

BETASHARES AUSTRALIAN SUSTAINABILITY LEADERS ETF

ASX: FAIR

Quarterly Report - September 2020

Performance ¹	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception ² % p.a.
Fund Return (net)	-3.05%	-1.26%	12.39%	-2.63%		6.86%
Growth return	-3.05%	-2.89%	10.54%	-5.45%		3.93%
Income return	0.00%	1.63%	1.85%	2.82%		2.93%
Index	-3.02%	-1.13%	12.66%	-2.08%		7.42%

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 27 Nov 2017.

Investment objective

The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to Australian companies that have been screened to preference companies engaged in sustainable business activities and to avoid companies engaged in activities deemed inconsistent with responsible investment considerations.

Responsible entity

BetaShares Capital Ltd

Fund Facts

Inception Date	27-Nov-17
Fund Size	\$639.99m
Historical Tracking Error	0.09%
ASX Code	FAIR
Bloomberg Code	FAIR.AU
IRESS Code	FAIR.ASW

Distribution frequency

Semi-annual

Suggested minimum investment timeframe

At least five years

Fees % p.a.

Management fees	0.39
Recoverable expenses	0.10

Investment strategy

The Fund will generally invest in a portfolio of Australian securities that comprise the Index in proportion to the weightings of the securities in the Index.

> Screening Criteria

From the universe of eligible ASX listed securities, the Index methodology removes companies which are exposed to activities considered to carry significant negative environmental, social and governance (ESG) risks, including:

- Fossil Fuels – including any direct and any material indirect exposure + any companies with high use of fossil fuels
- Gambling
- Tobacco
- Armaments
- Uranium and nuclear energy
- Destruction of valuable environments
- Animal cruelty
- Chemicals of concern
- Mandatory detention of asylum seekers
- Alcohol
- Junk foods
- Pornography
- Human rights and supply chain concerns
- Lack of gender diversity at the board level
- Payday lending

Investment strategy cont.

> Sustainability Leaders

From the companies passing the above screens, the Index preferences companies classified as “Sustainability Leaders”, which means that the company must satisfy at least one of the following criteria:

- More than 20% revenue derived from one or more of the following: renewable energy; energy efficiency; water efficiency; recycling; waste remediation and re-use of materials; public transport and energy efficient transport; education; healthcare; animal health; healthy foods and nutrition products; green star rated buildings; community and regional banking; health insurance and personal insurance; social services and social infrastructure (e.g. employment services, child care); sustainability certified products and services (e.g. Fairtrade, certified organic); sustainable forestry; access to knowledge and information; access to communications;
- Recipient of either an “A” or “B” grade (or equivalent) rating from a trusted ethical consumer report;
- Certified B Corporation (a certification issued by B Lab, which is available to companies that meet specified governance, transparency, environmental and social impact standards).

Note that not every security in the Index is necessarily a Sustainability Leader (but every security will have met the above Screening Criteria).

The Index uses a modified market capitalisation weighting method, includes sector concentration limits, gives preferential weighting to Sustainability Leaders, and applies a maximum weight per security of 4% at each annual rebalance date.

For more information on the Index see the Index methodology document available on our website.

Top 10 positions ¹		%	%
Goodman Group	4.1	ResMed Inc	4.0
CSL Ltd	4.1	ASX Ltd	3.8
Brambles Ltd	4.0	Cochlear Ltd	3.8
Fisher & Paykel Healthcare Cor	4.0	Telstra Corp Ltd	3.8
Sonic Healthcare Ltd	4.0	Ramsay Health Care Ltd	3.5

¹ As at 30 September 2020

Sector exposure	Fund Weight % ¹
Healthcare	27.0
Real Estate	18.5
Financials	16.7
Communication Services	11.0
Information Technology	9.5
Industrials	5.8
Consumer Discretionary	5.3
Consumer Staples	4.2
Materials	1.8
Utilities	0.3
TOTAL	100.00

¹ As at 30 September 2020

Fund performance summary

The Fund returned -1.26% during the quarter. Assets grew from \$530m to \$640m over this period.

Consumer Discretionary and Information Technology were the largest sector contributors, returning 12.95% and 9.33% over the period, while contributing 0.53% and 0.97% respectively. Financials and Consumer Staples were the lowest contributors, returning -10.6% and 20.2%, while contributing -1.71% and -1.05% respectively.

XRO, SHL and CHC were the three largest stock contributors to total return. With returns of 11.81%, 8.97% and 28.28% in the period, their contribution was 0.45%, 0.45% and 0.38% respectively. While A2M, RMD and IAG are the three largest detractors to total return. With returns of -24.71%, -13.25% and -24.09% in the period, they detracted -1.03%, -0.75% and -0.72% respectively.

Other commentary

Effective of August 2020, Simon Sheikh (Managing Director of Future Super) resigned from the Responsible Investment Committee (RIC) and Kylie Charlton was appointed to replace him.

Kylie is Managing Director of Australian Impact Investments (All), a specialist consulting firm that provides advice to clients seeking to mobilise capital to create positive environmental and social impact alongside financial value. Kylie joined All in 2014 and she has worked in Australia and internationally at the intersection of mainstream capital markets, impact investment and philanthropy for over 15 years. Kylie is a Venture Partner on the Giant Leap Fund, co-founder of Unitus Capital, Chair for RIAA's Impact Investing Forum, working group member of the Australian Sustainable Finance Initiative and awardee of the AFR 100 Women of Influence 2018. Prior to transitioning her career into impact investment, Kylie spent 11 years in commercial and investment banking. Kylie graduated in Commerce at University of Canberra and has an MBA from the Saïd Business School at the University of Oxford in England.

The rest of the committee remains unchanged, comprising of David Nathanson, Managing Director at BetaShares; and Adam Verwey, Managing Director at Future Super).

FAIR's index underwent its annual rebalance and reconstitution during the quarter, with the noteworthy outcomes outlined below:

- **Additions:** Pro Medicus and Superloop were both identified as new Sustainability Leaders after passing the 'Board Gender Diversity' screen for the first time i.e, they recently appointed women to their boards.
- **Deletions:** Service Stream was excluded following its acquisition of Comdain, which resulted in an indirect fossil fuel exposure of over 5%.
- **Renewable energy securities:** The Index Methodology allows the RIC to identify up to three 'additional renewable energy securities', in which a company must derive more than 50% revenue from renewable energy or activities that substantially reduce greenhouse gas emissions. This year, the following companies were added to FAIR's index under this criterion:

1. Meridian Energy: This is a New Zealand company listed on the ASX. Their core business is renewable energy generation. It was an existing index constituent.
2. Mercury NZ: This is a New Zealand company listed on the ASX. Their core business is renewable energy generation. It was an existing index constituent.
3. New Energy Solar: This company runs solar farms in Australia and the US. It is new index constituent.

Proxy voting & engagement

There were no AGMs with ESG votes for FAIR during the quarter. The RIC engaged with one company during the quarter.

In April, a report released by Credit Suisse on CSL's plasma donation facilities in disadvantaged areas of the United States alleged that CSL had set up plasma collection centres in poor areas, (such as Mexican border towns) and used Spanish language ads with images of wads of cash to attract lower income donors. Furthermore, the report raised concerns about the potential long-term health effects of frequent donations, particularly to vulnerable donors.

CSL responded stating that many of the allegations were untrue or unsubstantiated. For instance, only 5% of their donation centres are located along the U.S./Mexico border, whereas the report claimed that over half of their collection centres were there. They were also conducting a longitudinal study on the health effects of plasma donations and will be releasing the findings to the public once concluded. As for the Spanish language ads cited in the report, these were actually not authorised by CSL, but rather by a donor on Facebook.

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