BetaShares Exchange Traded Funds

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

Quarterly Report - March 2021

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	0.25%	-2.94%	-2.22%	1.44%		1.01%
Growth return	*0.25%*	*-3.04%*	*-2.43%*	*0.80%*		*0.54%*
Income return	*0.00%*	*0.10%*	*0.21%*	*0.64%*		*0.47%*
Index return	*0.27%*	*-2.84%*	*-2.06%*	*1.81%*	*4.61%*	*1.43%*

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]	2.17%
Yield to Maturity (% p.a.)[2]	0.92%
Average Maturity (Yrs)[3]	8.13
Modified Duration (Yrs)[4]	7.34
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	$121.08m
Historical Tracking Error	0.24%
ASX Code	GBND
Bloomberg Code	GBND.AU
IRESS Code	GBND.AXW

Fees	% p.a.
Management fees	0.39
Recoverable expenses	0.10

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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 Govt OAT 1.75% JUN-39	6.2	Treasury Corp VIC 5.5% DEC-24	1.2
Belgium Govt 1.25% APR-33	1.8	NSW Treasury Corp 3% FEB-30	1.1
Netherlands Govt 0.5% JAN-40	1.6	Treasury Corp VIC 5.5% NOV-26	1.1
NSW Treasury Corp 3% APR-29	1.2	NSW Treasury Corp 3% MAR-28	1.1
Ireland Govt Bond 1.35% MAR-31	1.2	NSW Treasury Corp 3% MAY-27	1.0

[1] As at 31 March 2021

Sector exposure	Fund Weight %[1]
Sovereign	13.3
Supranational	11.1
Sovereign Agency	6.7
Special Purpose Banks	7.7
Local Authority	40.6
Corporates	20.7
TOTAL	100.00

[1] As at 31 March 2021

Country allocation[1]	%		%
Australia	41.4	United States	3.9
SNAT	10.9	Spain	2.6
France	13.7	Norway	2.0
Netherlands	7.8	Ireland	1.2
Germany	6.1	Other	10.4

[1] As at 31 March 2021

Fund performance summary

GBND's performance over the March quarter was -2.94%, alongside a sharp move higher in global government bond yields against a backdrop of rising global growth and inflation expectations. Participation in primary deals (mostly newly issued green bonds) and a continued compression in credit spreads on supranational, agency and corporate debt helped partially offset duration-related losses.

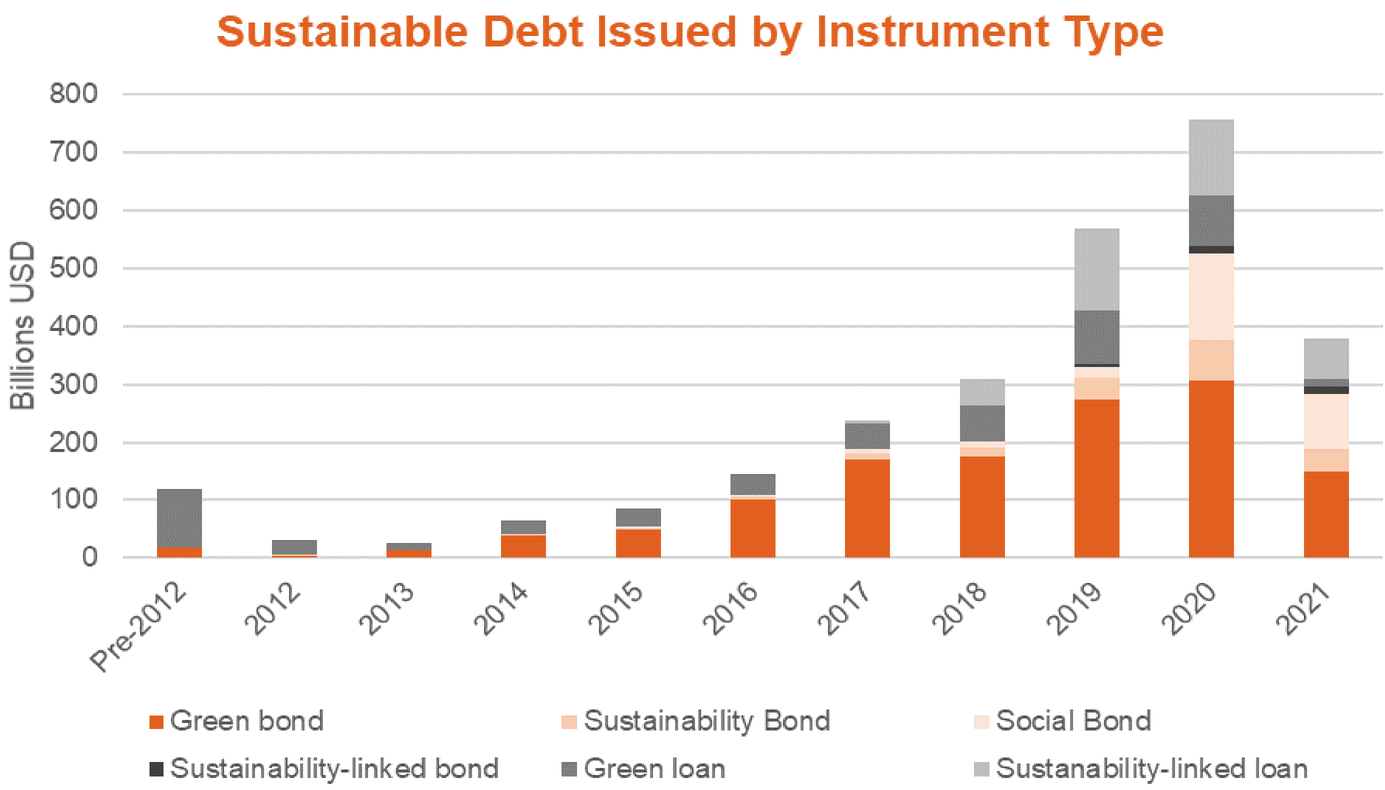
In the March quarter, there was a total of US$312.74 billion of ESG bonds issued, including US$146.45 billion worth of green bonds. Additonally, there were 164 new issuers of ESG bonds in the quarter, including 101 new green bond issuers. By currency, EUR again accounted for the majority of green bonds issuance, at 44.8%, followed by USD at 28.1% and CNY at 9.28%. By country of risk, the top 5 included the United States (12.25%), China (10.55%), Italy (9.89%), Germany (8.69%) and France (7.40%). Finally, by sector, corporates played an outsized role at 71%, with the financials accounting for 34% of the overall issuance.

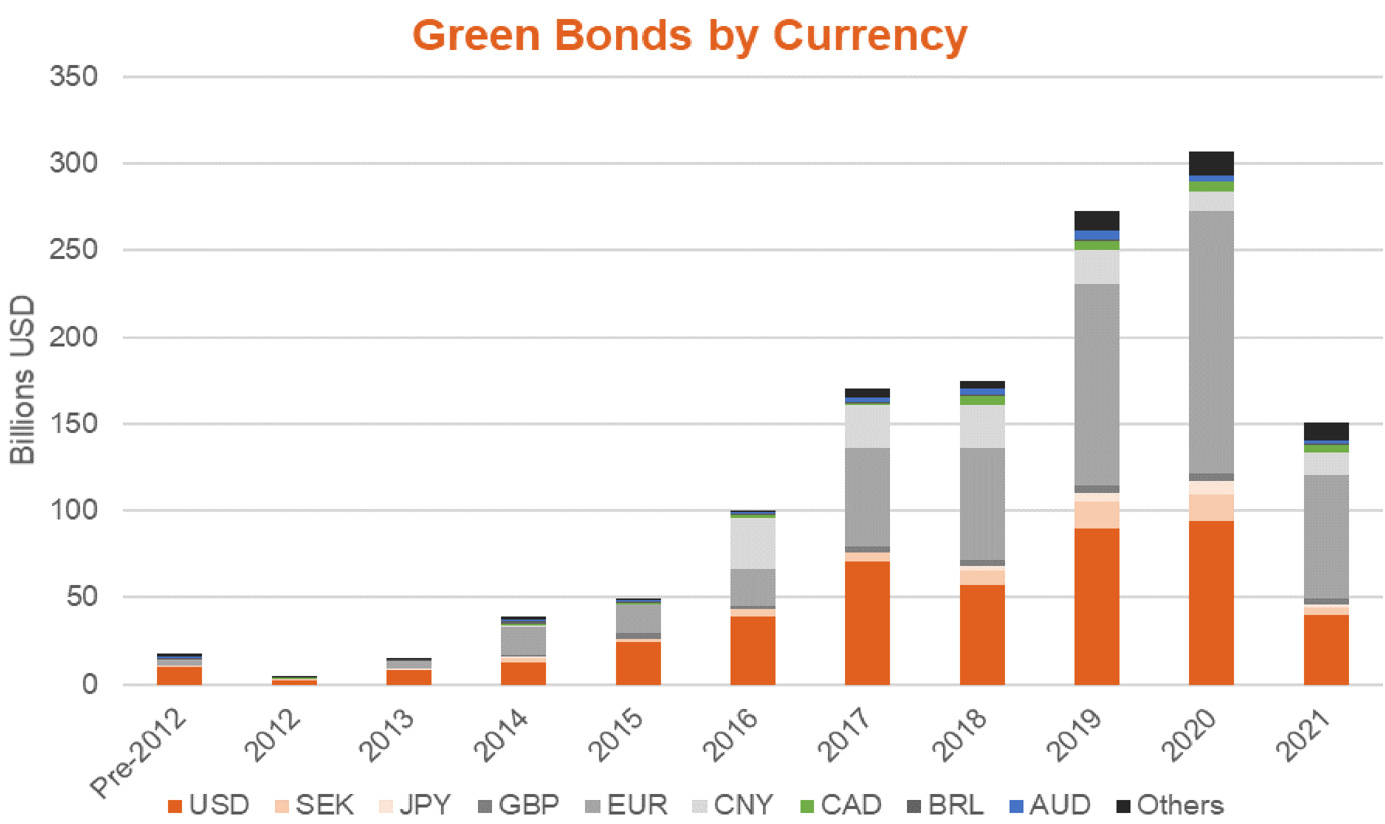
The most notable green bond issuance was from the Italian government in March, which at a size of EUR 8.5 Billion (~US$ 10.1 billion) was the largest green bond launch in history; the previous record being held by the German government with their EUR 6.5 billion issued at launch (This is only the amount issued at launch, other green bonds like the FRTR 2039 have more bonds outstanding thanks to repeated taps, FRTR 2039 launched with EUR 1.63 billion in May 2017, however has grown to EUR 28.87 billion currently). By contrast, the European Union issued a series of social bonds this quarter totalling a total of US$38 billion, with the single largest launch issuance of any ESG bond at US$12 billion in January. In the AUD market, the European Investment Bank continued their run of Kangaroo green bonds, with A$1.25 billion issued since the start of the year. Lendlease was the highest profile domestic corporate issuer of Australian Dollar green bonds this quarter, following on from their inaugural green bond deal last year.

Looking at the longer-term trend of green bonds, there has now been a total of US$1.3 trillion issued cumulatively, with both EUR and European entities dominating historical issuance. However, both United States and China have been catching up in recent years. Corporates continue to outstrip government, government related and supranational entities in terms of total green bonds issuance; with Financials being the standout. The surge of social bonds due to COVID-19 appears to have now peaked, with vaccination programs across the world gathering pace, allowing the secular trend of climate bonds to resume as the world re-focuses on climate-related goals. Recent green bond deals have also seen a “Greenium” starting to emerge, with Germany’s green bond now consistently trading at a premium in price to its non-green counterpart, seemingly suggesting that investors’ demand for sustainable assets is now generating a premium for green bonds.

Historical Charts

Data soured from Bloomberg and BNEF





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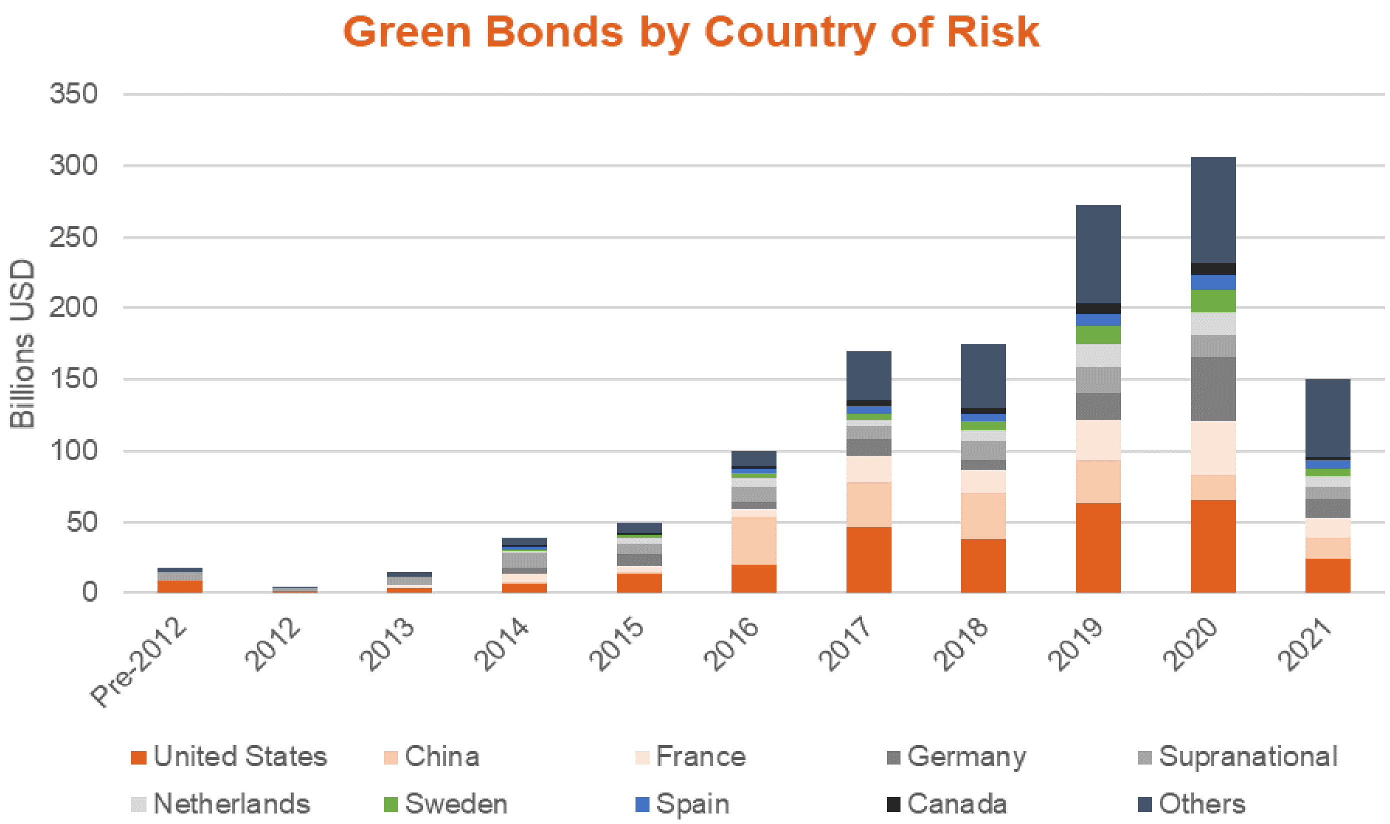

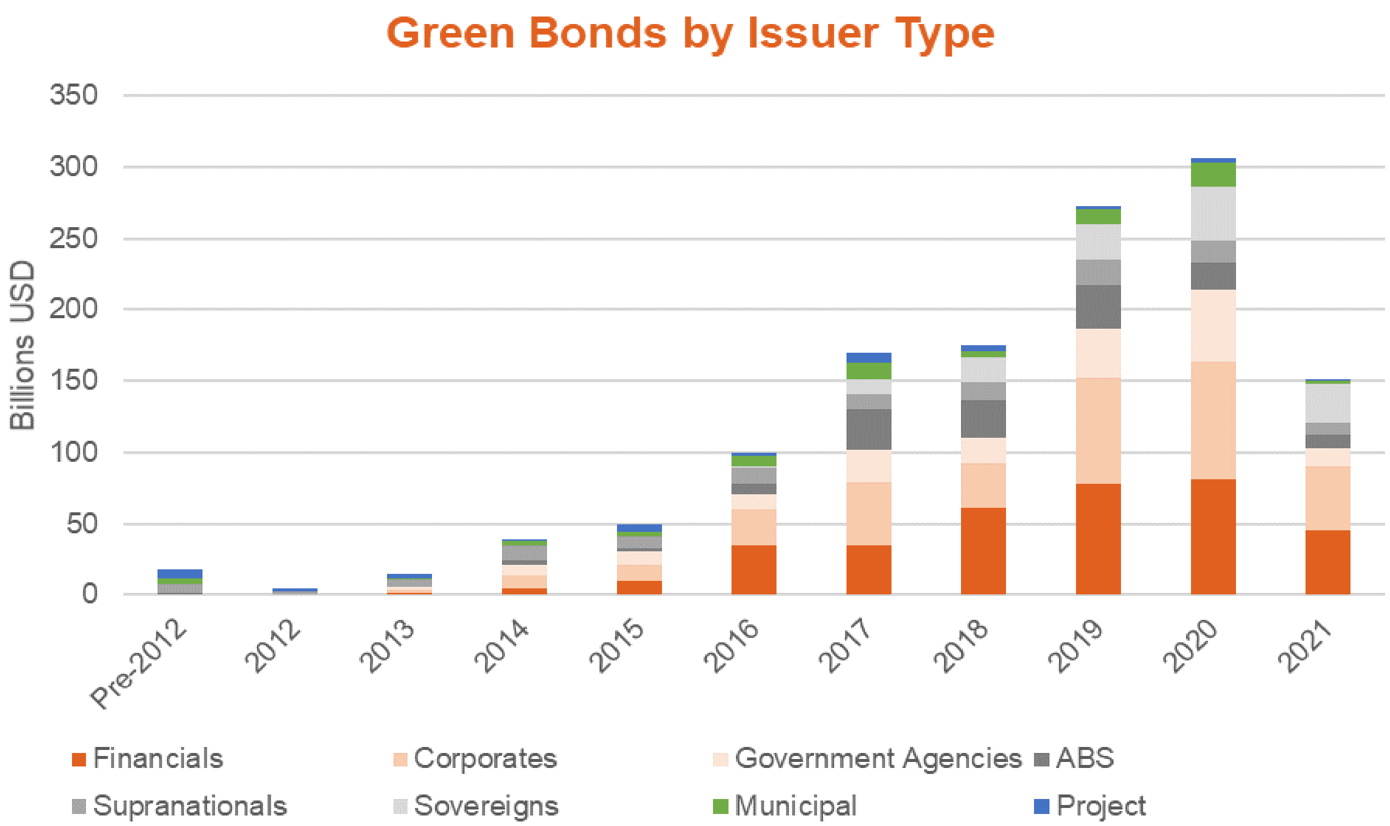

Other commentary

In September 2020, the NSW Government increased its 10-year 2018 Green Bond issue by $300 million, taking the total issued to $2.1 billion and making it the largest sustainability bond issue in Australia at the time. The proceeds of the bond issue were used to fund the expansion of Transport for NSW's program that focuses on improving access to 58 public train stations, as well as ferries for people with disabilities. Along with reducing carbon emissions by increasing public transport usage over personal vehicles, the program allows better access to employment, education and recreation.

The bond issue also allocated over $500 million for major upgrades to 19 existing schools and construction of nine new schools, to deliver modern learning spaces that support contemporary teaching practices.

Issuer BMW Group has commissioned scientific research on water consumption in the lithium extraction process. The goal of this research is to provide companies with better guidance of sustainable lithium extraction in Latin America, and to improve the sustainability of BMW's own supply chain.

Finally, issuer H&M has recently announced a distribution agreement with Mexican cactus-based leather company, DESSERTO. DESSERTO was created in a global context of addressing the urgency to act for the environment. The company provides environmentally friendly fashion, free of animal cruelty and toxic chemicals.

Proxy voting & engagement

The RIC for the Fund engaged with one company over the quarter.

African Development Bank (AFDB):
The Nachtigal hydropower project is being developed in Cameroon by the Nachtigal Hydro Power Company (NHPC), a consortium led by Électricité de France (EDF). Debt for this facility was raised from a Multilateral Development Bank loan, including African Development Bank (AFDB).

There are several negative impacts stemming from the development of this project. Prior to construction of the dam, communities relied on this area for fishing, sand excavation, restoration, agriculture, collection of non-timber forest products, and the practice of traditional rites on the Binadjengue sacred site. Their livelihoods depended upon these activities in the area, and they have argubaly received unsatisfactory compensation.

The RIC engaged with AFDB to better understand what social impact assessment mechanisms were applied when approving financing for this project. Furthermore, the RIC sought to understand what measures the bank was taking to ensure that the Nachtigal Hydro Power Company pays the proper compensation promised to the people affected by the project and to deliver on employment to these communities.

The AFDB informed us that there were two resettlement and compensation action plans and a biodiversity action plan put in place. With regards to the livelihoods affected, AFDB stated that there will be a physical resettlement of all members of the household concerned, and compensation for those affected. Additionally, residents will be provided specific training on fishing and assistance for the purchase of equipment. AFDB also informed the RIC that there would be financial compensation for the loss of investments and programmes to assist reconversion with various agricultural and non-agricultural options.