Betashares Global Sustainability Leaders ETF

ASX: ETHI

Quarterly Report - March 2024

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Performance[1]	1 month %	3 month %	6 month %	1 year %	3 years % p.a.	Inception % p.a.[2]
Fund Return (net)	2.54%	17.18%	24.68%	32.85%	15.05%	18.72%
Growth Return	2.54%	16.82%	24.30%	26.55%	10.08%	13.63%
Income Return	0.00%	0.36%	0.38%	6.30%	4.97%	5.09%
Index	2.56%	17.31%	24.92%	33.38%	15.54%	19.19%

Past performance is not a reliable indicator of future performance.

[1] As at 28 March 2024. Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

[2] Inception date for the Fund is 5 Jan 2017.

Investment objective

The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to 200 large global stocks (excluding Australia) which are "Climate Leaders" (as measured by their relative carbon efficiency) and which are not materially engaged in activities deemed inconsistent with responsible investment considerations.

Responsible entity

Betashares Capital Ltd

Distribution frequency

Semi-annual

Suggested minimum investment timeframe

At least five years

Fund facts	
Inception Date	5-Jan-17
Fund Size	$3219.92m
Historical Tracking Error (annualised)	0.13%
ASX Code	ETHI
Bloomberg Code	ETHI.AU
IRESS Code	ETHI.ASW

Fees	% p.a.
Management fee	0.49
Recoverable expenses	0.10

Investment strategy

The Fund will generally invest in a portfolio of global equity securities that comprise the Index in proportion to the weightings of the securities in the Index.

The Index includes 200 large global stocks from developed market countries (excluding Australia) that have been identified as "Climate Leaders" and that have also passed certain eligibility screens designed to exclude companies with direct or significant exposure to the fossil fuel industry or that are engaged in other activities deemed inconsistent with responsible investment considerations.

Climate Leaders are companies that have carbon efficiency that places them in the top one-third of companies in their respective industry, or are otherwise superior performers in relation to "Scope 4" carbon emissions (also known as "avoided emissions").

- **Carbon impact:** calculated based on the total greenhouse gas emissions from a company's operations, fuel use, supply chain and business activities, divided by its annual revenue.
- **Avoided emissions:** superior performers are those companies involved in commercialising technologies that have net positive climate benefits through substantial greenhouse gas emission reductions (e.g. primary business activities in renewable energy, energy efficiency, sustainable agriculture and land use, and carbon sequestration).
- **Fossil Fuel screen:** is applied to the universe of Climate Leaders which removes companies with any direct involvement in the fossil fuel industry, as well as companies with material indirect exposure and those with particularly high use of fossil fuels.

Eligibility screens are applied to remove companies which have exposure to other activities deemed inconsistent with responsible investment considerations (subject to certain materiality thresholds):

- Gambling
- Alcohol
- Tobacco
- Junk foods
- Armaments and militarism
- Pornography
- Uranium and nuclear energy
- Human and labour rights
- Destruction of valuable environments
- Chemicals of concern
- Animal cruelty
- Lack of board diversity i.e. no women on the board of directors
- Payday lending
- ESG related reputational risk or controversy
- Mandatory detention of asylum seekers and for-profit prisons

The Index is weighted by market capitalisation, with a maximum weight per security of 4% at each annual rebalance date. Industry weights cannot exceed the corresponding industry weights of the Nasdaq Developed Markets Index (a traditional broad global equities benchmark), by more than 3%.

For more information on the Index, see the Index methodology document available on our website.

Top 10 positions[1]	%
NVIDIA Corp	10.1
Visa Inc	3.9
Home Depot	3.5
Mastercard Inc	3.5
Toyota Motor Corp	3.5
Apple Inc	3.2
ASML Holding NV	2.3
Salesforce Inc	2.1
UnitedHealth Group	1.6
SAP SE	1.6

[1] As at 28 March 2024

Industry exposure	Fund Weight %[1]
Information Technology	35.4
Financials	22.7
Consumer Discretionary	14.2
Health Care	14.2
Industrials	5.4
Communication Services	4.1
Real Estate	2.8
Consumer Staples	0.8
Utilities	0.4
Materials	0.1
TOTAL	100.00

[1] As at 28 March 2024

Country allocation[1]	%
United States	71.9
Japan	9.5
Germany	4.5
Netherlands	3.9
Denmark	2.0
Britain	1.7
Canada	1.5
Switzerland	1.3
Hong Kong	1.1
Other	2.7

[1] As at 28 March 2024

Fund performance summary

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.

Other commentary

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 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].

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

Proxy voting & engagement

During the quarter, the Responsible Investment Committee (RIC) actively engaged in Proxy Voting on Environmental, Social, and Governance (ESG) resolutions for index constituents.

Voting activities in Q1 2024

	Number	Proportion of total
Votes lodged	383	100%
Votes against management	52	14%

Votes against management by topic

	Number	Proportion of total
Governance	52	100%
Social	0	0%
Environmental	0	0%

We engaged with Swiss Re AG based on reports that it was providing insurance to Brazilian farms that were engaged in illegal deforestation, and illegal farms in indigenous protected areas. In its response, Swiss Re said that it had cancelled the policies for these farms and provided a thorough explanation on how it addresses environmental and social risks. We are satisfied with the response and will continue to monitor Swiss Re for any potential ESG risks going forward.

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

CERTIFIED BY RIAA

The Betashares Global Sustainability Leaders ETF (ASX: ETHI) has been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au for details*.

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Any person wishing to invest in Betashares Funds should obtain a copy of the relevant PDS from www.betashares.com.au and obtain financial advice in light of their individual circumstances. You may also wish to consider the relevant Target Market Determination (TMD) which sets out the class of consumers that comprise the target market for the Betashares Fund and is available at www.betashares.com.au/target-market-determinations.

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