BETASHARES SUSTAINABILITY LEADERS DIVERSIFIED BOND ETF - CURRENCY HEDGED | ASX: GBND

Quarterly Report - March 2023

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	2.61%	3.31%	2.98%	-6.74%	-4.12%	-3.73%
Growth return	*2.61%*	*2.62%*	*1.61%*	*-9.27%*	*-5.90%*	*-5.33%*
Income return	*0.00%*	*0.69%*	*1.37%*	*2.53%*	*1.78%*	*1.60%*
Index return	*2.61%*	*3.44%*	*3.24%*	*-6.21%*	*-3.66%*	*-3.26%*

Past performance is not a reliable indicator of future performance.

[1] 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]	2.32%
Yield to Maturity (% p.a.)[2]	3.79%
Average Maturity (Yrs)[3]	7.14
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. 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 certified by the Climate Bonds Initiative.

Responsible entity

Betashares Capital Ltd

Distribution frequency

Quarterly

Fund Facts	
Inception Date	26-Nov-19
Fund Size	$242.36m
Historical Tracking Error	0.17%
ASX Code	GBND
Bloomberg Code	GBND.AU
IRESS Code	GBND.AXW

Fees	% p.a.
Management fees	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
- Tobacco
- Armaments
- Uranium and nuclear energy
- Destruction of valuable environments
- Animal cruelty
- Alcohol
- Junk foods
- Pornography
- Human rights and supply chain concerns
- Chemicals of concern
- 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 certified 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	%		%
French Republic Government Bond Oat 1.7	2.5	Netherlands Government Bond 0.5% Jan-40	1.1
European Union 0.4% Feb-37	1.2	New South Wales Treasury Corp 3% Feb-3C	1.1
French Republic Government Bond Oat 0.5	1.1	New South Wales Treasury Corp 3% Mar-2ε	1.0
Treasury Corp Of Victoria 5.5% Nov-26	1.1	Treasury Corp Of Victoria 4.25% Dec-32	1.0
Western Australian Treasury Corp 5% Jul-2	1.1	Treasury Corp Of Victoria 3% Oct-28	1.0

[1] As at 31 March 2023

Investment strategy cont.

Sector exposure	Fund Weight %[1]
Sovereign	11.7
Supranational	15.8
Sovereign Agency	3.2
Special Purpose Banks	8.0
Local Authority	36.0
Corporates	25.3
TOTAL	100.00

[1] *As at 31 March 2023*

Country allocation[1]	%		%
Australia	36.8	United States	3.9
Snat	15.8	Spain	2.8
Germany	11.2	Belgium	1.6
France	8.6	Italy	1.6
Netherlands	8.4	Other	9.3

[1] *As at 31 March 2023*

Fund performance summary

GBND returned 3.31% (net of fees) in the first quarter of 2023, a period of historically high levels of interest rate volatility. Global bond yields finished the quarter lower as fears of contagion spreading in the banking sector pushed down forecasts of further central bank interest rate hikes. Attributing GBND's performance; shifts in the yield curve accounted for 2.39% of the returns: of which AUD (50% weight), EUR (41% weight), and USD bonds (9% weight) contributed 1.57%, 0.62% and 0.20% respectively; with AUD bonds outperforming as expectations of future RBA rate hikes were sharply pared back. Credit spreads were largely unchanged, contributing 0.05% to performance. Combined yield and FX carry contributed the remaining 0.87%.

The March quarter saw US$289 billion of ESG bonds issued, including US$182 billion of green bonds, almost doubling the issuance of Q4 2022, with some refinancing needs held off from last year now having to be met. There were 54 new issuers of ESG debt this quarter, including 41 new green bond issuers. Looking at green bonds' issuance in more detail: by currency, EUR was the highest at 52.01%, followed by USD at 21.22% and CNY at 11.21%. By country of risk, the top 5 were China (including HK) – 27.60%, Supranational – 22.50%, US – 18.51%, Germany – 17.26% and France – 12.59%. Finally, by sector, corporates accounted for the majority of issuance at 57.68% (of which financials accounted for 30.71% of overall issuance); the remaining 42.32% representing Government-related entities.

The largest green bond sales this quarter was by the European Investment Bank, with US$5 billion issued on 07/02/23 followed immediately by EU€5 billion issued on 08/02/23. Second place was Shanghai Pudong Development Bank at CN¥30 billion (~US$4.36 billion), in local currency terms equaling the Bank of China's record deal in December 2022. Domestically in the AUD market, Queensland Treasury Corp issued AU$3 billion in March, and the European Investment Bank also issued AU$1.5 billion in the Australian market on 09/02/23 after their USD and EUR deals.

From the market's inception to the end of March 2023, global cumulative green bond issuance totals US$2.61 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$794 billion) and CNY (US$292 billion) now rivals EUR (US$1,086 billion). CNY green bond issuance as a proportion of total global issuance continues to increase each year, from just 3.49% in 2020, to 10.06% in 2021, and 16.43 % in 2022; this is in contract to USD green bonds going from 31.02% of global issuance in 2020 down to 21.69% in 2022. Globally, corporates account for 62.31% of cumulative green bond issuance (financials at 29.08%), with the combined total of government, government related, and supranational entities at 36.21% (the other 1.48% were project-based issuers).

Source: BNEF.

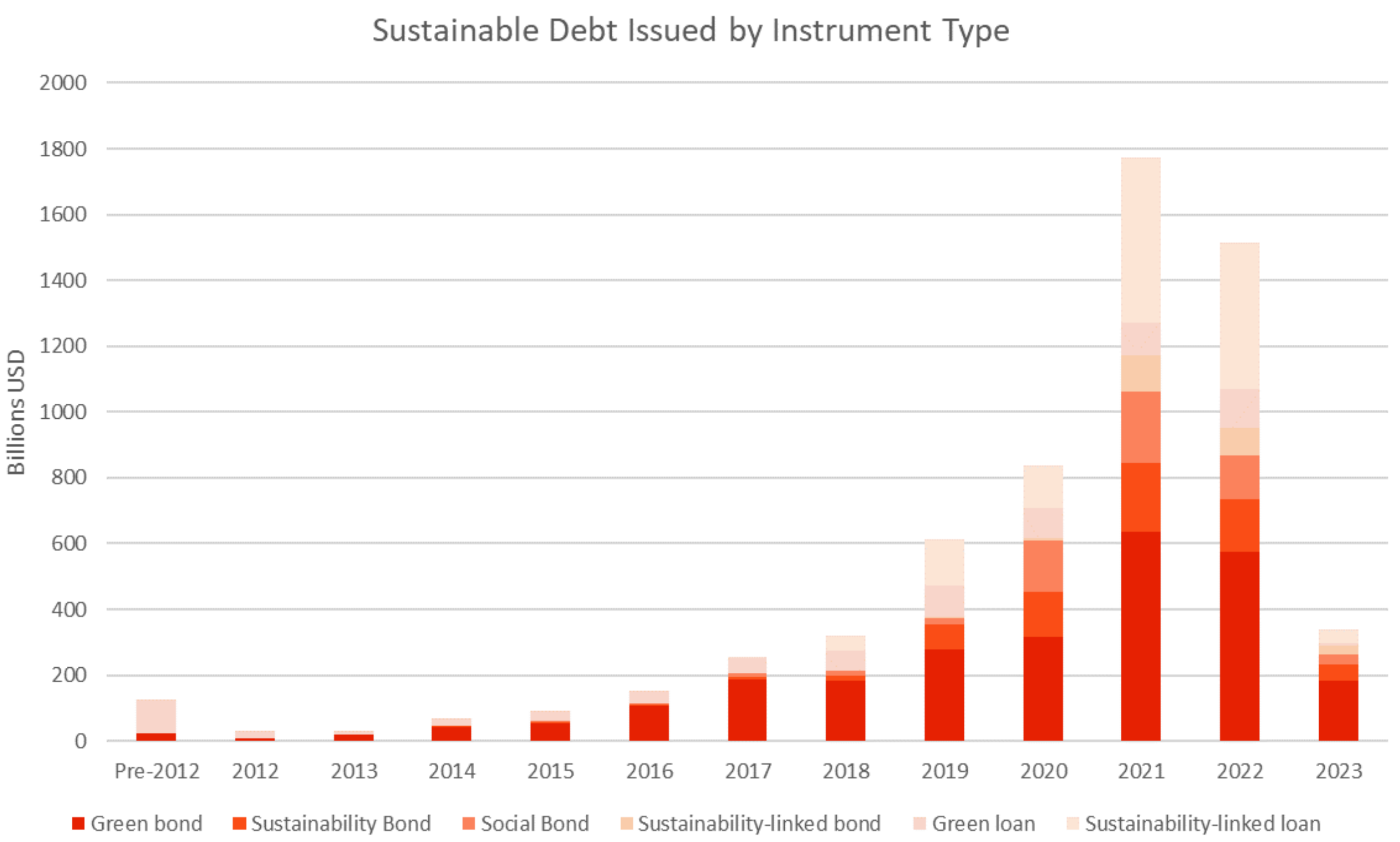
Other commentary

In January 2023, activist organisation, SumOfUs, asked major investors, such as BlackRock, to stop buying Adani Group debt and equity. The company announced plans to raise $10 billion in new debt in 2023 but its finances were intensely scrutinised after the short sellers, Hindenberg, released a report accusing Adani group of fraudulent accounting, stock price manipulation and money laundering via shell companies to hide the true extent of the Adani family's ownership of company stock. Adani Group planned to issue green bonds as part of the company's aim to portray itself as a renewable energy leader. However, SumOfUs said Adani's long history of environmental and human rights abuses, and now fraud, flouted all three pillars of ESG and undermined any confidence investors could have that proceeds from the green bonds would be ring fenced only for green projects.

In February 2023, EU legislators reached a provisional agreement on the creation of a European Green Bond Standard aimed at fighting greenwashing in the EU bond market. The new standard will be useful for both issuers and investors of green bonds as issuers will be able to demonstrate that they are using proceeds to fund projects that are aligned with the EU taxonomy. Investors will be able trust the credentials of such bonds, thereby reducing the risk of greenwashing.

Historical Charts

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



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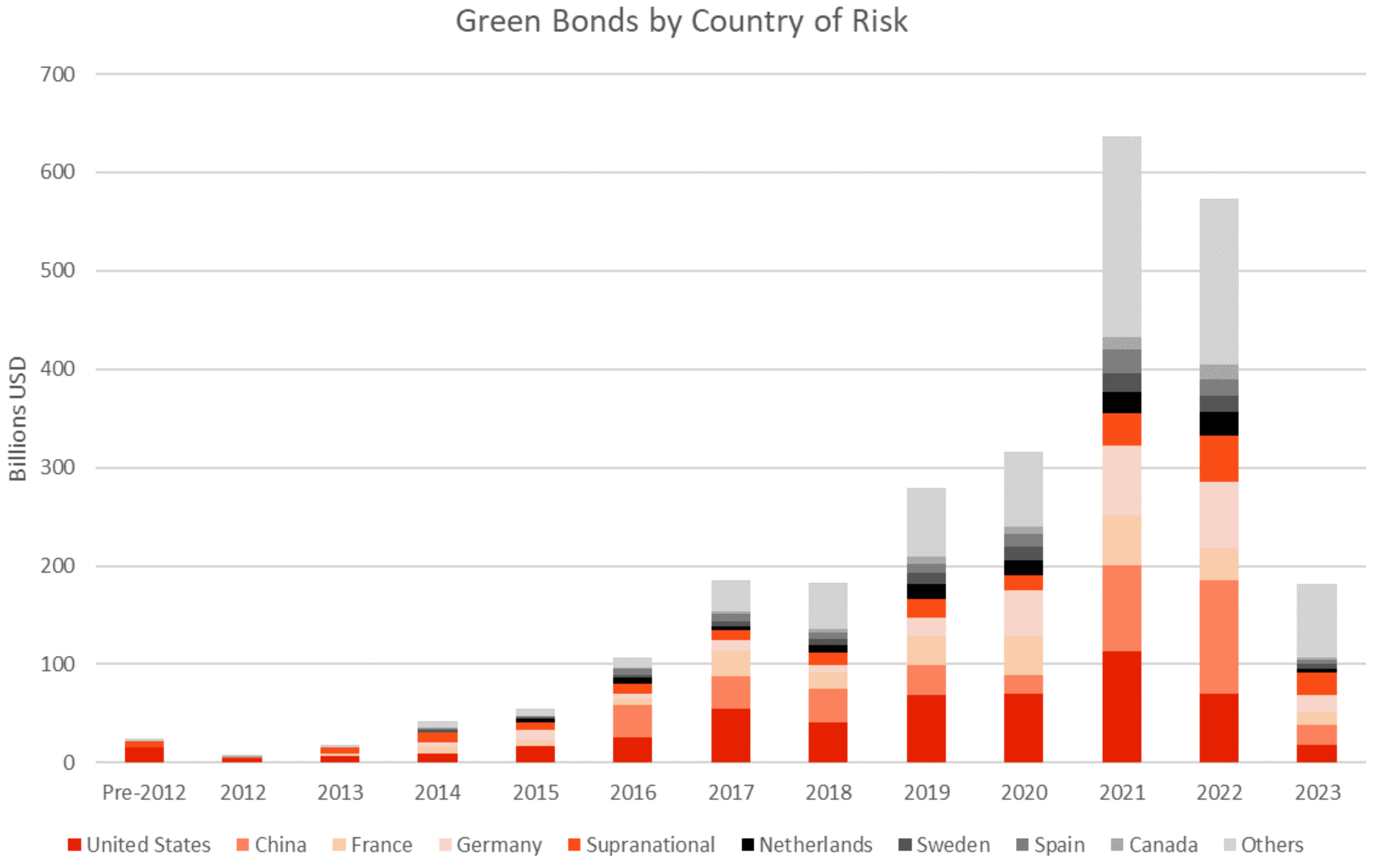

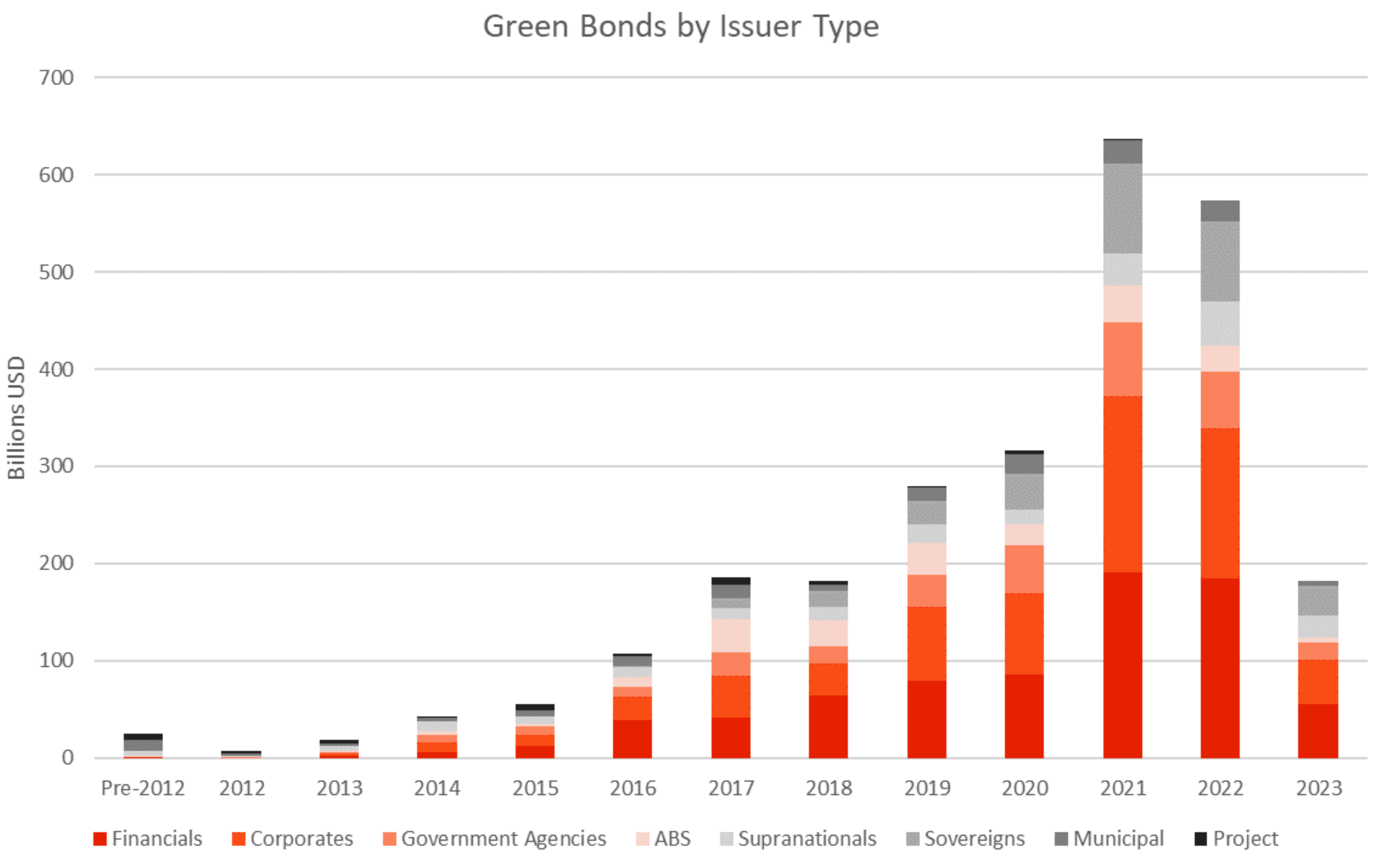

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