Betashares Sustainability Leaders Diversified Bond ETF - Currency hedged

ASX: GBND

Quarterly Report - September 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)	-1.80%	-0.98%	-2.24%	0.67%	-6.00%	-3.82%
Growth Return	-1.80%	-1.64%	-3.54%	-1.99%	-8.03%	-5.54%
Income Return	0.00%	0.66%	1.30%	2.66%	2.03%	1.72%
Index	-1.78%	-0.87%	-1.96%	1.22%	-5.52%	-3.34%

Past performance is not a reliable indicator of future performance.

[1] As at 30 September 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]	4.49%
Average Maturity (Yrs)[3]	6.91
Modified Duration (Yrs)[4]	6.02
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 September 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	$290.16m
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% Nov-26	2.1
Treasury Corp of Victoria 5.5% Nov-26	1.1
New South Wales Treasury Corp 3% Mar-28	1.0
Western Australian Treasury Corp 5% Jul-25	1.0
European Union 0.4% Feb-37	1.0
New South Wales Treasury Corp 2% Mar-33	1.0
New South Wales Treasury Corp 2% Feb-30	1.0
New South Wales Treasury Corp 1.5% Feb-32	1.0
Treasurey Corp of Victoria 4.25% Dec-32	1.0
Western Australian Treasury Corp 3% Oct-26	1.0

[1] As at 30 September 2023

Sector exposure[1]	Fund Weight %
Sovereign	11.1
Supranational	16.5
Sovereign Agency	2.9
Special Purpose Banks	7.5
Local Authority	37.8
Corporates	24.2
Total	100

[1] As at 30 September 2023

Country allocation[1]	%
Australia	37.3
France	15.7
Snat	11.0
Netherlands	7.7
Germany	7.1
United States	3.6
Spain	2.4
Belgium	1.5
Norway	1.4
Other	12.2

[1] As at 30 September 2023

Fund performance summary

GBND returned -0.98% (net of fees), as at September 2023. Attributing GBND's performance; shifts in yield curves accounted for -2.59% of returns of which AUD (50% weight), EUR (41.7% weight), and USD bonds (8.3% weight) contributed -0.81%, -1.56% and -0.22% respectively. EUR bonds underperformed relative to its duration weight as Eurozone inflation stubbornly persisted above the ECB's 2% target, with the ECB raising policy rates in both of its Q3 meetings, whilst the Fed only raised once in July, and the RBA did not move at all. Bond credit spreads compressed over the quarter, adding 0.78% to performance. Combined yield and FX carry contributed 0.95%, with fees subtracting -0.12%.

The September quarter saw US$197 billion of ESG bonds issued, including US$118 billion of green bonds, a noticeable drop from Q2 and Q1 levels. There were 45 new issuers of ESG debt this quarter, including 43 new green bond issuers. Looking at green bonds' issuance in more detail by currency, EUR was the highest at 32.4%, followed by USD at 26.8% and CNY at 9.2%. The weight of issuance in EUR declined even further this quarter, as compared with 38.7% in Q2 and 52% in Q1. By country of risk, the top 5 were US – 11.3% and China (including HK) – 11.3%, Germany – 10.77%, Japan – 9.9%, and Supranational – 9.4%. Like Q2, issuance was spread out more evenly across different countries. Finally, looking at issuer sectors, Corporates accounted for a weight of 52.3% versus Governments and Government entities at 41.1%; with 4.6% of issuers not clearly classified.

The largest green bond sales this quarter was by the UK Government, with an £3 billion tap (additional issuance) in September of their July 2033 bond, taking the bond's total amounts outstanding to £24.5 billion. Second place was KFW with €3 billion issued in September. Domestically in the AUD market, NBN was the top issuer with AU$850 million issued in August. KFW again took second place with an AU$450 million tap in September of their May 28 bond, taking total amounts outstanding to AU$1.1 billion.

From the market's inception to the end of September 2023, global cumulative green bond issuance totals US$2.95 trillion, with EUR currency and European entities the largest contributors. However, the combined cumulative issuance from the second and third largest contributing currencies, USD (US$868 billion) and CNY (US$351 billion) now exceeds EUR (US$1,216 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 14.93% so far in 2023; this contrasts with USD green bonds going from 31.02% of global issuance in 2020 down to 21.76% of 2023 YTD issuance. Globally, corporates account for 62.66% of cumulative green bond issuance (financials at 29.19%), with the combined total of government, government related, and supranational entities at 36.04% (the other 1.30% were project-based issuers).

Other commentary

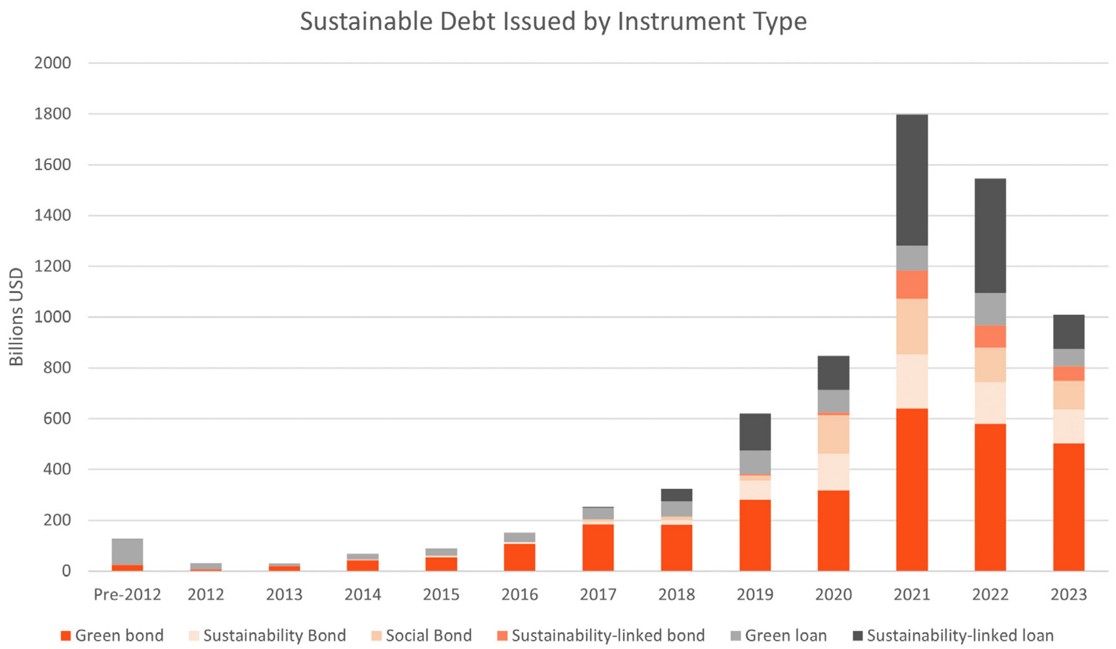
The Commonwealth Bank of Australia (CBA) has significantly reduced its fossil fuel financing activities and ceased all project finance for fossil fuel exploration and production as well as corporate finance for companies that generate more than 25% of revenue from thermal coal. Starting in 2025, CBA will also require its fossil fuel clients to publish emission reduction plans that have been independently verified. Financing key infrastructure, such as pipelines to new oil fields, will also be precluded[1]. CBA has gone from being historically the biggest fossil fuel lender among the big four to lending the least in the last two years. CommBank's fossil fuel lending in 2022 was down to $267 million, a 92% decrease from 2018 where CommBank loaned $4 billion to fossil fuels[2].

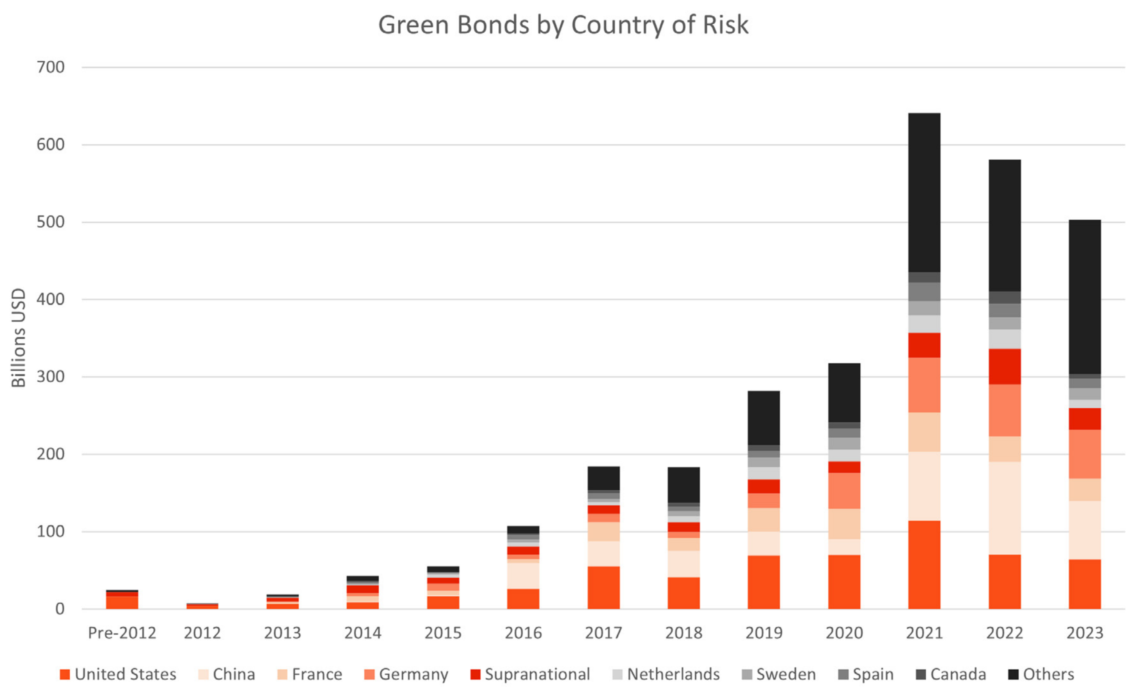
1. https://www.commbank.com.au/content/dam/commbank/about-us/download-printed-forms/environment-and-social-framework.pdf
2. https://www.marketforces.org.au/commbanks-climate-policy-update-leaves-anz-nab-and-westpac-in-the-dust/

Last quarter, the RIC engaged with the Northern Territory Treasury Corporation (NTTC) to understand how it is addressing concerns from First Nations people relating to the proposed Middle Arm industrial hub. The NTTC in its response said that going forward it will consult closely with First Nations people through working groups to seek knowledge and understanding of the cultural and social values associated with Middle Arm and Darwin Harbour more broadly, as well as economic opportunities associated with the Precinct. While it's concerning the Government didn't include Traditional Owners from the start, it has since committed to funding and resources for a First Nations-led cultural values survey of Middle Arm which will inform the Cultural Heritage Management Plan. The RIC will monitor the process on an ongoing basis to ensure that the project adheres to the values of Free, Prior and Informed Consent of the Traditional Owners.

Historical Charts

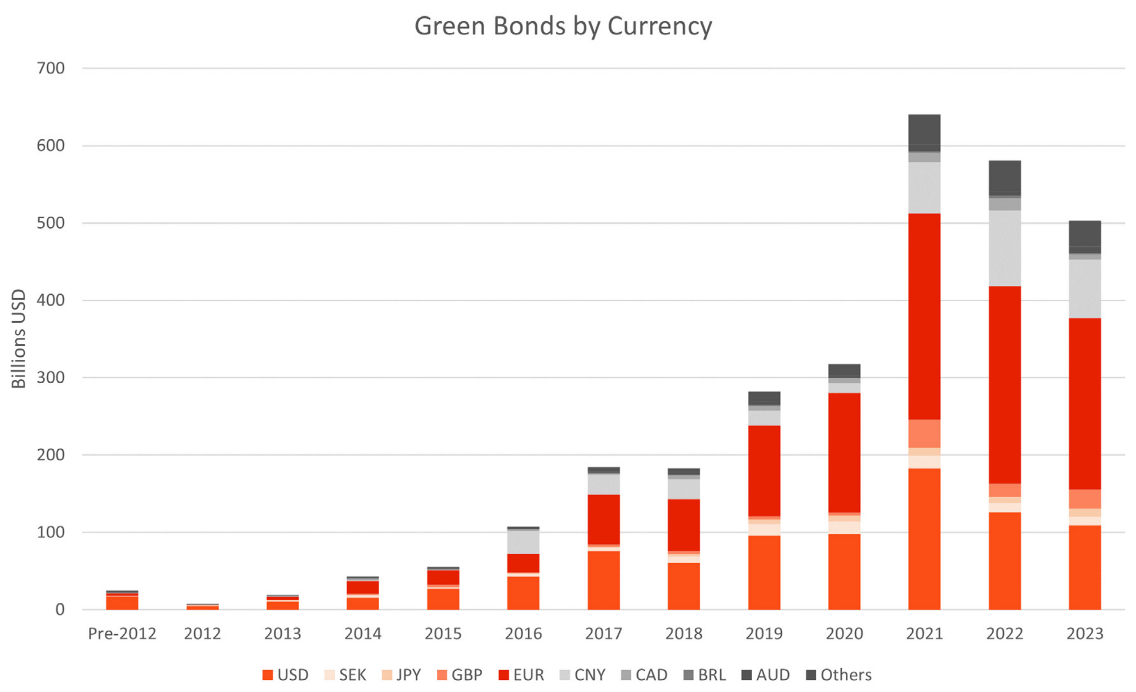
Data sourced from BNEF chart data as of September 2023. (Commentary reflects June issuance as well).

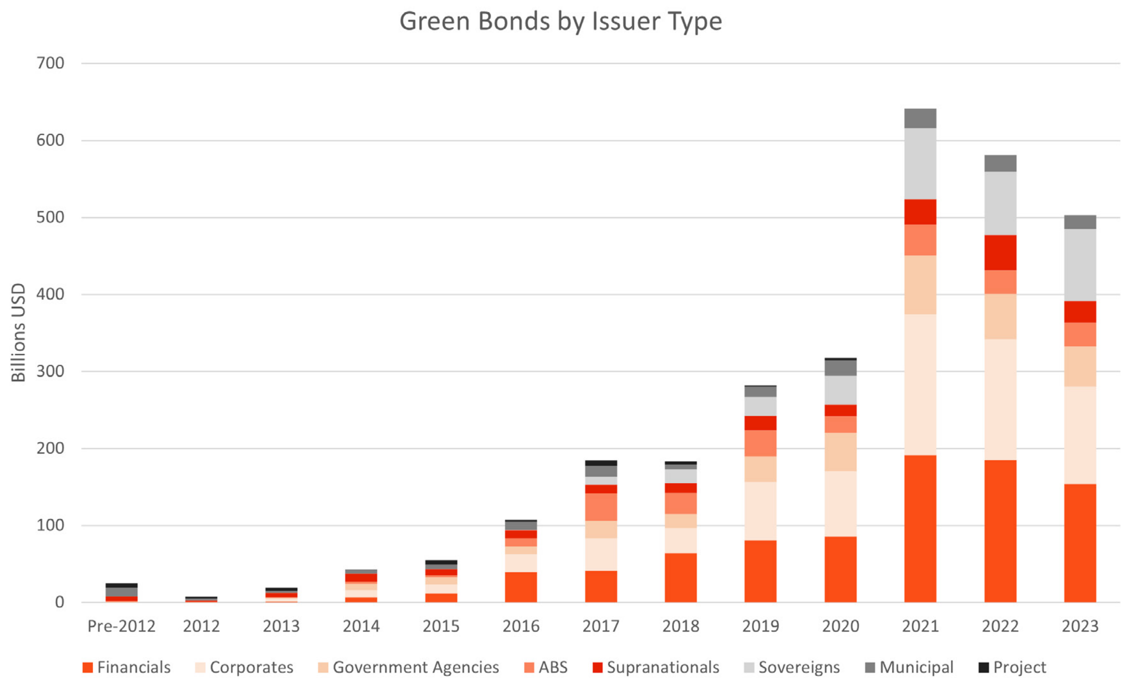




Historical Charts

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





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.

CERTIFIED BY RIAA

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]

Important

[1] The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

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