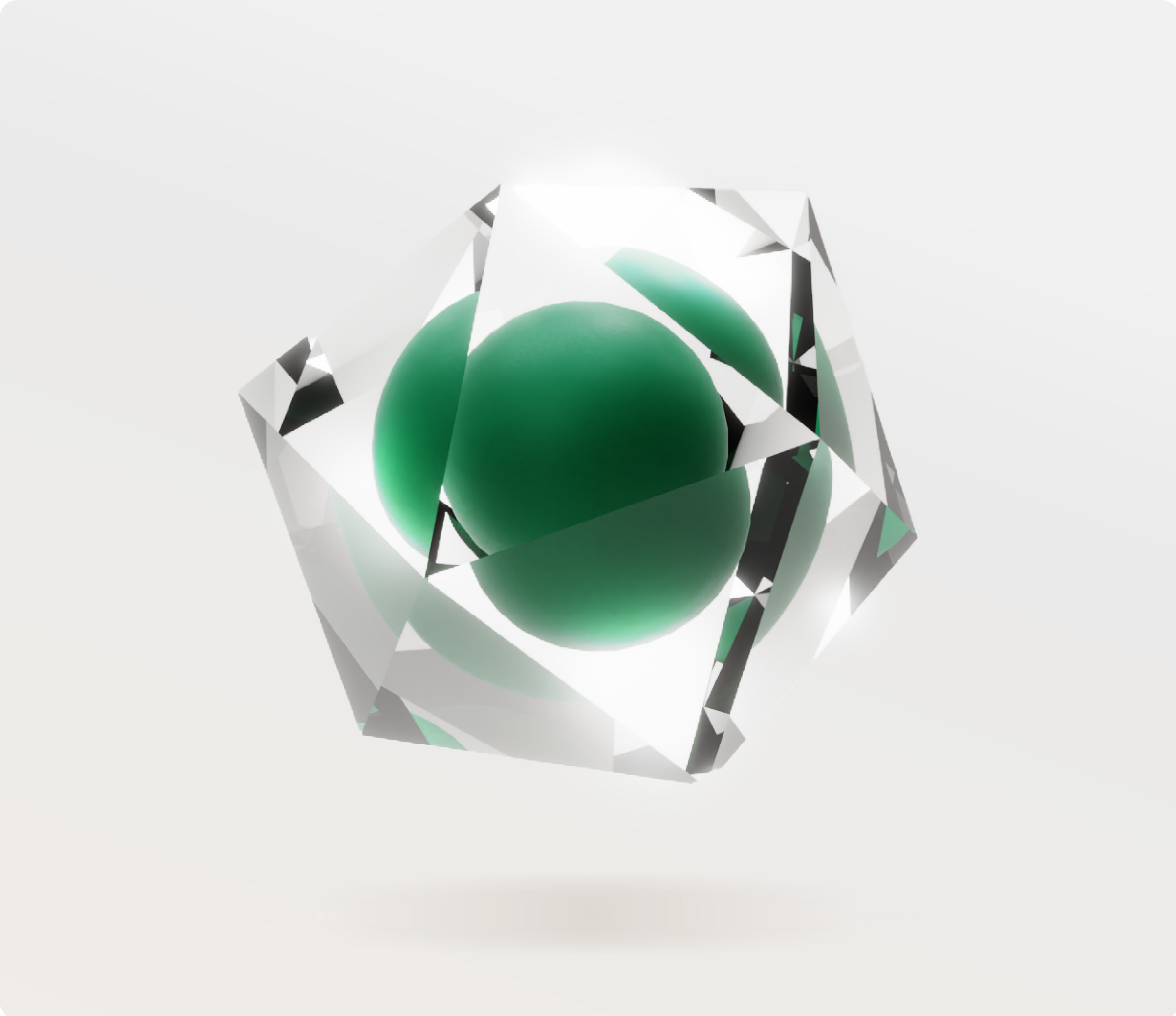

Betashares Ethical Managed Accounts Report

Quarter ending December 2023

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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 sharp decline in bond yields helped produce stronger returns in both the bond and equity markets over the December quarter.

Bond yields fell over the quarter as a continued decline in global inflation led markets to increasingly anticipate an end to the campaign of raising interest rates by the world's central banks, with growing hopes of lower interest rates in 2024. At the same time, global economic growth has continued to hold up – defying fears that the large increase in interest rates over the past year would result in a recession. This has led to an improved global corporate earnings outlook.

One negative shock in the quarter was the Hamas attack on Israel in early October, which briefly led to a rise in oil prices and fear of higher energy price inflation. That said, the conflict has so far remained contained and oil prices fell back relatively quickly.

The major positive development in the quarter was a shift in sentiment by the US Federal Reserve, which validated market hopes that it had likely finished raising interest rates and will likely cut rates this year. In Australia, the most recent monthly inflation report was also softer than expected, raising hopes that the Reserve Bank won't need to lift interest rates further in coming months.

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 remains stubbornly high, which may force central banks to raise interest rates further and reignite recession fears. 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.

On the other hand, there is also the risk that the lagged effect of past policy tightening causes a sharper decline in economic activity than currently evident. China's economic recovery remains subdued due to an overhang of excess building and debt in the residential property sector.

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

	Dec Qtr	Sep Qtr	6-months	12-months
Defensive Assets				
Bloomberg Australian Composite Bond Index	3.8%	-0.3%	3.5%	5.1%
Bloomberg Global Aggregate Bond Index Hdg AUD	5.4%	-2.1%	3.2%	5.3%
Growth Assets				
S&P/ASX 200 Index	8.4%	-0.8%	7.6%	12.4%
MSCI World Equity Index AUD	5.4%	-0.4%	4.9%	23.0%

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

3. ESG Commentary

International

The credibility of the UN Conference of Parties (COP) process was called into question following the release of a final communication that made little progress on measures to address climate change. COP28, the most recent annual climate change 'talkfest', was held in the United Arab Emirates, the world's 6th largest oil producing country, and had a president whose day job is CEO of the UAE's state-owned oil and gas company, ADNOC.

The conference was reportedly attended by over 2,400 lobbyists representing fossil fuels industries[1]. The final communication called for a 'phase down' in the use of fossil fuels, rather than a 'phase out'. Commenting on a draft of the final text, former US Vice President Al Gore stated: "COP28 is now on the verge of complete failure. The world desperately needs to phase out fossil fuels as quickly as possible, but this obsequious draft reads as if OPEC dictated it word for word."[2]

The UK Financial Conduct Authority (FCA) implemented a package of measures relating to disclosure requirements and financial product labelling. Aimed at protecting consumers, the measures include an anti-greenwashing rule, product labels, and naming and marketing requirements[3]. Under the finalised rules, sustainable investment products can be labelled as:

- Sustainability focus – funds that invest in sustainable assets
- Sustainability improver – funds that invest in assets looking to improve their sustainability over time
- Sustainability impact – funds that invest in sustainability solutions
- Sustainability mixed goals – funds that have the potential to improve their sustainability over time.

All sustainability labelled funds must now identify the stewardship strategy (engagement and proxy voting) that will be implemented by the fund[4].

Scientists at the EU Copernicus Earth Observation Program confirmed 2023 as the hottest year on record with temperatures 1.46 degrees Celsius above pre-industrial levels[5]. The declaration came as Australia's Bureau of Meteorology issued warnings for unusually high temperatures and below average rainfall for much of Australia for the period January to March 2024[6].

Australia

The Australian Federal Government issued a consultation paper on its sustainable finance strategy. The strategy is divided into three pillars:

- Improve transparency on climate and sustainability
- Financial system capabilities
- Australian Government leadership and engagement

Specific aspects of the framework included an Australian standard for compulsory climate change financial disclosures, the development of a sustainable finance taxonomy and a labelling system for investment products.

In general, the framework document was well received, although some commentators noted the absence of measures around training and capacity building and a relatively narrow focus on climate at the expense of other sustainability objectives. Others raised concerns around comments relating to the financing of 'transition activities' and whether this would lead to support for technologies such as carbon capture and storage, that distract from the more urgent need to transition away from fossil fuels[7].

Australia's financial markets regulator, the Australian Securities and Investments Commission (ASIC), reached a settlement with Mercer Superannuation in a landmark case that alleged the retail superannuation fund misled members about the sustainability of its investments. Under the settlement agreement, which is subject to Federal Court approval, Mercer will pay a penalty of $11.3 million dollars[8]. In a separate matter, ASIC issued two infringement notices to Morningstar for funds which were allegedly exposed to controversial weapons despite statements in the Product Disclosure Statement that such investments would be excluded. The issue was identified by Morningstar's ESG research arm, Sustainalytics, and Morningstar self-reported to the regulator[9].

Green Bonds

Treasury published its long-awaited Green Bond Framework, which sets out the Australian Government's key climate change and environmental priorities and outlines how Australian sovereign green bonds will be used to finance eligible green expenditures. This includes the basis for identifying, selecting, managing, and reporting on expenditures financed with green bonds. Eligible green expenditures are to align with the International Capital Market Association (ICMA) Green Bond Categories and will be 'informed' by the Climate Bonds Initiative (CBI) Climate Bonds Taxonomy. Programs that 'predominantly assist Australia's highest greenhouse gas emitting facilities' are specifically excluded under the framework[10].

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1. https://www.globalwitness.org/en/press-releases/cop28-host-uae-invites-fossil-fuel-bosses-set-produce-25-billion-barrels-oil-decade/#:~:text=COP28%2C%20the%20annual%20UN%20climate,Kick%20Big%20Polluters%20Out%20coalition.
2. https://twitter.com/algore/status/1734238192608411989?s=20
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9. https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-324mr-asic-issues-infringement-notices-to-morningstar-for-statements-regarding-exposure-to-weapon-investments/
10. https://www.aofm.gov.au/sites/default/files/2023-12-05/Green%20Bond%20Framework_WEB.pdf

4. Ethical Diversified Managed Accounts Review

	Aus. Equity	Portfolio Weights As at end of Dec 2023 Balanced	Growth	High Growth
Defensive Assets	**0%**	**49.9%**	**29.9%**	**10.0%**
Betashares Sustainability Leaders Diversified Bond ETF - Currency Hedged (ASX: GBND)	0%	49.9%	29.9%	10.0%
Growth Assets	**100%**	**50.1%**	**70.1%**	**90.0%**
Betashares Global Sustainability Leaders ETF (ASX: ETHI)	0%	29.4%	41.2%	52.9%
Betashares Australian Sustainability Leaders Portfolio	100%	20.7%	28.9%	37.1%
Fees (Investment Management Fee + Underlying ICR)*	**0.49%**	**0.56%**	**0.57%**	**0.58%**

*As at 31 December 2023. 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 December 2023	
Total returns	
1 month	6.43%
3 months	5.19%
6 months	1.64%
1 year	14.11%
Since inception*	0.61%
Volatility since inception p.a.*	17.49%

*Since inception 31 October 2021. Past performance is not an indicator of future performance.

The Betashares Australian Sustainability Leaders Portfolio returned 5.19% during the quarter.

Health Care and Real Estate were the largest sector contributors, returning 10.44% and 11.41%, while contributing 1.96% and 1.38% respectively. Materials and Industrials were the largest detractors, returning -17.35% and -0.29%, and detracting -1.07% and -0.03% respectively.

Cochlear, WiseTech Global and CSL were the largest stock contributors to total return, with returns of 16.98%, 15.86% and 14.29% respectively in the period, while their contributions were 0.72%, 0.65% and 0.60% respectively. Liontown Resources, Brambles and Pilbara Minerals were the largest detractors to total return, with returns of -53.91%, -5.03% and -8.14% respectively in the period, and they detracted -0.94%, -0.25% and -0.24% respectively.

4.2 Australian Sustainability Leaders Portfolio

Holdings as at 31 December 2023	
Telstra Group Ltd	4.8
Suncorp Group Ltd	4.8
Brambles Ltd	4.7
Xero Ltd	4.6
Cochlear Ltd	4.5
Insurance Australia Group Ltd	4.4
CSL Ltd	4.3
Pilbara Minerals Ltd	4.1
WiseTech Global Ltd	4.1
Computershare Ltd	3.7
Car Group Ltd	3.6
Sonic Healthcare Ltd	3.4
ASX Ltd	3.4
Stockland Corp Ltd	3.2
JB Hi Fi Ltd	3.0
IDP Education Ltd	3.0
ResMed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh	2.9
Mirvac Group	2.9
Medibank Private Ltd	2.9
GPT Group	2.8
Dexus	2.7
Seek Ltd	2.7
Ramsay Health Care Ltd	2.5
Nextdc Ltd	2.3
Reece Ltd	2.3
Flight Centre Travel Group Ltd	2.0
Altium Ltd	2.0
Steadfast Group Ltd	1.7
Bendigo and Adelaide Bank Ltd	1.4
The a2 Milk Co Ltd	1.2
NIB Holdings Ltd	1.1
Fisher & Paykel Healthcare Corp Ltd	1.1
TPG Telecom Ltd Ordinary Shares	0.8
Telix Pharmaceuticals Ltd Ordinary Shares	0.7
Sims Ltd	0.6
Total	**100%**

4.3 Ethical Diversified Managed Accounts Performance

Return Performance as at 31 December 2023	Balanced	Growth	High Growth
Total returns			
1 month	3.56%	3.69%	3.82%
3 months	5.66%	5.78%	5.91%
6 months	4.28%	4.26%	4.22%
1 year	12.99%	15.70%	18.44%
Since inception*	-0.65%	1.06%	2.76%
Volatility since inception p.a.*	10.57%	12.03%	13.64%

*Since inception 31 October 2021. Past performance is not an indicator of future performance.

4.4 Betashares Global Sustainability Leaders ETF (ASX: ETHI)

The Fund returned 6.4% (in AUD) during the quarter. Assets increaesd from $2,539.94 million to $2,702.38 million over this period.

IT and Financials were the largest sector contributions to total return, with returns of 11.76% and 7.02% in AUD, their contributions were 3.72% and 1.61%, respectively. Health Care was the largest sector detractor with a return of -0.85%, and contribution of -0.16%.

NVIDIA, Salesforce and ASML Holding were the largest three stock contributors to total return, and with returns of 7.73%, 22.78% and 20.73% in AUD, their contributions were 0.49%, 0.41% and 0.37% respectively. Cisco, Pfizer and Sanofi were the lowest contributors, returning -10.44%, -16.74% and -12.64% in AUD, and they detracted -0.17%, -0.13% and -0.10% respectively.

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

GBND returned 5.35% (net of fees) in Q4 of 2023, as the markets became increasingly confident in the probabilities of a soft landing and a Fed pivot. Attributing GBND's performance: shifts in yield curves accounted for 4.22% of returns, of which AUD (41.70% contribution to duration), EUR (52.80% contribution to duration) and USD bonds (5.50% contribution to duration) contributed 1.33%, 2.64% and 0.25% respectively, with EUR bonds outperforming relative to its duration weight and AUD bonds underperforming. Bond credit spreads compressed slightly over the quarter, adding 0.15% to performance. Combined yield and FX carry contributed 1.10%, with fees subtracting -0.12%.

The December quarter saw US$192 billion of ESG bonds issued, including US$136 billion of green bonds, an issuance rate that was like Q3, though with a noticeably higher proportion of green bonds. There were 52 new issuers of ESG debt this quarter, including 45 new green bond issuers. Looking at green bonds' issuance in more detail, by currency, EUR was the highest at 39.51%, followed by USD at 22.87% and CNY at 15.74%. By country of risk, China (including HK) had the highest weight at 26.69%, followed by US at 17.92%, France at 11.6%, Netherlands at 9.13% and Germany at 8.70%. Finally, looking at issuer sectors, Corporates accounted for a weight of 59.06% versus Governments and Government Entities at 37.73%; with 3.20% of issuers not clearly classified.

The largest green bond sales this quarter was by the Dutch Government with €5 billion issued in October. Second place was the Industrial & Commercial Bank of China with CN¥30 billion issued in November. Domestically, issuance was relatively light in the AUD market. The NSW Treasury Corp tapped their 2030 green bond for an additional A$600 million in November, taking total outstanding to A$2.85 billion. Second highest issuance this quarter in AUD was by Contact Energy NZ, with an A$400 million Kangaroo green bond in November.

From the market's inception to the end of 2023, global cumulative green bond issuance totalled US$3.09 trillion; with issuance in EUR totalling 1.27 trillion, USD 897 billion, and CNY 373 billion. CNY green bond issuance, having been the standout in terms of its growing share over the past few years, finished 2023 at 15.14% of total annual issuance; compared with 16.76% in 2022, 10.28% in 2021, and 3.86% in 2020. Globally, corporates accounted for 62.37% of cumulative green bond issuance (financials at 29.27%), with the combined total of government, government related, and supranational entities at 36.38% (the other 1.25% were project-based issuers).

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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
Sysco Corp	**SYY**	Adopt policy to eliminate or reduce gestation crates in pork supply chain	Against	Voted 'For' as shareholders would benefit from more information on the company's policies and practices related to animal welfare, specifically relating to reducing or eliminating the use of gestation crates in its pork supply chain.
Sims Ltd	**SGM**	Re-elect Thomas Gorman as director	For	Voted 'Against' incumbent nomination and remuneration committee member for lack of diversity on the board.

6. Engagements

Company name	Theme	Summary of engagement
Inter-American Development Bank	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.
Suncorp Group (SUN)	Social	A report by the Australian Conservation Foundation (ACF) alleged Suncorp has significant exposure to potential illegal deforestation in Queensland. The report claims that more than 364,000 hectares of native vegetation cleared in Queensland from 2018 to 2020 likely had a significant impact on a listed threatened species or ecological community - and was done without Federal approval, making it potentially illegal. More than 50% of the land cleared was on just 267 properties, and 13% of the properties were subject to a security held by Suncorp[12]. We engaged with Suncorp to understand their plans for measuring their impact and dependencies on nature, and how they're assessing the risks and opportunities in their business, particularly to understand the role land clearing and deforestation plays in meeting their net zero commitment. In its response, Suncorp said that while its impact and dependencies on nature is important, it has yet to develop a framework for it. We will continue to engage with Suncorp and monitor for any nature-related controversies that could impact the business.

11. https://news.mongabay.com/2023/08/ecuador-pig-poultry-farm-pollution-sparks-protest-amid-idb-ifc-loans/
12. https://www.acf.org.au/banks-financing-nature-destruction-in-qld

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