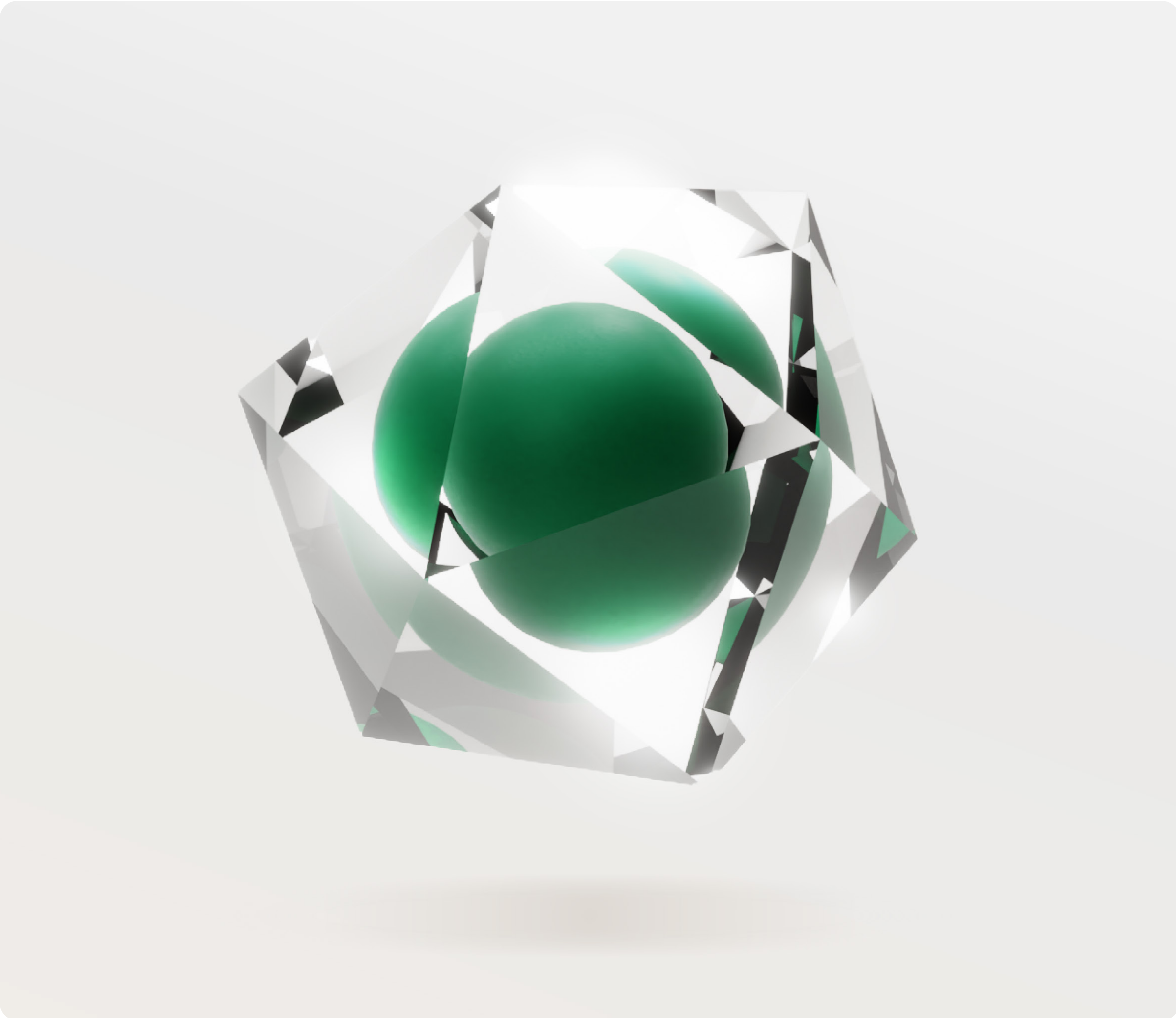

Betashares Ethical Managed Accounts Report

Quarter ending March 2024

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1. Introduction to the Betashares Ethical Managed Accounts Report

Betashares offers a suite of ethical portfolios that utilise exchange-traded products (ETFs and other exchange-traded products) or Australian direct equities to deliver transparent, diversified and cost-effective investment solutions for investors with differing risk profiles and investment objectives.

Betashares Australian Sustainability Leaders Portfolio	Betashares Ethical Balanced Portfolio
35 Stock Portfolio	50% Growth 50% Defensive

Betashares Ethical Growth Portfolio	Betashares Ethical High Growth Portfolio
70% Growth 30% Defensive	90% Growth 10% Defensive

Betashares Australian Sustainability Leaders Portfolio

The Betashares Australian Sustainability Leaders Portfolio holds approximately 35 of the largest and most liquid stocks from the portfolio held by the Betashares Australian Sustainability Leaders ETF (ASX: FAIR). The index that FAIR aims to track combines some of the most stringent environmental, social and governance (ESG) screens in the industry, with the portfolio offering the advantage to investors of directly holding an Australian equities portfolio.

Betashares Ethical Diversified Managed Accounts

Three multi-asset portfolios have been specifically developed for different risk profiles – Balanced, Growth and High Growth - designed to suit various financial circumstances and investment goals. In order to provide solutions for different investor risk profiles, the portfolios are built using varying allocations to ethical growth and defensive assets.

International shares are accessed via the Betashares Global Sustainability Leaders ETF (ASX: ETHI) and Australian shares through the Betashares Australian Sustainability Leaders Portfolio. Defensive assets are made up of international and Australian bonds and are accessed via the Betashares Sustainability Leaders Diversified Bond ETF – Currency Hedged (ASX: GBND).

These portfolios are built using strategic asset allocation assumptions that are reviewed by Betashares annually, to take into account prevailing economic and market conditions. The portfolios are rebalanced periodically to remain consistent with target allocations and risk profiles.

2. Market Review

A moderate rebound in global bond yields limited returns from global fixed-rate bonds over the quarter, but did not stop both Australian and global equities from moving higher. Australian bond yields bucked the global trend last quarter and declined modestly, producing a small positive return from local fixed-rate bonds.

Global bond yields rebounded over the quarter as continued resilient US economic growth and higher than expected US inflation reports for January and February led markets to push out the timing of US official interest rate cuts. The rise in bond yields was contained to a degree, however, when the US Federal Reserve indicated it still planned to cut interest rates several times later this year.

Another notable global development in the quarter was the decision by the Bank of Japan to end its longstanding negative interest rate policy due to a sustained and welcome lift in inflation over the past year. The Japanese official interest rate increased from -0.1% to +0.1%. The move was well anticipated, with contained movements in Japanese equities, bonds and exchange rates.

In Australia, bond yields eased due to continued declines in the monthly measure of inflation and a modest shift toward a more neutral policy bias by the Reserve Bank.

Equity markets in general continued to move higher with the macro-economic back drop of resilient economic growth and easing inflation remaining supportive of both corporate earnings and eventual central bank interest rate cuts. Excitement around the potential of artificial intelligence also remains an important market support.

Risks remain. Although goods inflation has fallen notably over the past year, service sector inflation remains somewhat higher and has been slower to decline. As a result, there remains a risk that overall inflation may slow less quickly than hoped, further delaying potential central bank policy easing.

Inflation risk would also emerge should the current geo-political tensions in the Middle East and/or Europe escalate and threaten energy or food prices. China's economic outlook also remains uncertain given the property market imbalances.

It's also the case that markets have already priced in a lot of good news, which could result in more subdued returns in coming months, even in the absence of negative economic shocks.

Growth vs. Defensive Assets

	Mar Qtr	Dec Qtr	6-months	12-months
Defensive Assets				
Bloomberg Australian Composite Bond Index	1.0%	3.8%	4.9%	1.5%
Bloomberg Global Aggregate Bond Index Hdg AUD	-0.3%	5.4%	5.1%	2.5%
Growth Assets				
S&P/ASX 200 Index	4.0%	8.4%	14.2%	14.4%
MSCI World Ex Australia Equity Index AUD	14.0%	5.3%	20.0%	28.7%

Source: Bloomberg. Past performance is not indicative of future performance. You cannot invest directly into an index.

3. ESG Commentary

International

In February 2024, the European Council struck a provisional agreement on a proposal to regulate ESG ratings providers. The proposal is designed to address concerns related to data quality, ratings methodologies and potential conflicts of interests that have arisen with the growth of ESG ratings providers in the market. The aim is to enhance the transparency, governance, and independence of ESG ratings within the EU, drawing parallels to the existing Benchmarks Regime due to the close relationship between ESG ratings and benchmarks used in the EU. The regulation will cover opinions, scores, or a combination thereof regarding an entity's or financial instrument's ESG profile or exposure to ESG risks. The scope is not limited to climate-related issues but extends to broader environmental impacts, social considerations, and governance practices. The proposed regulation outlines a rigorous framework for the authorisation and operation of ESG ratings providers within the EU, including those based outside the EU but offering services within its jurisdiction. The European Securities and Markets Authority (ESMA) will play a pivotal role in supervising these providers, with the authority to enforce compliance through significant fines and other measures[1].

In March 2024, the Securities and Exchange Commission (SEC) announced new climate disclosure rules that marked a significant shift in the way public companies in the US would be required to disclose climate related risks facing their businesses. These rules were designed to bring greater consistency and comparability to climate disclosures, making it easier for investors to assess and compare the climate risks and opportunities of different companies[2]. However, the implementation of these rules was temporarily halted. This pause was due to pending legal challenges that needed to be addressed before the rules could be fully enacted. Arguments against the rules claimed that the requirements were too onerous and expensive for companies, that the information requested, including GHG emissions data, was not reliable or overly speculative. This development introduced a level of uncertainty for companies preparing to comply with the new reporting requirements and for investors seeking more transparent and reliable climate-related information from public companies[3].

In March 2024, President Joe Biden has introduced the toughest vehicle emissions regulations in the US to encourage a shift towards electric vehicles (EVs). The goal is for 56% of all new US vehicles to be electric by 2032, a significant increase from current levels. While the target has been slightly lowered from an earlier draft, the administration believes it will substantially cut greenhouse gas emissions. The regulations, which set progressively stricter pollution limits, could face legal challenges but are aimed at reducing carbon emissions by 7 billion tonnes over 30 years[4].

Australia

The Australian government is set to introduce mandatory climate-related financial disclosure requirements for companies and financial institutions starting in 2024. Aimed at large businesses initially, with a phased inclusion of smaller entities, this regulatory shift emphasises greater transparency and accountability regarding climate transition plans, financial risks, and opportunities. The disclosures will cover aspects such as governance, strategy, risk management, and the setting of greenhouse gas targets. The proposed disclosure framework is aligned with global standards, notably those set by the International Sustainability Standards Board (ISSB). By aligning with these international frameworks, Australia aims to ensure that its corporate sector's disclosures on governance, strategy, risk management, and metrics including greenhouse gas emissions are consistent with global best practices[5].

Australian Federal Court Finds Vanguard guilty of greenwashing

The Australian Federal Court found that Vanguard had made "false and misleading" claims about the application of ESG screens to one of fixed income index funds. The case marks the first outcome for the Australian Securities and Investment Commission (ASIC) which said its victory "sends a strong message to companies making sustainable investment claims[6].

Green Bonds

Australia is set to welcome its first sovereign green bond, a move that has garnered significant interest and support from the investment community. This inaugural issuance is part of the Australian government's broader initiative to promote sustainable finance and support projects that contribute to the country's environmental goals. The green bond program, as detailed on the Australian Office of Financial Management (AOFM) website, aims to finance eligible green projects, including those related to renewable energy, energy efficiency, pollution prevention and control, and climate change adaptation. Investors and fund managers are keenly anticipating the bond, with expectations of a warm reception in the market. The AOFM has organised a roadshow to engage with potential investors and discuss the bond's framework and objectives. The issuance of this green bond marks a significant step for Australia in aligning its financial strategies with its sustainability goals. The bond is expected to bolster the country's reputation in the global green finance sector and highlight its commitment to tackling climate change and supporting the transition to a low-carbon economy[7].

1. https://www.consilium.europa.eu/en/press/press-releases/2024/02/05/environmental-social-and-governance-esg-ratings-council-and-parliament-reach-agreement/
2. https://www.sec.gov/news/press-release/2024-31
3. https://fintech.global/2024/04/08/secs-climate-disclosure-rules-put-on-hold-amid-legal-disputes/
4. https://www.theguardian.com/us-news/2024/mar/20/biden-car-transportation-emission-regulation-pollution
5. https://finity.com.au/news-and-insights/navigating-the-commencement-of-mandatory-climate-related-financial-reporting
6. https://asic.gov.au/about-asic/news-centre/find-a-media-release/2024-releases/24-061mr-asic-wins-first-greenwashing-civil-penalty-action-against-vanguard/
7. https://www.aofm.gov.au/securities/green-bond-program

4. Ethical Diversified Managed Accounts Review

	Aus. Equity	Portfolio Weights As at end of March 2024 Balanced	Growth	High Growth
Defensive Assets	**0%**	**49.7%**	**29.8%**	**9.9%**
Betashares Sustainability Leaders Diversified Bond ETF - Currency Hedged (ASX: GBND)	0%	49.7%	29.8%	9.9%
Growth Assets	**100%**	**50.3%**	**70.2%**	**90.1%**
Betashares Global Sustainability Leaders ETF (ASX: ETHI)	0%	30.1%	42.1%	54.0%
Betashares Australian Sustainability Leaders Portfolio	100%	20.2%	28.1%	36.1%
Fees (Investment Management Fee + Underlying ICR)*	**0.49%**	**0.56%**	**0.57%**	**0.58%**

*As at 31 March 2024. The Underlying ICR is the weighted average management costs of the underlying funds in the portfolio and can be expected to change over time as asset allocations and underlying investment vehicles change. These indirect costs do not include certain other costs, such as transaction costs (e.g. brokerage or bid ask spreads) that investors incur when implementing their portfolios or any costs charged for use of any applicable platform.

4.1 Australian Sustainability Leaders Portfolio Performance

Return performance as at 31 March 2024	
Total returns	
1 month	2.79%
3 months	11.25%
6 months	17.02%
1 year	19.37%
Since inception*	4.60%
Volatility since inception p.a.*	17.00%

*Since inception 1 October 2021. Past performance is not an indicator of future performance.

The Betashares Australian Sustainability Leaders Portfolio returned 11.25% during the quarter.

Technology and Industrials were the largest sector contributors, returning 26.07% and 22.29%, while contributing 2.32% and 0.95% respectively. Materials and Communication Services were the largest detractors, returning -4.77% and 2.97%, and detracting -0.53% and -0.66% respectively.

The a2 Milk Co, Altium, and Nextdc were the largest stock contributors to total return, with returns of 46.71%, 39.85%, and 29.57% respectively in the period, while their contributions were 0.40%, 0.61%, and 0.50% respectively. Sims, TPG Telecom, and IDP Education were the largest detractors to total return, with returns of -18.25%, -11.22%, and -9.34% respectively in the period, and they detracted -0.18%, -0.16%, and -0.57% respectively.

4.2 Australian Sustainability Leaders Portfolio

Holdings as at 31 March 2024	
Cochlear Ltd	5.33
Brambles Ltd	4.68
JB Hi Fi Ltd	4.61
Suncorp Group Ltd	4.61
CSL Ltd	4.32
Telstra Group Ltd	4.30
WiseTech Global Ltd	4.26
Xero Ltd	4.18
Insurance Australia Group Ltd	4.04
Pilbara Minerals Ltd	3.94
Computershare Ltd	3.61
CAR Group Ltd	3.54
ASX Ltd	3.38
Sonic Healthcare Ltd	3.19
Stockland Corp Ltd	3.16
IDP Education Ltd	3.01
ResMed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh	2.95
Mirvac Group	2.79
Reece Ltd	2.76
GPT Group	2.71
Medibank Private Ltd	2.63
Ramsay Health Care Ltd	2.57
Seek Ltd	2.55
Dexus	2.54
Nextdc Ltd	2.30
Altium Ltd	2.12
Steadfast Group Ltd	1.52
Bendigo and Adelaide Bank Ltd	1.38
Technology One Ltd	1.35
Pro Medicus Ltd	1.34
The a2 Milk Co Ltd	1.06
Bank of Queensland Ltd	1.01
Fisher & Paykel Healthcare Corp Ltd	1.01
TPG Telecom Ltd Ordinary Shares	0.69
Sims Ltd	0.53
Total	**100%**

4.3 Ethical Diversified Managed Accounts Performance

Return Performance as at 31 March 2024	Balanced	Growth	High Growth
Total returns			
1 month	2.29%	2.54%	2.79%
3 months	7.48%	10.41%	13.36%
6 months	13.72%	16.83%	19.96%
1 year	15.78%	20.78%	25.90%
Since inception*	2.59%	5.20%	7.79%
Volatility since inception p.a.*	10.52%	12.18%	14.04%

*Since inception 1 October 2021. Past performance is not an indicator of future performance.

4.4 Betashares Global Sustainability Leaders ETF (ASX: ETHI)

The Fund returned 17.18% (in AUD) during the quarter. Assets increased from $2,702.38m to $3,219.92m over this period.

IT and Financials were the largest sector contributors to total return, with returns of 26.58% and 15.90% in AUD, their contributions were 8.71% and 3.63%, respectively. Utilities was the largest sector detractor with a return of -0.06%, and contribution of -0.01%.

NVIDIA, Toyota and ASML Holding were the largest three stock contributors to total return, and with returns of 90.86%, 42.72% and 33.92% in AUD, their contributions were 5.58%, 1.20% and 0.68% respectively. Apple, Adobe and AIA were the lowest contributors, returning -6.72%, -11.53% and -19.39% in AUD, they detracted -0.25%, -0.21% and -0.18% respectively.

4.5. Betashares Sustainability Leaders Diversified Bond ETF – Currency Hedged (ASX: GBND)

GBND returned 0.13% (net of fees) in Q1 of 2024, as markets trimmed expectations of both the nearness and size of central bank rate cuts, due to persistent US economic strength and inflation. Attributing GBND's performance; shifts in yield curves were a drag of -0.99% on returns: of which AUD (42.3% contribution to duration), EUR (52.7% contribution to duration), and USD bonds (5.0% contribution to duration) contributed 0.01%, -0.90% and 0.10% respectively; with EUR bonds being the clear underperformer. Bond credit spreads compressed over the quarter, adding 0.28% to performance. Combined yield and FX carry contributed 0.96%, with fees subtracting -0.12%.

The March quarter saw US$333 billion of ESG bonds issued, including US$207 billion of green bonds, which is a notably higher rate of issuance compared to any quarter last year; this tick up of issuance was across investment grade credit in general, as appetites for corporate bonds remain strong with a soft landing narrative. There were 41 new issuers of ESG debt this quarter, including 38 new green bond issuers. Looking at green bonds' issuance in more detail, by currency, EUR was the highest at 54.74%, followed by USD at 16.75% and JPY at 6.61%. Germany had the highest weight by country of risk at 12.10%, followed by Supranational at 10.67%, US at 10.42%, France at 9.27% and China (including HK) at 7.32%. Finally, looking at issuer sectors, Corporates accounted for a weight of 53.99% versus Governments and Government entities at 43.50%; with 2.51% of issuers not classified.

The largest green bond sales this quarter were by the French Government, with EU€8 billion issued in January. Second place was the European Union with EU€7 billion issued in March. Domestically, we saw a respectable number of new green bonds issued. Queensland Treasury Corp issued AU$2.75 billion in January, and KFW was second place with an AU$1.5 billion Kangaroo green bond also issued in January.

From the market's inception to the end of Q1 2024, global cumulative green bond issuance totaled US$3.31 trillion; with issuance in EUR totalling 1.38 trillion, USD 941 billion, and CNY 386 billion. The rate of increase of green bond issuance in CNY has noticeably slowed compared with prior years. The proportion of new issuance in CNY as a percentage of overall global issuance now only sits at 6% YTD; as compared with 15% in 2023, 16.6% in 2022 and 10.2% in 2021. Globally, corporates account for 61.85% of cumulative green bond issuance (financials at 28.57%), with the combined total of government, government-related, and supranational entities at 36.99% (the other 1.16% were project-based issuers).

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The Betashares Sustainability Leaders Managed Accounts and Ethical Diversified Managed Accounts have been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au for details*

5. Proxy Voting

During the quarter, the RIC for ETHI and FAIR actively engaged in proxy voting on ESG resolutions for portfolio constituents. Notable issues where the RIC voted against management included:

	Ticker	Proposal text	Management recommendation	Rationale
Walgreens	**WBA**	Establish a Company Compensation Policy of Paying a Living Wage	Against	Voted 'For' as this proposal recommended the establishment of wage policies that would ensure workers earn enough to meet a family's basic needs, referencing established living wage frameworks for adoption and compliance with legal obligations.
Apple Inc	**AAPL**	Report on Median Gender/ Racial Pay Gap	Against	Voted 'For' as median pay gap statistics would allow shareholders to better compare and measure the progress of the company's diversity and inclusion initiatives.
Technology One Ltd	**TNE**	Elect Peter Ball as Director	For	Voted 'Against' the re-election of the chair of the audit and risk committee due to corporate governance concerns relating to excessive non-audit fees paid to the audit firm.

6. Engagements

Company name	Theme	Summary of engagement
Swiss Re AG	Social	We engaged with the Inter-American Development Bank (IDB) based on reports that it was lending to Pronaca, one of the largest companies in Ecuador to set up a new facility for pig and poultry farming. According to reports, air and water pollution caused by the waste from farms owned by Pronaca has impacted local indigenous communities[11]. In its response, the IDB said that it conducted extensive due diligence on Pronaca and its operations prior to approving the loan. During the due diligence phase, IDB concluded that the approved project did not impact lands and natural resources subject to traditional ownership, there was no physical relocation of indigenous communities from traditional lands and there was no significant impact on critical or culturally relevant land or resources relating to indigenous communities.
Woolworths Green Bond	Governance	In 2019, Woolworths issued a $400 million green bond. We reviewed the bond's eligibility for inclusion in the index tracked by the Betashares Sustainability Leaders Diversified Bond ETF – Currency Hedged (ASX: GBND). The majority of the bond's proceeds are allocated to existing supermarket leases. The bond was certified to the Climate Bond Institute's (CBI) Climate Bond Standard (the Standard), with assurance provided by EY. At the time of the bond's issuance, building leases were not an allowable use of proceeds (UoP) for a certified climate bond. Building leases were added to a subsequent revision of the standard eight months after the bond was issued. We wrote to Woolworths advising them that, in our view, there were no climate or environmental benefits associated with the application of the UoP to existing leases. Subsequently, we participated in collaborative engagement with CBI during which we expressed concerns about the probity surrounding the development of the CBI Low Carbon Building - Supermarkets Standard and the alteration of the overarching Standard to permit building leases as a UoP. We expressed our view that EY should not have provided assurance that the bond met the Standard and requested that certification of the bond be withdrawn. The request was rejected by CBI. Following our engagement with Woolworths and CBI, the Environmental Defenders Office wrote to the Australian Securities and Investments Commission (ASIC), detailing issues of concern with the Woolworths green bond, EY's assurance, and CBI's certification of the bond. The Betashares Responsible Investment Committee rejected the Woolworths Green Bond as an eligible security for GBND during the annual rebalance process.

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