing almost $7 Trillion.

Performance of International Responsible Investment Funds

Importantly, historical evidence suggests that Responsible Investing can have a performance rationale along with its obvious social benefit.

For example, the 2016 Responsible Investment Benchmarking Report showed that the average international share fund with ESG criteria available in Australia outperformed the average large cap international share fund over 5 and 10 year periods to the end of 2015.

PERFORMANCE OF RESPONSIBLE INVESTMENT FUNDS V LARGE CAP INTERNATIONAL SHARE FUNDS AS AT DECEMBER 2015

International Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 2-13 funds sampled depending on time period)	9.0%	20.0%	15.2%	7.0%
	Large-Cap International Share Fund Average	10.7%	21.7%	13.7%	4.3%
	MSCI World ex Australia Index $A	11.8%	23.9%	15.5%	5.1%

Source: Responsible Investment Association of Australia 2016 Benchmarking Report. Past performance is not an indicator of future performance

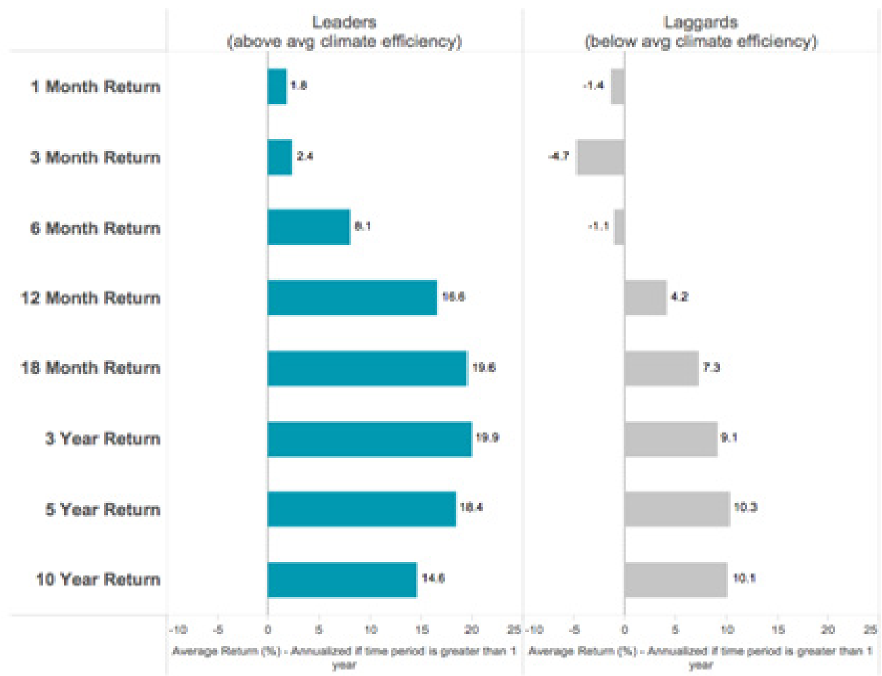
Climate Leaders vs Laggards

By December 2016, the Paris Agreement for action on climate change had been signed by 194 UN member countries, and ratified by 123 countries. This is the first agreement that sets out a truly global action plan to avoid dangerous climate change by limiting global warming to below 2°C.

There is evidence that shows that companies exercising leadership on climate change have shown significant financial outperformance. Research from Etho Capital, a US based ESG-oriented investment manager, using Trucost data, shows that Climate Leaders (defined in this example as companies with above average carbon efficiency) have performed significantly better over multiple time periods than so-called “climate laggards”.

From the universe of over 6000 global stocks, the aggregate performance of companies whose climate change performance was better than their industry average outperformed over all time periods shown compared to the aggregate performance of those companies whose climate change performance was worse than average for their industry.

PERFORMANCE OF ‘CLIMATE LEADERS’ V ‘CLIMATE LAGGARDS’ TOTAL RETURN PERFORMANCE AS AT 30 SEPTEMBER 2015



Source: Etho Capital, Trucost. Past performance is not an indicator of future performance.

Interestingly, the outperformance of Climate Leaders over Laggards has been consistent over all sectors, according to the Etho Capital research. Whether the sector had high carbon impact like Materials or Industrials, or the sector had low carbon impact like Financials, the climate leaders still showed historical outperformance compared to the climate laggards.

In the case of fossil fuels, there is evidence that excluding fossil fuel exposed stocks from investment portfolios has provided outperformance for investors. A number of fossil fuel free indices around the globe have outperformed their traditional (fossil fuel inclusive) benchmark counterparts at times. For example, in the United States the S&P 500 Fossil Fuel Free Index has produced a 5 year return to 12 January 2017 of 12.97% per annum compared with the S&P 500 Index return of 11.88% over the same period.

For a global comparison, the S&P Global 1200 Fossil Fuel Free Index has produced a 5 year return to 12 January 2017 of 9.43% per annum, well ahead of the S&P Global 1200 Index return of 7.91% over the same period.

02 Part Two: ETHI in detail

ETHI: A Diversified Large Cap Portfolio

Traditionally, the global ethical and ESG investment funds available to Australian investors have been largely focused on small and mid-cap stocks, often with significant overweights to clean tech and clean energy stocks. For those investors seeking a broad global portfolio, such a portfolio can lead to high "tracking error" with global indices and heavy reliance on the ability of fund managers to pick stocks in what has been historically a volatile sector. By focusing on climate change leaders across all sectors (companies that are 60% more carbon efficient than their industry average), ETHI is able to provide an ESG screened portfolio of 100 leading global stocks. These stocks are spread across a broad range of industries including Technology, Telecommunications, Consumer Goods and Services, Financials and Real Estate.

The ETHI portfolio provides a mix of well-known and established large companies across diversified sectors and geographies including Apple, Home Depot and Roche, along with exposure to companies which are directly involved in the transition to a sustainable energy future, such as Tesla and Shin-Etsu Chemical, which manufactures silicon for solar cells.

SELECTED HOLDINGS OF ETHI AS AT 13/1/2017'

Top 10 Holdings	
Name	**Portfolio Weight**
Facebook	4.20%
Apple	4.18%
Home Depot	3.87%
Intel	3.73%
Roche	3.65%
VISA	3.40%
3M	2.30%
Mastercard	2.26%
Medtronic	2.24%
Qualcomm	2.15%

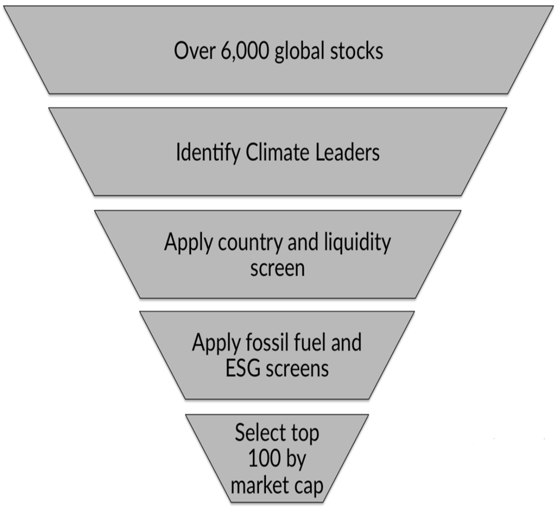
Scope 4 Leaders and Carbon Clean 200* Holding Examples	
Name	**Portfolio Weight**
Applied Materials	0.82%
Shin-Etsu Chemical	0.77%
ON Semiconductor	0.68%
Central Japan Railway	0.64%
Infineon Technologies	0.59%
Analog Devices	0.59%
MTR Corp	0.52%
Tesla	0.48%
First Solar	0.25%
SunPower	0.16%

*The Clean Carbon 200 is a rank of the largest publicly listed companies by their total clean energy revenues, maintained by Corporate Knights and As You Sow.

The methodology used to select the stocks which comprise ETHI and the underlying Index is described in the following section.

ETHI Construction and Methodology

ETHI aims to track an Index which comprises 100 large global stocks which are climate change leaders and which have no material exposure to a range of negative ESG activities. This section steps through the construction of the Index, as illustrated in the figure below.



Climate Leaders

- >60% more carbon efficient than the average for the company's industry
- Superior performers on 'Scope 4' carbon emissions

ESG Screens

- Fossil Fuels
- Gambling
- Tobacco
- Armaments
- Uranium/nuclear energy
- Destruction of valuable environments
- Animal cruelty
- Chemicals of concern
- Mandatory detention of asylum seekers
- Alcohol
- Junk foods
- Pornography
- Recent significant fines/convictions
- Human rights
- Supply chain concerns

Step one: Determine 'Climate Leaders'

Using data from Trucost, a global universe of over 6000 of the world's largest stocks is filtered to include only companies whose carbon efficiency is at least 60% better (i.e. 60% lower) than their industry average. The total carbon efficiency is calculated based on the total greenhouse gas emissions from a company's operations, fuel use, supply chain and business activities. Each company's total carbon emissions is divided by its total market capitalisation to facilitate comparison of companies of different size.

Climate Leaders also include those companies which are superior performers on Scope 4 carbon (or 'Avoided') emissions – i.e. companies whose activities have net positive climate benefits through substantial greenhouse gas emissions reductions downstream (for example, renewable energy).

Step two: Apply country and liquidity screens

The list of Climate Leaders is reduced to only those companies which have a primary listing on large developed sharemarkets, excluding Australia, and have a market capitalisation above $USD 3 Billion.

Step three: Apply fossil fuel and ESG screen

ESG criteria is then applied, which then removes companies with exposure to the following negative ESG activities.

Industry/Activity	Max Exposure Limits (% of total revenue)	Explanatory notes
Fossil Fuels - direct	0%	Companies which have fossil fuel reserves, fossil fuel infrastructure, or involved in the mining, extraction, burning of fossil fuels.
Fossil Fuels - indirect	5% for product and services. n/a for finance	Companies which provide services, product or finance which is specific to and significant for the fossil fuel industry, as well as industries with very high carbon intensity.
Gambling	0% for casinos and manufacture of gaming products 5% for distribution of gambling products	
Tobacco	0% for production or manufacture 5% for sale of tobacco products	
Uranium and Nuclear Energy	0% for uranium mining and nuclear energy 5% for products and services to nuclear energy	
Armaments and Militarism	0% for manufacture of armaments and weapons 5% for specific and significant services to military and armaments manufacture	
Destruction of Valuable Environments	0%	Companies which have direct negative impact on recognised World Heritage and High Conservation areas.
Animal Cruelty	0%	Companies involved in live animal export, animal testing for cosmetic purposes, factory farming, or controversial animal products (ivory, foie gras etc).
Chemicals of Concern	0%	Companies which produce or use chemicals of concern recognised by UN Environmental Program, Gold and Silver miners.
Mandatory Detention of Asylum Seekers	0%	Companies which operate detention centers.
Alcohol	20%	Companies which produce or sell alcohol.
Junk Foods	33%	Companies which produce or sell junk foods.
Pornography	0% for production of pornography 5% for sale of pornography	
Fines and Convictions	n/a	Fines or convictions equal to or above $10Million USD over the last 3 years
Human Rights	n/a	Evidence of human rights violations including child labour, forced labour, sweatshops, bribery and corruption.

Step four: Select Top 100 by Market Capitalisation

After the ESG screens are applied, the constituents in the Index are reduced to the 100 largest stocks by market capitalisation. If less than 5% of the 100 remaining stocks are Climate Leaders based on Scope 4 carbon emissions, then Scope 4 Climate Leader companies will replace the companies with the lowest market capitalisation in the index until 5% of the stocks are Scope 4 Climate Leaders.

Stocks in the Index are given a weighting according to their market capitalisation. When the Index is rebalanced in May each year, there will be a maximum weight for any one stock of 4% and a minimum weight in the Index of 0.5%.

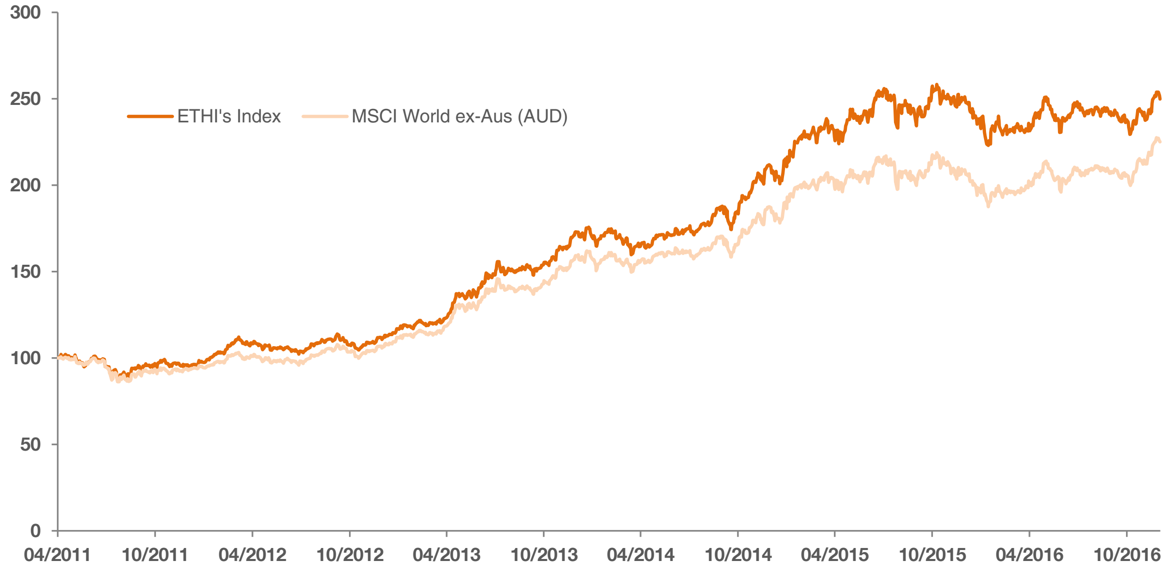
BETASHARES
THE CASE FOR ETHI

BetaShares
Exchange Traded Funds
www.betashares.com.au

Historical Performance of the ETHI Index

Historically, the index which ETHI aims to track shows superior longer term performance compared to the main global equity benchmarks.

PERFORMANCE OF ETHI'S INDEX V. MSCI WORLD EX-AUSTRALIA (AUD): MAY 2011-DECEMBER 2016



PERFORMANCE OF ETHI'S INDEX V. MSCI WORLD EX-AUSTRALIA (AUD) & S&P GLOBAL 100 TO 31 DECEMBER 2016

	ETHI's Index	MSCI World ex-Aus (AUD)	S&P Global 100 (AUD)
1 year	0.83%	9.15%	10.39%
3 years (p.a.)	13.07%	12.22%	11.17%
5 years (p.a)	21.22%	19.34%	17.52%

2016	0.83%	9.15%	10.39%
2015	19.70%	11.95%	10.40%
2014	19.77%	15.65%	12.72%
2013	54.38%	49.19%	45.72%
2012	17.34%	14.89%	12.03%
2011	-4.57%	-7.09%	-7.02%

Source: Bloomberg. The Index which ETHI aims to track is the Nasdaq Global Future Sustainability Leaders Index. You cannot invest directly in an index. The inception date of the Index is 29 April 2011. Past performance is not an indication of future performance of the Index or the ETF.

Of course, no assurance can be given that ETHI's Index will outperform a traditional index or an index that uses any other methodology over any time period.

BETASHARES
THE CASE FOR ETHI

BetaShares
Exchange Traded Funds
www.betashares.com.au

Conclusion

An increasing number of Australian investors are seeking a passively managed portfolio of global stocks which takes account of key environmental, social and governance (ESG) concerns.

Furthermore, responsible investors are looking to avoid exposure to the fossil fuel industry and climate change risk, and instead are actively seeking investment in those companies considered to be climate leaders.

The Betashares Global Sustainability Leaders ETF (ETHI) offers Australian investors an easy and transparent way to gain exposure to a diversified portfolio of large global stocks which are climate change leaders and which do not have material exposure to other negative ESG activities, as easily as buying any share on the ASX.

Trading Information

BetaShares Funds can be bought or sold during the trading day on the ASX, and trade like shares.

EXCHANGE	ASX
ASX CODE	ETHI
CURRENCY	AUD
TRADING HOURS	10:00-16:00 (AEST)
BLOOMBERG CODE	ETHI AU
IRESS CODE	ETHI.AXW

Fund Information

DISTRIBUTIONS	SEMI-ANNUAL
MANAGEMENT FEE	0.49% P.A
EXPENSES	CAPPED AT 0.10% P.A
FUND INCEPTION	5 JANUARY 2017
INDEX	NASDAQ FUTURE GLOBAL SUSTAINABILITY LEADERS INDEX

Contact

- betashares.com.au
- 1300 487 577 (Australia)
- + 61 2 9290 6888 (ex Australia)
- info@betashares.com.au

There are risks associated with an investment in the Fund, including market risk, international investment risk, non-traditional index methodology risk and foreign exchange risk. For more information on risks and other features of the Fund please see the Product Disclosure Statement.