BetaShares
Exchange Traded Funds

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

Quarterly Report - December 2021

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	-0.51%	-0.93%	-0.89%	-3.44%		0.40%
Growth return	*-0.51%*	*-1.03%*	*-2.90%*	*-5.55%*		*-0.91%*
Income return	*0.00%*	*0.10%*	*2.01%*	*2.11%*		*1.31%*
Index return	*-0.46%*	*-0.82%*	*-0.64%*	*-2.98%*	*3.55%*	*0.84%*

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]	2.09%
Yield to Maturity (% p.a.)[2]	1.30%
Average Maturity (Yrs)[3]	7.89
Modified Duration (Yrs)[4]	7.26
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. 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	$181.79m
Historical Tracking Error	0.20%
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 Govt OAT 1.75% Jun-39	4.4	WA Treasury Corp 5% Jul-25	1.1
Belgium Govt 1.25% Apr-33	1.6	Treasury Corp VIC 5.5% Nov-26	1.1
Netherlands Govt 0.5% Jan-40	1.5	NSW Treasury Corp 3% May-27	1.0
French Govt OAT 0.5% Jun-44	1.3	NSW Treasury Corp 3% Apr-29	1.0
NSW Treasury Corp 3% Feb-30	1.2	NSW Treasury Corp 3% Mar-28	1.0

[1] As at 31 December 2021

Sector exposure	Fund Weight %[1]
Sovereign	14.8
Supranational	11.3
Sovereign Agency	5.6
Special Purpose Banks	8.7
Local Authority	37.9
Corporates	21.7
TOTAL	100.00

[1] *As at 31 December 2021*

Country allocation[1]	%		%
Australia	38.5	United States	4.3
SNAT	11.2	Spain	2.2
France	12.4	Norway	1.9
Netherlands	8.7	Ireland	1.0
Germany	10.4	Other	9.4

[1] *As at 31 December 2021*

Fund performance summary

GBND returned -0.93% over the December quarter, driven by the bear flattening of yield curves as expectations of central bank hikes were brought forward.

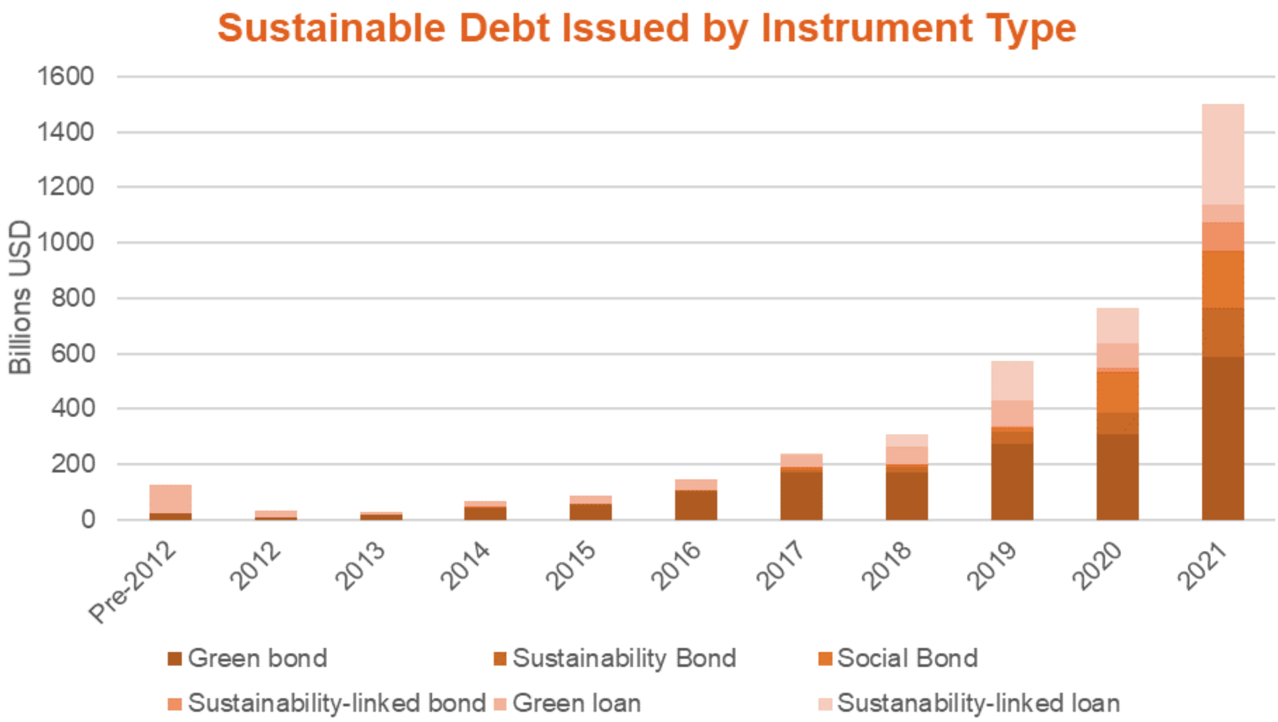
The December quarter saw US$250bn of ESG bonds issued, including US$138bn of green bonds, taking 2021 total issuance to US$1,106bn and US$611bn of ESG and Green bonds respectively. This corresponded to roughly a doubling of issuance of ESG and green bonds from 2020. There were 64 new issuers of ESG debt this quarter, including 58 new green bond issuers. By currency, EUR was the highest at 40.99%, followed by USD at 26.16% and CNY at 11.52%. By country of risk, the top 5 were China (including HK) – 18.24%, Germany – 12.39%, United States – 12.01%, UK – 9.05% and France – 5.29%. Finally, by sector, corporates accounted for the majority of issuance at 64.52% (of which financials accounted for 31.76%); the remaining 35.48% representing Government related entities.

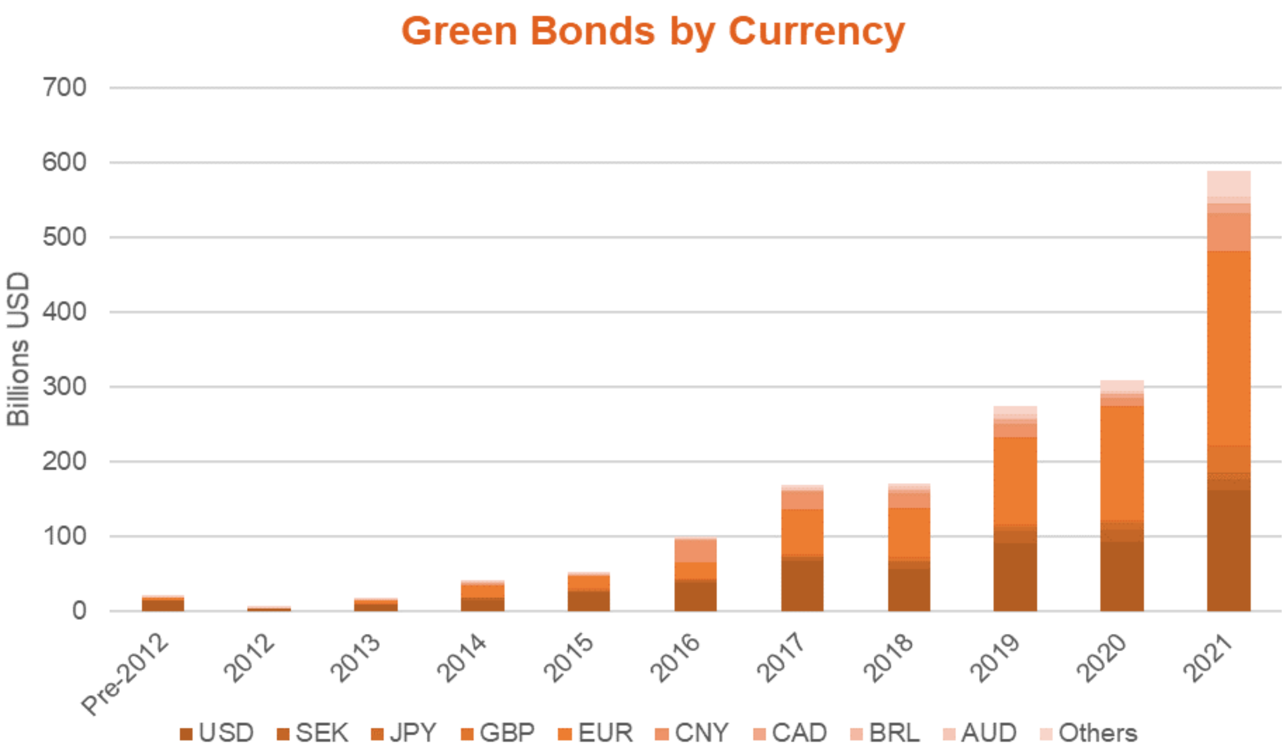
On October 12, the European Union issued a green bond with an incredible EU€12bn size at launch, taking just 21 days to eclipse the previous record set by the UK on September 21 with their inaugural green bond of GB£10bn. In the AUD market, the largest issuance this quarter was A$300 million in December by SGSP Australia (Jemena).

Since the market's inception, global cumulative green bond issuance totals US$1.76 trillion, with EUR currency and European entities the largest contributors. However, the combined total issuance in USD (582.5) and CNY (156) has now overtaken EUR (715), when comparing after converting to USD Billions. CNY is the standout currency in terms of its rate of increase as there were more green bonds issued in CNY in 2021 (US$51.65bn) than the total of the previous 3 years (19.98+18.7+11=49.68 billion USD). Globally, corporates accounts for 54% of total green bond issuance (financials at 24%), with the combined total of government, government related, and supranational entities at 44% (the other 2% were project-based issuers).

Historical Charts

Data soured from Bloomberg and BNEF; chart data only available to 30 November 2021.





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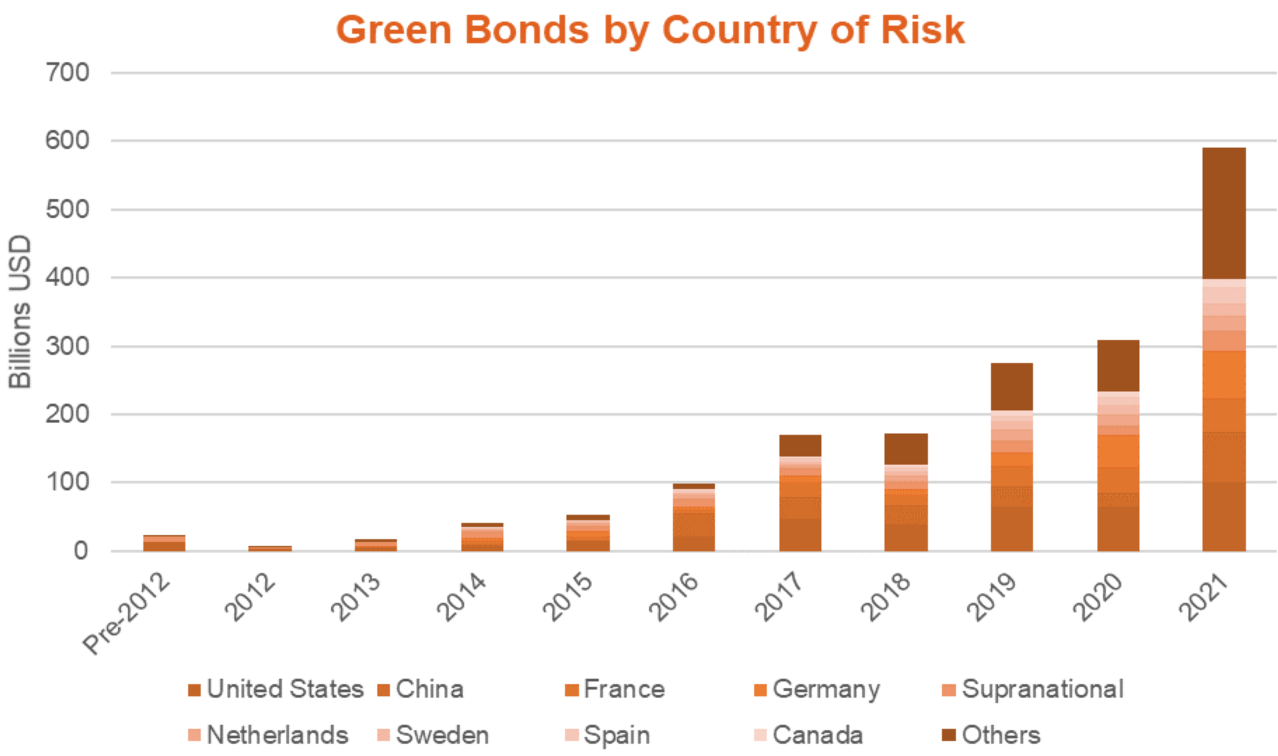

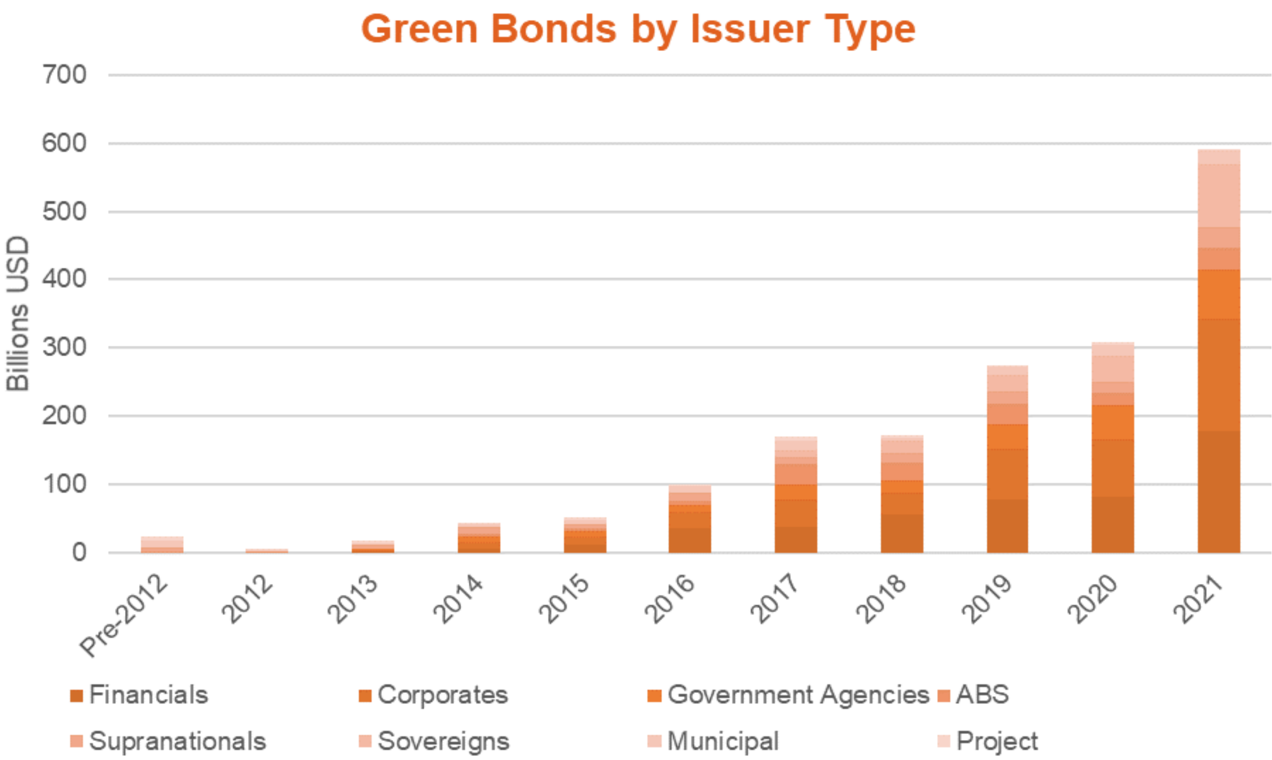

Other commentary

Governments significantly accelerated green bond issuances in the lead up to the COP26 summit, hosted in Glasgow during November. The UK Government issued a AA rated, GBP10bn (USD13.6bn) green gilt that was ten times oversubscribed and a further GBP6bn that was 12 times oversubscribed. The European Commission followed by issuing a AAA EUR12bn green bond (USD14bn), eleven times oversubscribed.

The EU also introduced its green finance taxonomy to standardise, improve and scale-up the EU green bond market's role in financing the EU "Green Deal", an ambitious political program to achieve net zero by 2050, decouple resource use from economic growth and foster social inclusion. The EU drew criticism for including natural gas in the green finance taxonomy - a classification system and list of activities the Commission deems sustainable (note: GBND screens out investments in all fossil fuels including natural gas). Instead, China looks set to overtake the EU as having the most credible green finance taxonomy by excluding gas, LNG and coal-fired power activities. 2022 should see further developments in taxonomies for adaptation and resilience criteria, unlocking further green investment opportunities.

Proxy voting & engagement

The African Development Bank received a letter signed by more than 50 human rights and environmental rights groups flagging the Bank's lack of transparency and meaningful stakeholder engagement. The letter alleges that the Bank's primary framework on civil society consultations does not provide enough information on how it identifies and consults civil society groups. The letter identifies several steps the Bank can take to initiate a more open, public, and equitable review process. These recommendations include increasing transparency, improving overall stakeholder engagement and simplifying information and project details during consultations, especially for those that involve local communities.

The RIC reached out to understand what changes have been made in light of this letter, and how overall the Bank plans to improve transparency and increase meaningful stakeholder engagement.

The RIC engaged with the European Investment Bank concerning two separate incidents. First, Bloomberg investigated the European Investment Bank's (EIB) workplace environment, finding accusations of sexual harassment, bullying and discrimination at EIB. Following this investigation, EU lawmakers questioned the EIB, finding their responses inadequate. In light of this, the RIC reached out to better understand how the EIB plans on improving their workplace environment.

Second, a report from BankWatch alleged that a third of the EIB's lending evades environmental and social rules. The report stated that more than a third of the EIB's EU lending is carried out via intermediaries. These intermediaries do not provide information published about the final beneficiaries, and no checks by the EIB on their environmental and social impacts. The RIC wanted to better understand how they are holding their financial intermediaries accountable to the EIB's environmental and social standards.