



Betashares Sustainability Leaders Diversified Bond ETF - Currency hedged

ASX: GBND

Quarterly Report - December 2023

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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)	3.25%	5.35%	4.32%	6.40%	-4.59%	-2.36%
Growth Return	4.59%	4.59%	2.87%	3.53%	-6.83%	-4.17%
Income Return	-1.34%	0.76%	1.45%	2.87%	2.24%	1.81%
Index	3.31%	5.49%	4.57%	6.98%	-4.08%	-1.87%

Past performance is not a reliable indicator of future performance.

¹ As at 29 December 2023. Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

² Inception date for the Fund is 26 November 2019.

Yield and portfolio characteristics	
Running Yield (% p.a.) ¹	2.49%
Yield to Maturity (% p.a.) ²	3.73%
Average Maturity (Yrs) ³	7.21
Modified Duration (Yrs) ⁴	6.22
Average Credit Rating ⁵	AA

¹ Average coupon (weighted by market value) of the bonds in the portfolio, divided by the current market price of the bonds. Provides an indication of expected current income from making an investment at market price. This value will vary over time as interest rates change.

² Total expected return from the bond portfolio, based on current bond prices and assuming no change in prevailing interest rates. This value will vary over time.

³ Average (weighted by market value) length of time until the current bonds in the portfolio mature.

⁴ A measure of the sensitivity of the portfolio's value to a change in interest rates. For example, a Modified Duration of 7 years implies that a 1% rise in the reference interest rate will reduce the value of the portfolio by 7.00%.

⁵ Average credit rating for the bonds in the portfolio. Credit ratings should not be used as a basis for assessing investment merit.

Source: Bloomberg. As at 29 December 2023. Yields shown do not take into account GBND's management costs of 0.49% p.a.

Investment objective

The Fund aims to track the performance of an index (before fees and expenses) that comprises a portfolio of global and Australian bonds screened to exclude issuers with material exposure to fossil fuels or engaged in activities deemed inconsistent with responsible investment considerations. At least 50% of the Fund's portfolio is made up of "green bonds", issued specifically to finance environmentally friendly projects, as defined by the Climate Bonds Initiative.

Responsible entity

Betashares Capital Ltd

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least three years

Fund facts	
Inception Date	26-Nov-19
Fund Size	\$334.59m
Historical Tracking Error (annualised)	0.15%
ASX Code	GBND
Bloomberg Code	GBND.AU
IRESS Code	GBND.AXW
Fees	
Management fee	0.39
Recoverable expenses	0.10

Investment strategy

As a summary, the Fund will generally invest in a portfolio of bonds that is a representative sample of the constituents of the Solactive Australian and Global Select Sustainability Leaders Bond TR Index – AUD Hedged. Bond issuers may include governments, corporations and supranational bodies.

Issuer eligibility screens: Initial screening includes a fossil fuel screen, which means that bond issuers will be excluded if they are materially involved in the mining, extraction, or burning of fossil fuels, or maintain material fossil fuel reserves or fossil fuels infrastructure. Issuers providing material financing to the fossil fuels industry are also excluded (although green bonds from such issuers may be eligible, subject to materiality thresholds).

The Index methodology also excludes issuers which are exposed to activities considered to carry other significant negative ESG risks (certain materiality thresholds may apply), including:

- 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

These screens apply to all issuers other than sovereign bond issuers. Sovereign bond issuers are screened to remove any issuers that are subject to current sanctions as a result of human rights concerns imposed by bodies such as the U.N. and the E.U.

Green Bonds: At least 50% of the Index at each rebalance will comprise green bonds, issued to fund projects that have positive environmental and/or climate benefits, such as those designed to prevent or reduce pollution, improve the sustainable use of natural resources, or help in the transition to non-fossil fuel-based technologies.

To be eligible for inclusion on this basis, a bond must have been defined as a green bond by the internationally-recognised not-for-profit organisation, the Climate Bonds Initiative (CBI). The bond issuer must also have passed the screening process outlined above.

All included bonds must be fixed-rate bonds with a minimum investment-grade rating. Bonds are initially market-cap weighted and then scaled so that AUD-denominated bonds make up 50% of the index weight, with the remaining 50% allocated to Euro/US Dollar-denominated bonds at each monthly rebalance. The foreign currency exposure of index constituents is hedged back to the Australian Dollar.

Top 10 positions ¹	Fund Weight %
French Govt OAT 1.75% Jun-39	2.3
French Govt OAT 0.5% Jun-44	1.1
Treasury Corp VIC 4.25% Dec-32	1.0
NSW Treasury Corp 3% Feb-30	1.0
European Union 2.625% Feb-48	1.0
NSW Treasury Corp 1.5% Feb-32	1.0
European Union 0.4% Feb-37	1.0
NSW Treasury Corp 2% Mar-33	1.0
Treasury Corp VIC 5.5% Nov-26	1.0
NSW Treasury Corp 3% Mar-28	1.0

¹ As at 29 December 2023

Sector exposure ¹	Fund Weight %
Sovereign	12.3
Supranational	16.1
Sovereign Agency	2.9
Special Purpose Banks	7.4
Local Authority	37.3
Corporates	23.9
Total	100

¹ As at 29 December 2023

Country allocation ¹	%
Australia	36.7
Snat	15.4
Germany	10.9
France	8.1
Netherlands	7.9
United States	3.2
Spain	2.4
Norway	1.8
Belgium	1.6
Other	12.1

¹ As at 29 December 2023

Fund performance summary

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 EU€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 AU\$600 million in November, taking total outstanding to AU\$2.85 billion. Second highest issuance this quarter in AUD was by Contact Energy NZ, with an AU\$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).

Other commentary

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 communities¹.

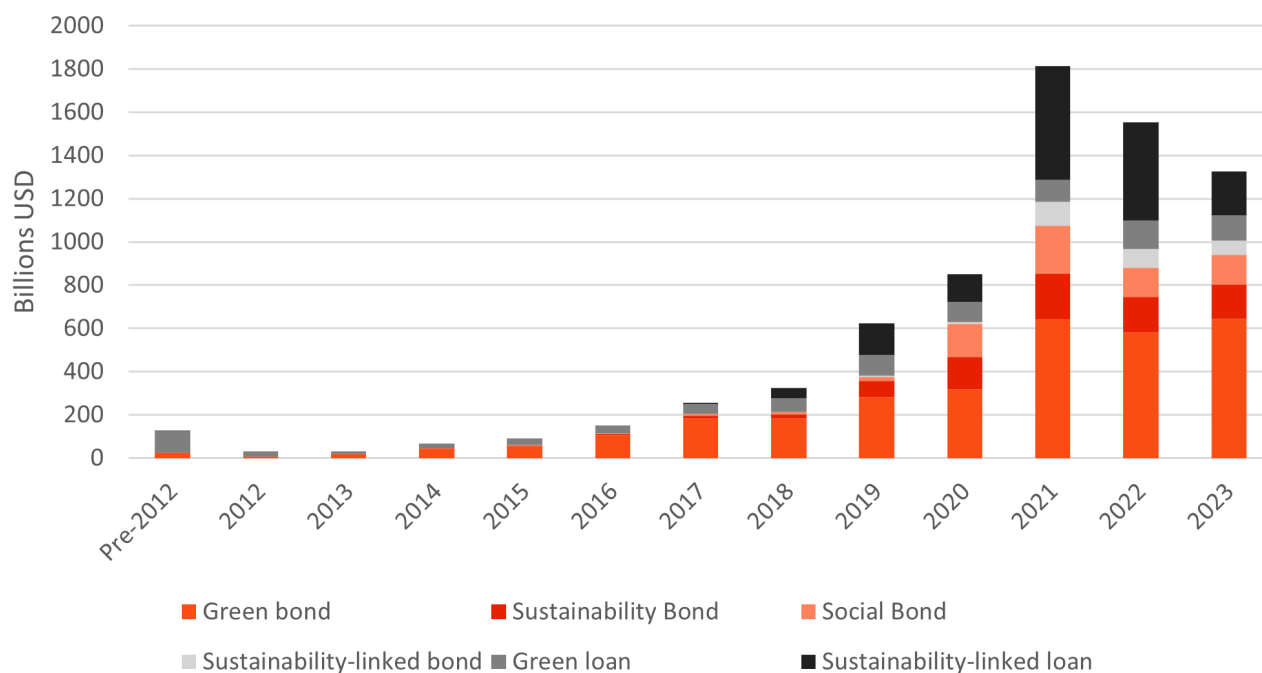
In its response, the IDB said that it conducted extensive due diligence on Pronaca and its operations prior to approving the loan. During the due diligence phase, IDB concluded that the approved project did not impact lands and natural resources subject to traditional ownership, there was no physical 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.

1. <https://news.mongabay.com/2023/08/ecuador-pig-poultry-farm-pollution-sparks-protest-amid-idb-ifc-loans/>

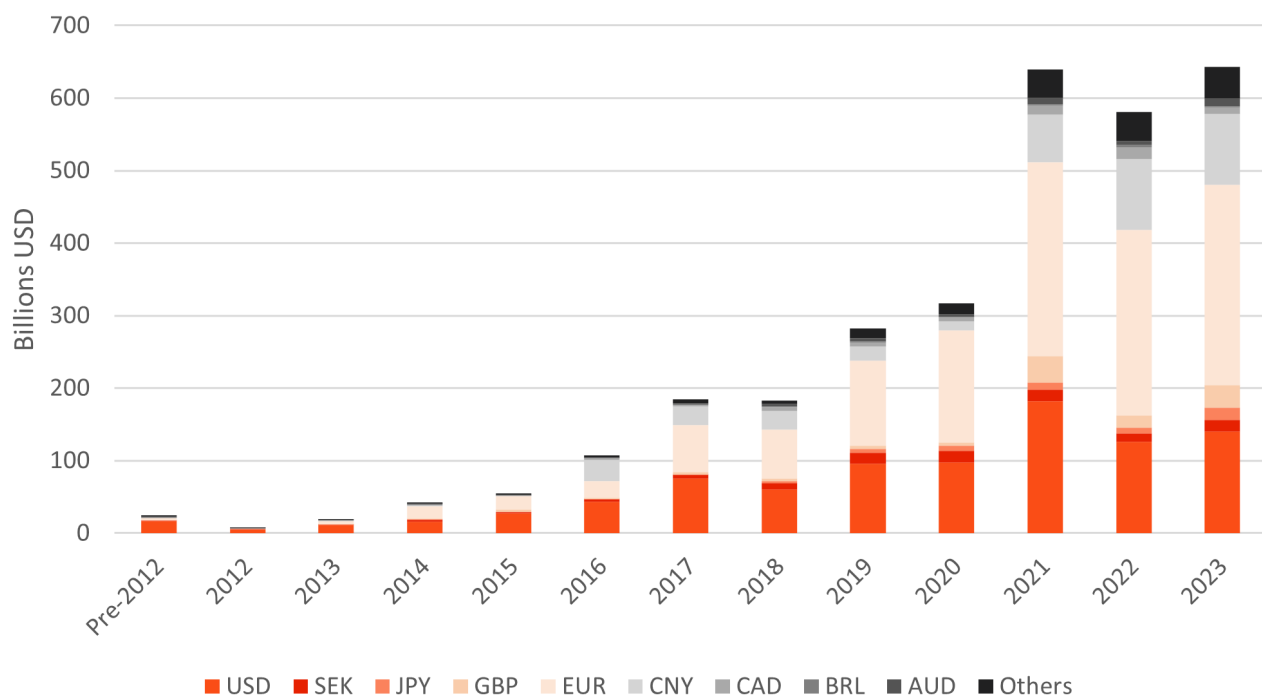
Historical Charts

Data sourced from BNEF chart data as of December 2023.

Sustainable Debt Issued by Instrument Type



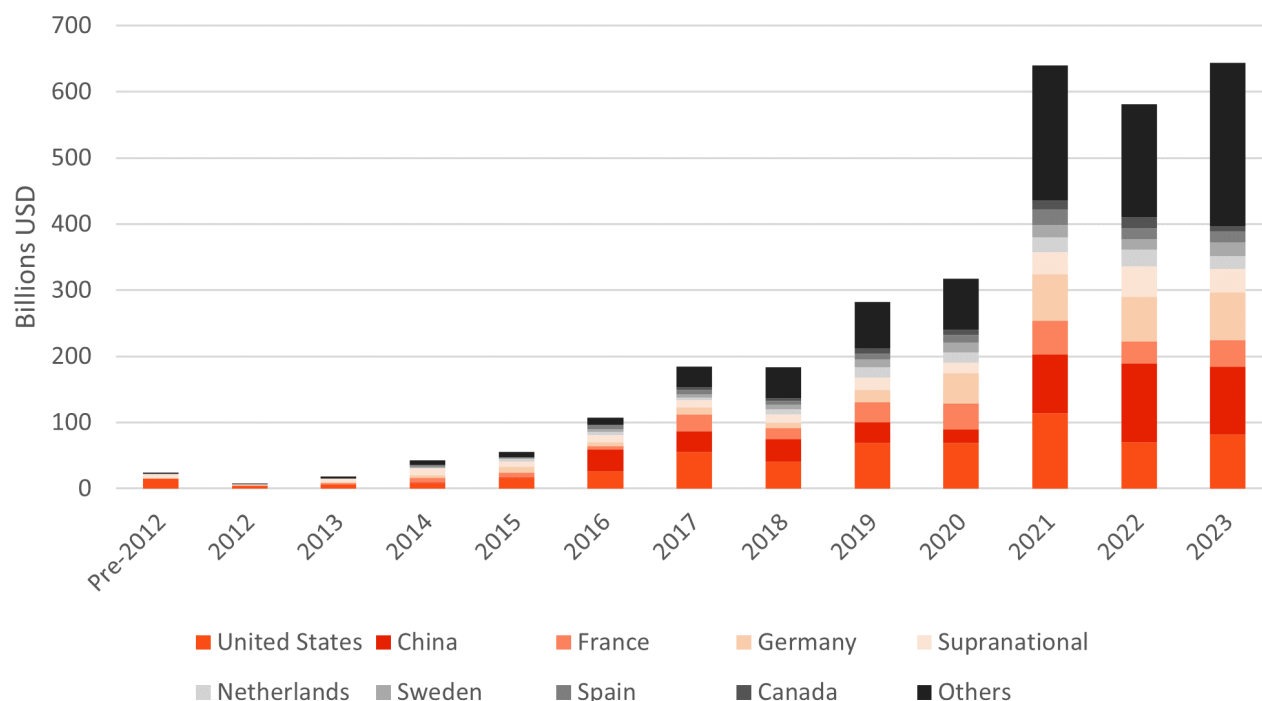
Green Bonds by Currency



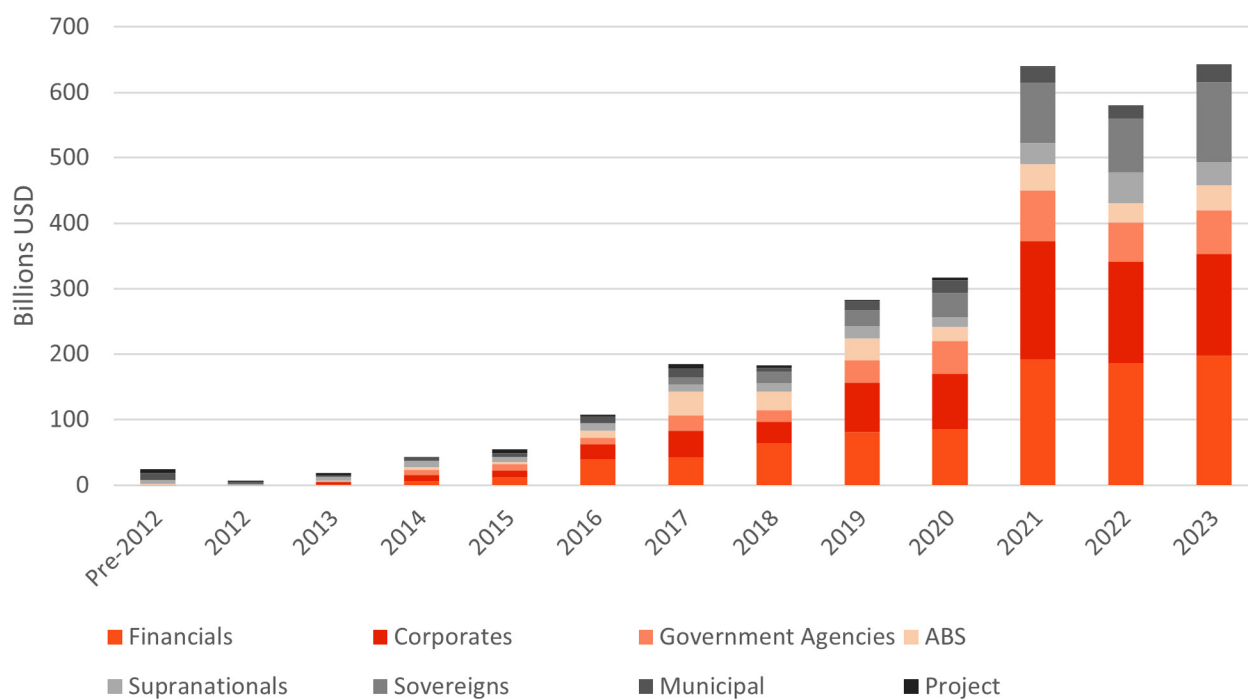
Historical Charts

Data sourced from BNEF chart data as of December 2023.

Green Bonds by Country of Risk



Green Bonds by Issuer Type



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



The Betashares Sustainability Leaders Diversified Bond ETF – Currency Hedged (ASX: GBND) 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.¹

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