Betashares Sustainability Leaders Diversified Bond ETF - Currency hedged

ASX: GBND

Quarterly Report - June 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)	-1.04%	-1.27%	1.99%	-1.56%	-5.28%	-3.81%
Growth Return	-1.04%	-1.93%	0.64%	-4.76%	-7.15%	-5.48%
Income Return	0.00%	0.66%	1.35%	3.20%	1.87%	1.67%
Index	-0.99%	-1.10%	2.30%	-0.94%	-4.76%	-3.33%

Past performance is not a reliable indicator of future performance.

[1] As at 30 June 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]	2.59%
Yield to Maturity (% p.a.)[2]	4.38%
Average Maturity (Yrs)[3]	7.19
Modified Duration (Yrs)[4]	6.21
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 30 June 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	$268.71m
Historical Tracking Error (annualised)	0.16%
ASX Code	GBND
Bloomberg Code	GBND.AU
IRESS Code	GBND.AXW

Fees	% p.a.
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/U.S. 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 Republic Government Bond OAT 1.75% Jun-39	2.4
European Union 0.4% Feb-37	1.2
Treasury Corp of Victoria 5.5% Nov-26	1.1
French Republic Government Bond OAT 0.5% Jun-44	1.0
New South Wales Treasury Corp 3% Feb-30	1.0
Netherlands Government Bond 0.5% Jan-40	1.0
Treasury Corp of Victoria 4.25% Dec-32	1.0
New South Wales Treasury Corp 3% Mar-33	1.0
Treasurey Corp of Victoria 3% Oct-28	1.0
Western Australian Treasury Corp 5% Jul-25	1.0

[1] As at 30 June 2023

Sector exposure[1]	Fund Weight %
Sovereign	11.7
Supranational	15.9
Sovereign Agency	3.7
Special Purpose Banks	7.6
Local Authority	36.4
Corporates	24.8

[1] As at 30 June 2023

Country allocation[1]	%
Australia	37.4
SNAT	15.9
Germany	11.2
France	8.5
Netherlands	7.7
United States	3.8
Spain	2.7
Norway	1.8
Italy	1.6
Other	9.3

[1] As at 30 June 2023

Fund performance summary

GBND returned -1.27% (net of fees) in the second quarter of 2023, as global central banks tightened policy in response to persistent inflation pressures, and fears of banking stress gave way to fears of entrenched inflation.

Several factors contributed to GBND's performance such as shifts in yield curves accounted for -2.74% of returns: of which AUD (50% weight), EUR (41.5% weight), and USD bonds (8.5% weight) contributed -2.16%, -0.40% and -0.18% respectively. Also, AUD bonds underperformed relative to their duration weight as the high "beta" characteristic of AUD rates came to the fore. Bond credit spreads compressed over the quarter, adding +0.54% to performance. Combined yield and FX carry contributed +1.05%, with fees subtracting -0.12%.

The June quarter saw US$294 billion of ESG bonds issued, including US$189 billion of green bonds, continuing Q1's strong issuance rate. There were 47 new issuers of ESG debt this quarter, including 35 new green bond issuers. Looking at green bond issuance in more detail: by currency, EUR was the highest at 38.7%, followed by USD at 23.2% and CNY at 11.8%.

It's notable that the weight of issuance in EUR has fallen materially compared to Q1, with issuance in Asian currencies taking most of EUR's share. By country of risk, the top 5 were China (including HK) at 13.72%, Germany at 10.4%, Supranational at 9.9%, France at 8.4% and US at 8.1%. Like currencies, the countries of risk are clearly less concentrated at the top, with issuance spread out more evenly across different countries.

Finally, looking at issuer sectors, government-related entities accounted for a slightly higher weight at 49.5% versus corporates at 47.3%, flipping historical norms, with 1.9% of issuers not clearly classified.

The largest green bond sales this quarter were by the Italian Government, with EU€10 billion issued in April. In second place was the German Government with EU€4.5 billion issued in June. Domestically in the AUD market, the top two were Western Australia Treasury Corp with AU$1.9 billion in June, and Oversea-Chinese Banking Corporation with AU$1 billion issuance in May.

From the market's inception to the end of June 2023, global cumulative green bond issuance totals US$2.82 trillion, with EUR currency and European entities as the largest contributors. However, the combined cumulative issuance from the second and third largest contributing currencies, USD (US$837 billion) and CNY (US$333 billion) now rivals EUR (US$1,173 billion).

CNY green bond issuance as a proportion of total global issuance shows an increasing trend over the past 4 years, from just 3.49% in 2020 to 10.06% in 2021, 16.43% in 2022 and 14.97% so far in 2023. This contrasts with USD green bonds decreasing from 31.02% of global issuance in 2020 down to 20.93% of 2023 YTD issuance. Globally, corporates account for 62.26% of cumulative green bond issuance (financials at 29.38%), with the combined total of government, government-related, and supranational entities at 36.38% (the other 1.37% were project-based issuers).

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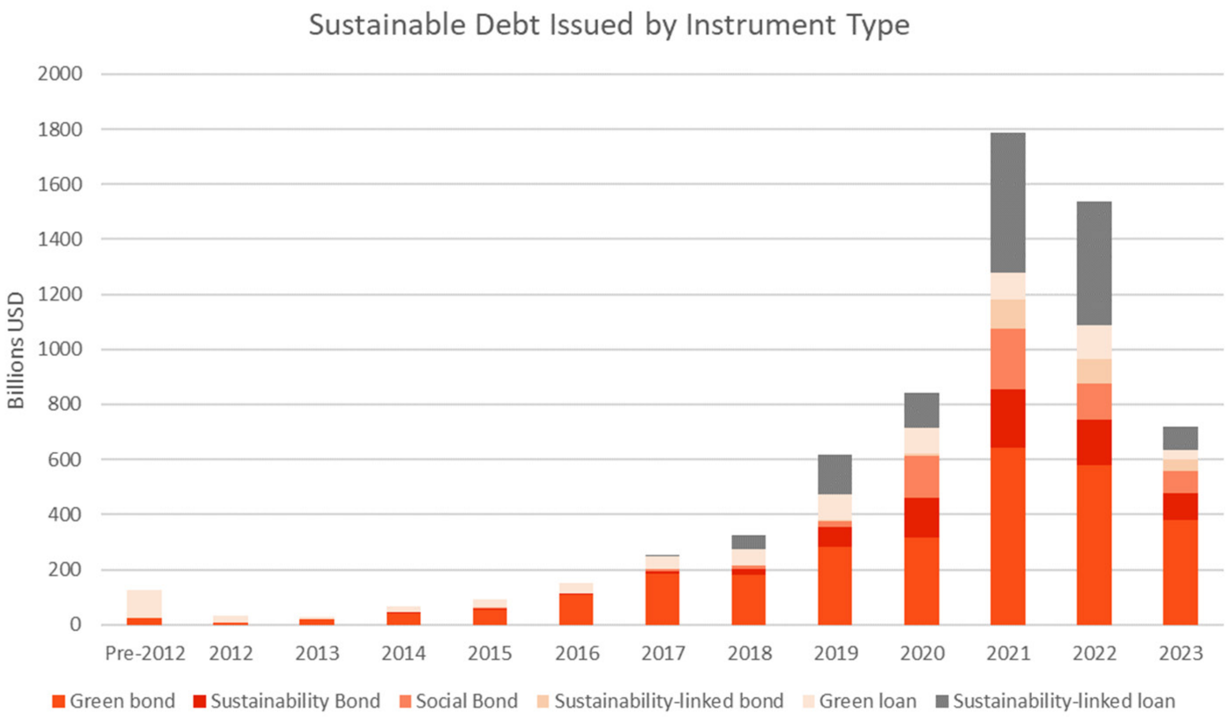
Other commentary

Both the Northern Territory (NT) and Federal Australian governments have been accused of failing to conduct adequate cultural consultation on the proposed Middle Arm industrial hub which threatens Indigenous rock art. The proposed project will be a major manufacturing hub for gas, petrochemicals, hydrogen and minerals, designed in part to facilitate a significant expansion of the gas sector in the NT under the guise of 'sustainable development'. The traditional owners of Darwin, the Larrakia people, say that if the project proceeds there is a real risk of another Juukan Gorge-style scenario. The RIC engaged with the Northern Territory Treasury Corp and relevant state government bodies to better understand how the NT government is consulting with the Larrakia people to ensure the protection of their land and cultural heritage.

Australia is expected to launch a sovereign green bond in the middle of 2024 to fund public projects as part of the government's drive to attract investor capital to fund the country's net-zero energy transition. The Government is also co-funding the Australian sustainable finance taxonomy to provide a common standard and definitions about the sustainable characteristics of different activities. The taxonomy is key to giving investors the confidence to allocate capital to assets.

Historical Charts

Data sourced from BNEF chart data as of June 2023. (Commentary reflects March issuance as well).



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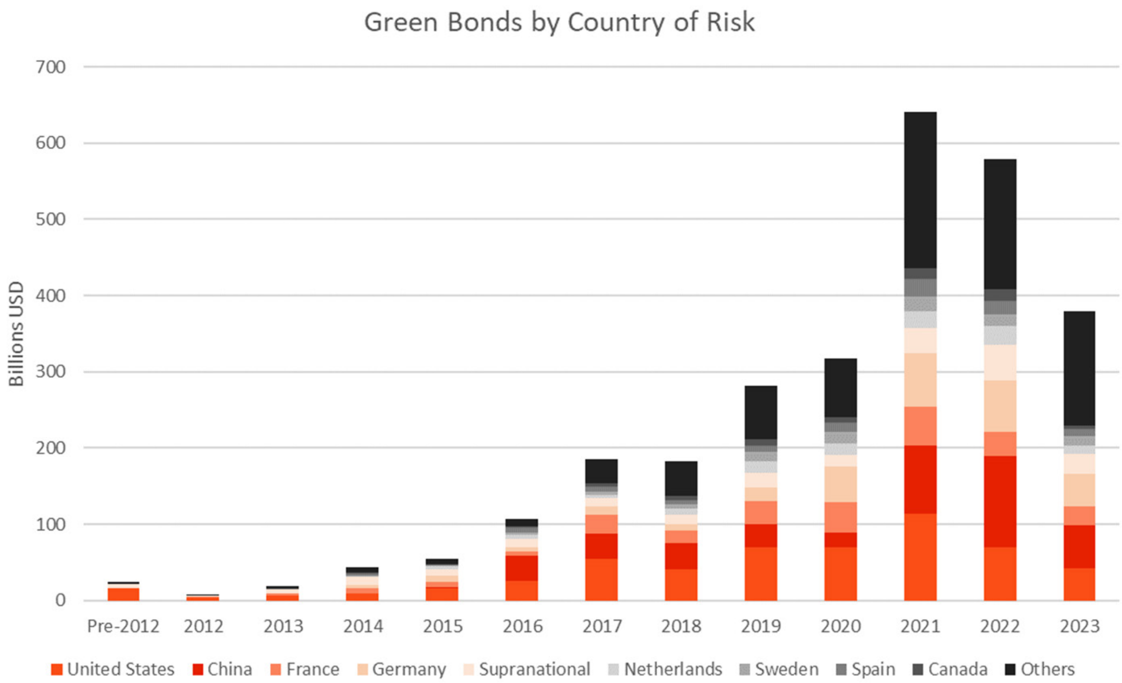

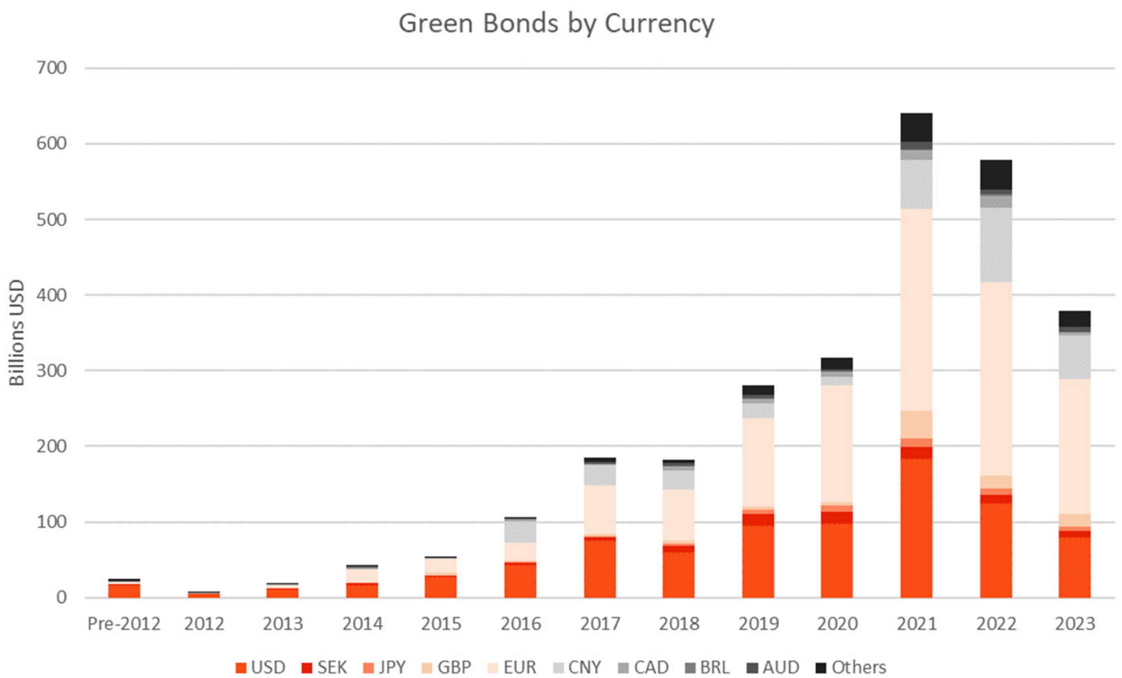

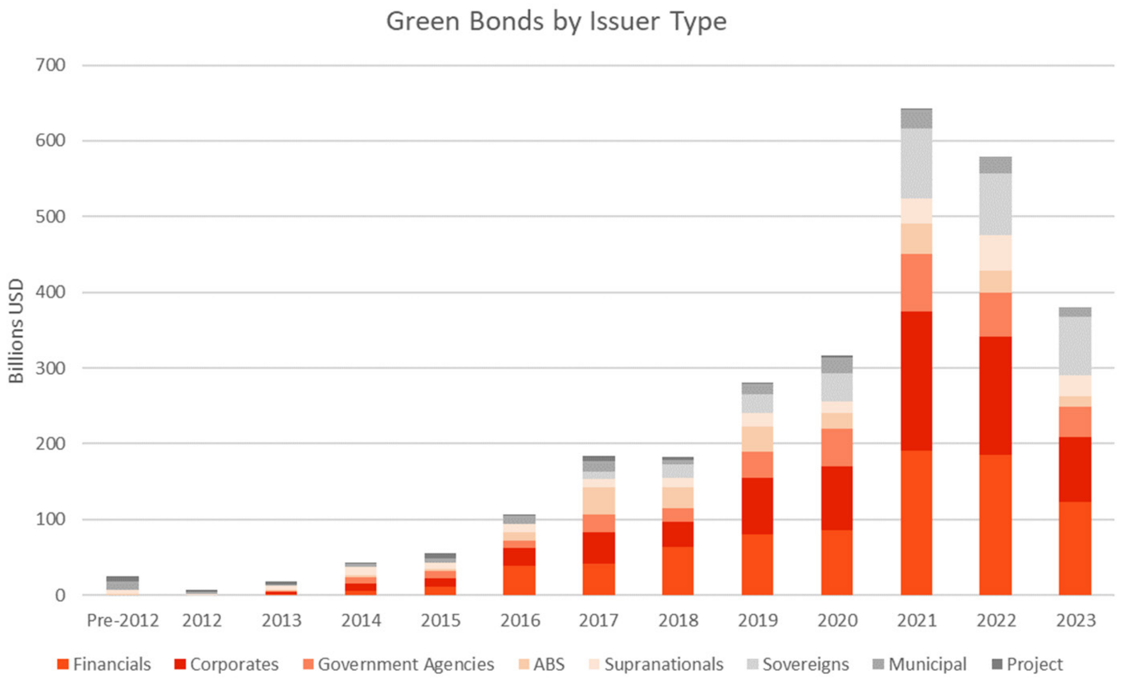

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