Betashares Sustainability Leaders Diversified Bond ETF - Currency hedged

ASX: GBND

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)	1.18%	0.13%	5.49%	3.12%	-3.59%	-2.19%
Growth Return	1.18%	-0.58%	3.98%	0.30%	-6.06%	-4.07%
Income Return	0.00%	0.71%	1.51%	2.82%	2.47%	1.88%
Index	1.21%	0.30%	5.81%	3.73%	-3.06%	-1.69%

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 26 November 2019.

Yield and portfolio characteristics	
Running Yield (% p.a.)[1]	2.58%
Yield to Maturity (% p.a.)[2]	3.88%
Average Maturity (Yrs)[3]	7.34
Modified Duration (Yrs)[4]	6.26
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 28 March 2024. 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	$349.36m
Historical Tracking Error (annualised)	0.15%
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/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	1.8
Treasury Corp VIC 4.25% Dec-32	1.1
Treasury Corp VIC 5.5% Nov-26	1.0
NSW Treasury Corp 3% Mar-28	1.0
NSW Treasury Corp 3% Feb-30	1.0
Treasury Corp VIC 3% Oct-28	1.0
QLD Treasury Corp 3.25% Jul-28	1.0
NSW Treasury Corp 1.5% Feb-32	0.9
Treasury Corp VIC 1.5% Sep-31	0.9
French Govt OAT 0.5% Jun-44	0.9

[1] As at 28 March 2024

Sector exposure[1]	Fund Weight %
Sovereign	13.5
Supranational	13.8
Sovereign Agency	2.5
Special Purpose Banks	6.1
Local Authority	40.3
Corporates	23.7
Total	100

[1] As at 28 March 2024

Country allocation[1]	%
Australia	40.7
Snat	13.7
Germany	9.8
France	8.0
Netherlands	7.7
United States	3.4
Spain	2.4
Norway	1.5
Belgium	1.7
Other	11.0

[1] As at 28 March 2024

Fund performance summary

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 totalled 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).

Other commentary

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[1].

1. https://www.aofm.gov.au/securities/green-bond-program

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.

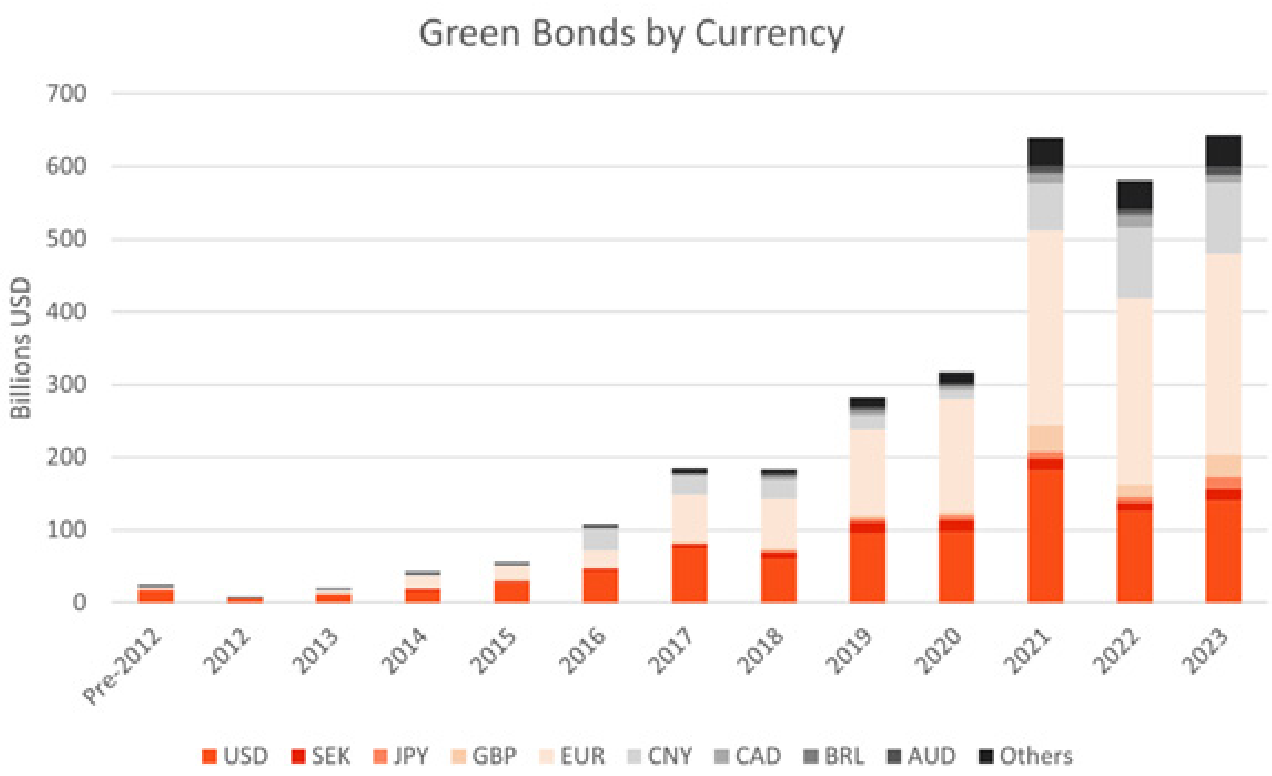
We wrote to Woolworths advising them that, in our view, there were no climate or environmental benefits associated with the application of the UoP to existing leases. Subsequently, we participated in collaborative engagement with CBI during which we expressed concerns about the probity surrounding the 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.

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.

Historical Charts

Data sourced from BNEF chart data as of March 2024.



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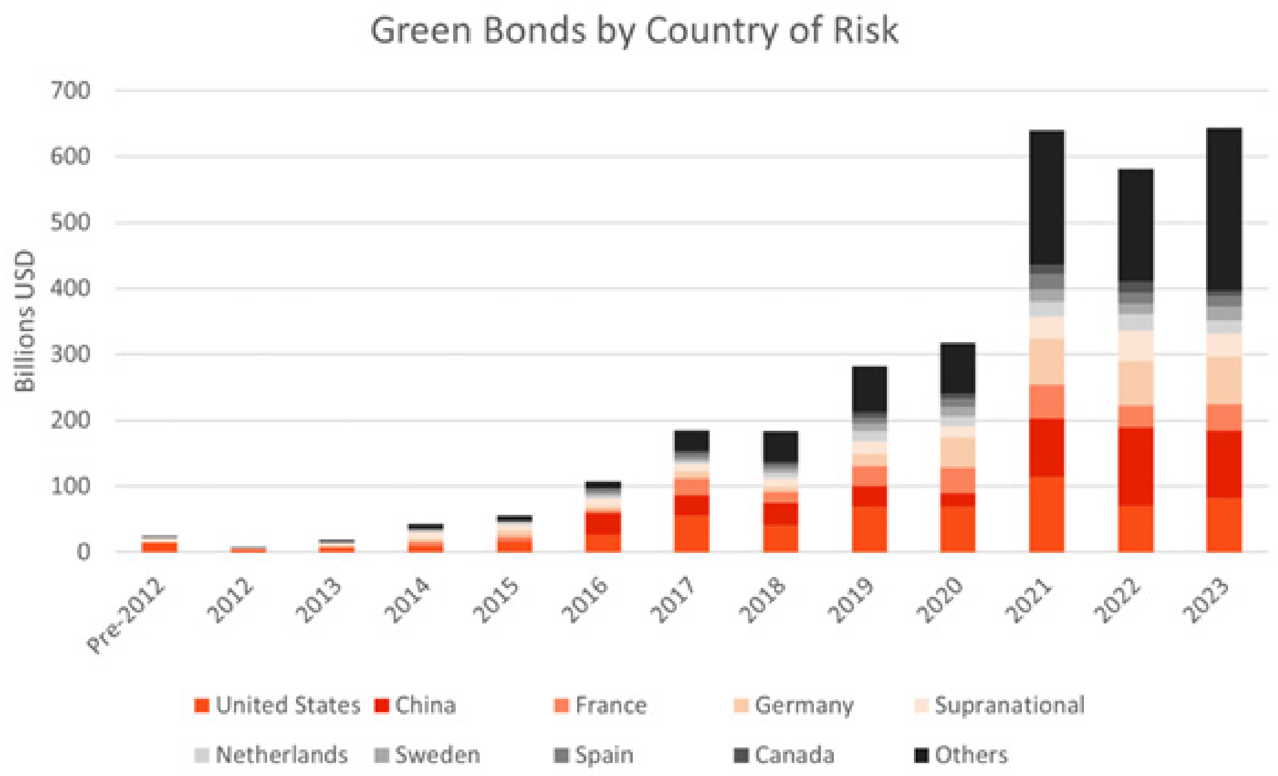
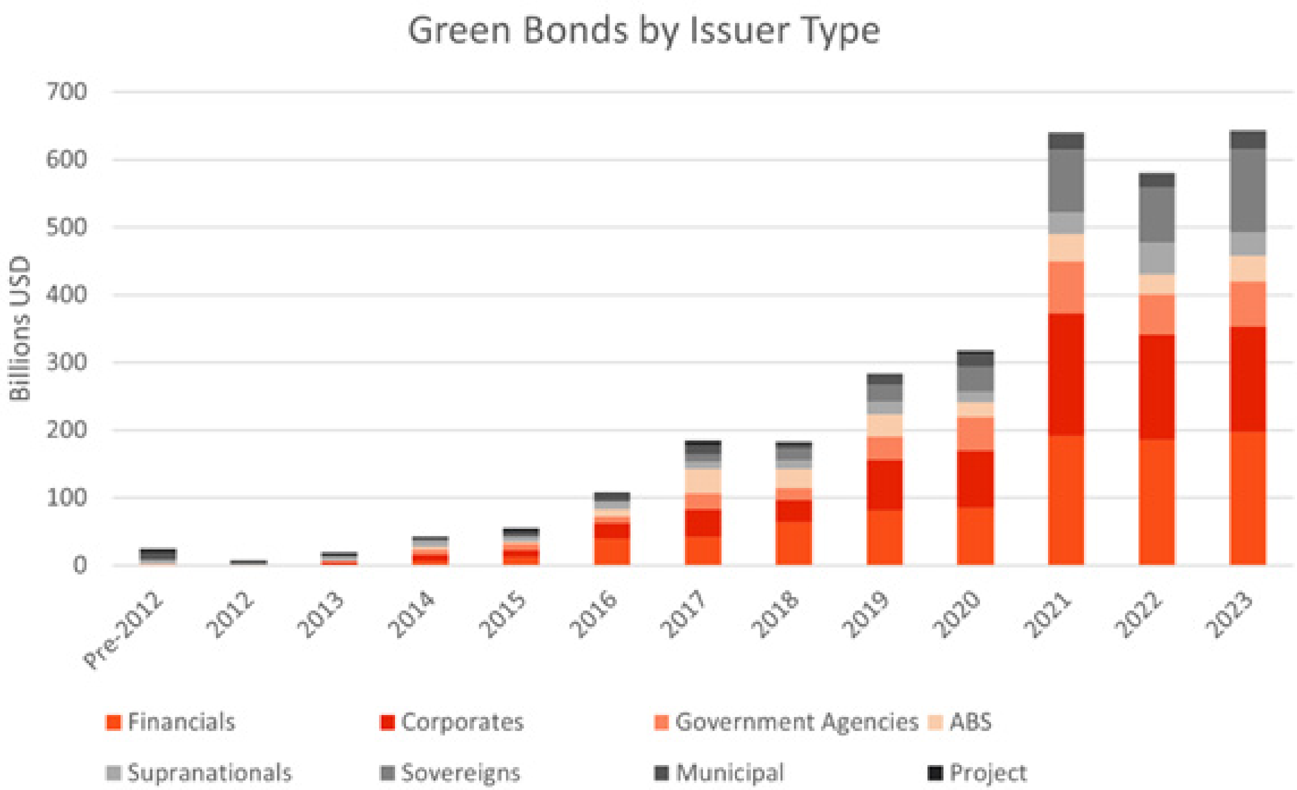
Historical Charts

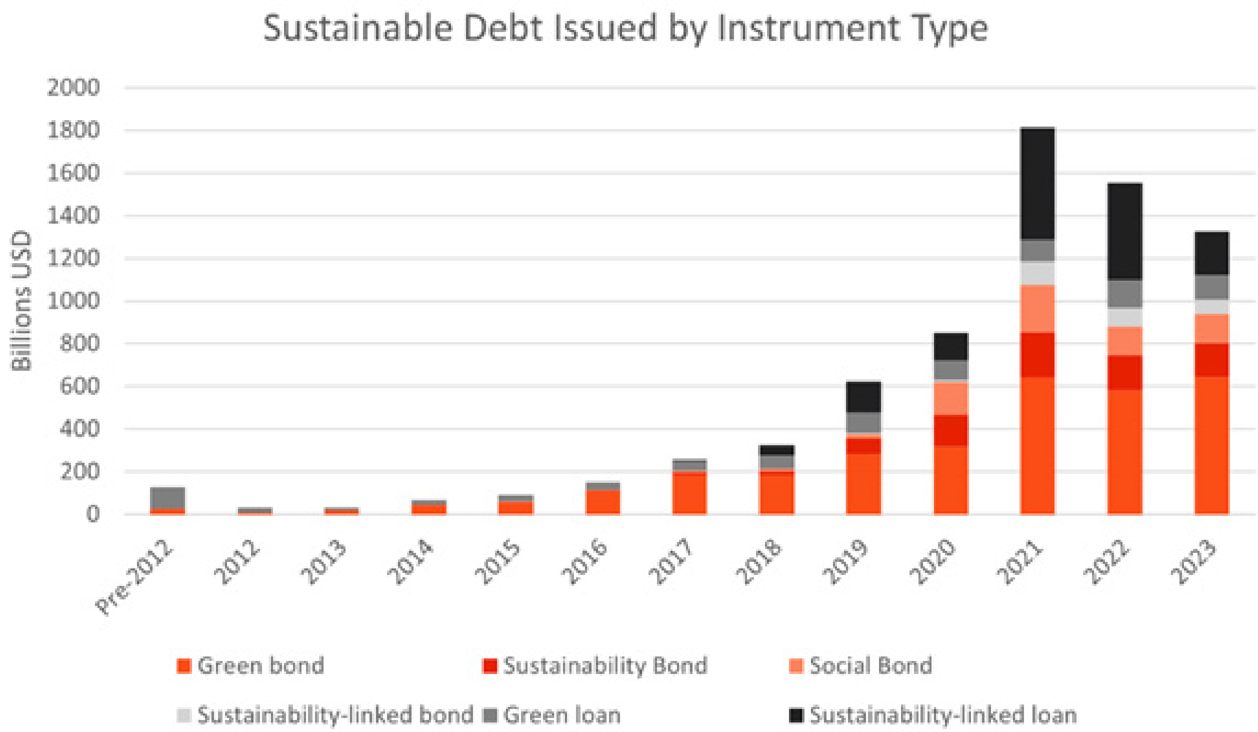
Data sourced from BNEF chart data as of March 2024.





Historical Charts

Data sourced from BNEF chart data as of March 2024.



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