BetaShares
Exchange Traded Funds

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

Quarterly Report - March 2022

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	-3.21%	-6.34%	-7.21%	-6.83%		-2.41%
Growth return	*-3.21%*	*-6.46%*	*-7.42%*	*-8.89%*		*-3.59%*
Income return	*0.00%*	*0.12%*	*0.21%*	*2.06%*		*1.18%*
Index return	*-3.17%*	*-6.23%*	*-7.00%*	*-6.36%*	*0.22%*	*-1.97%*

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]	2.13%
Yield to Maturity (% p.a.)[2]	2.29%
Average Maturity (Yrs)[3]	7.58
Modified Duration (Yrs)[4]	6.93
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	$177.52m
Historical Tracking Error	0.19%
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	4.2	NSW Treasury Corp 3% Mar-28	1.1
French Govt OAT 0.5% Jun-44	1.4	WA Treasury Corp 5% Jul-25	1.1
Belgium Govt 1.25% Apr-33	1.3	NSW Treasury Corp 3% Apr-29	1.1
Netherlands Govt 0.5% Jan-40	1.2	Treasury Corp VIC 5.5% Nov-26	1.0
NSW Treasury Corp 3% Feb-30	1.1	NSW Treasury Corp 3% May-27	1.0

[1] As at 31 March 2022

Sector exposure	Fund Weight %[1]
Sovereign	13.9
Supranational	11.4
Sovereign Agency	6.2
Special Purpose Banks	8.5
Local Authority	38.5
Corporates	21.5
TOTAL	100.00

[1] As at 31 March 2022

Country allocation[1]	%		%
Australia	37.5	United States	3.7
SNAT	11.0	Spain	2.3
France	12.9	Norway	1.8
Netherlands	7.8	Ireland	1.0
Germany	9.4	Other	12.5

[1] As at 31 March 2022

Fund performance summary

GBND returned -6.34% over the March quarter amid a historic rise in global bond yields, with the Ausbond Composite experiencing its largest drawdown since inception. In terms of attribution, shifts in the yield curve accounted for -6.36% of the loss, with credit spread widening detracting a further -0.62%; these were offset by +0.64% of carry from both yield and FX.

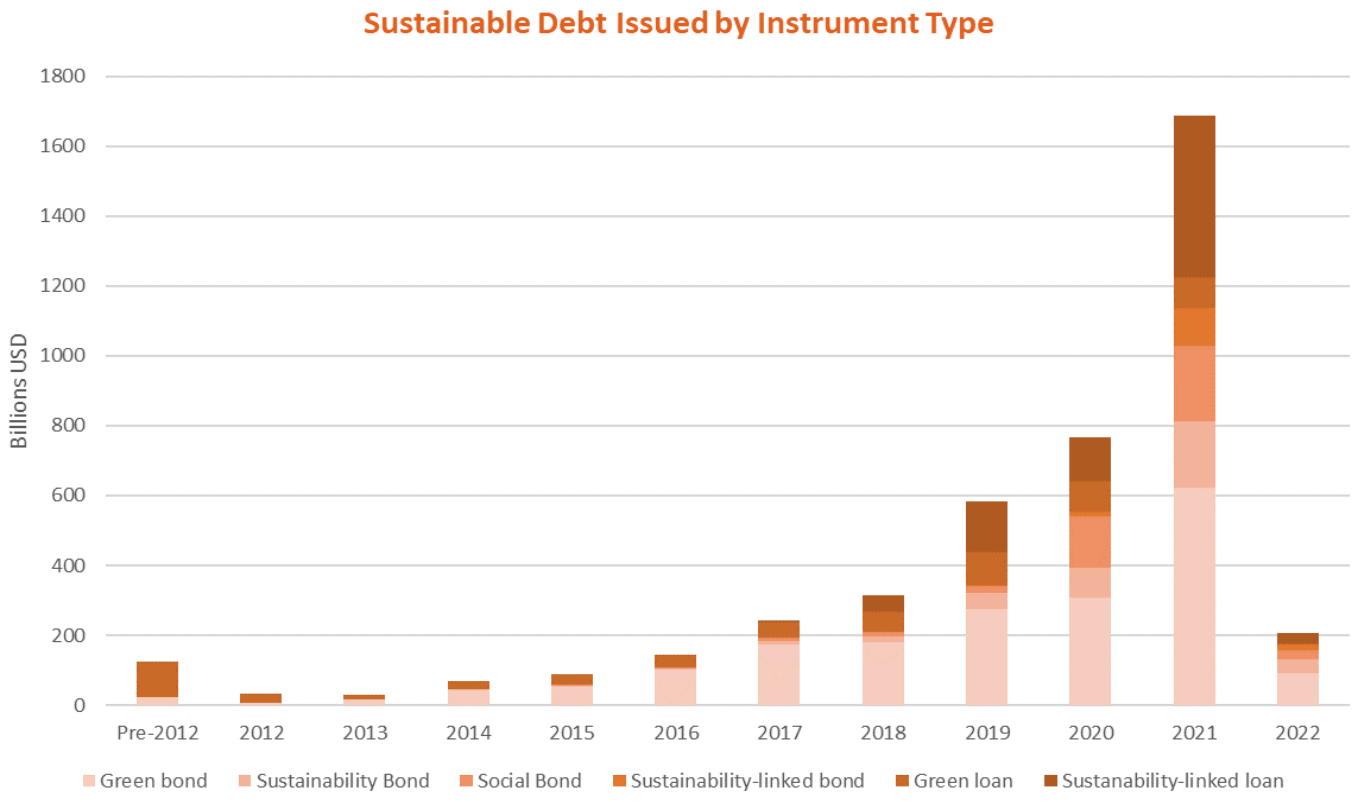
The March quarter saw US$262bn of ESG bonds issued, including US$127bn of green bonds, maintaining a similar pace of issuance to Q4 2021 (US$250bn, albeit with a slightly lower green bond portion (US$127bn vs US$138bn). There were 53 new issuers of ESG debt this quarter, including 44 new green bond issuers. By currency, EUR was the highest at 35.73%, followed by USD at 27.04% and CNY at 19.69%. By country of risk, the top 5 were China (including HK) – 26.17%, Germany – 11.48%, United States – 7.68%, Japan – 6.71% and Canada – 5.81%. Finally, by sector, corporates accounted for the majority of issuance at 79.08% (of which financials accounted for 42.01% of overall issuance); the remaining 20.92% representing Government-related entities.

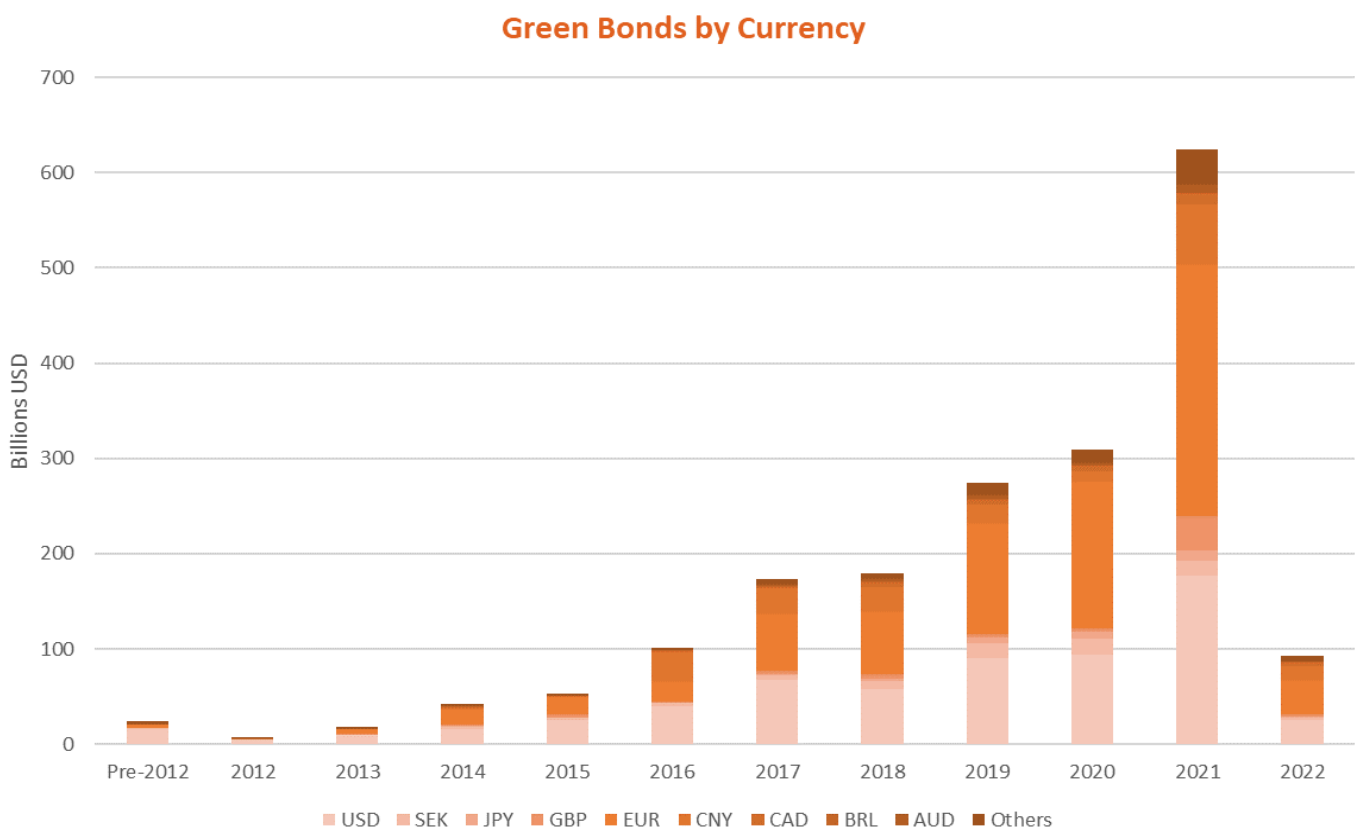
The largest green bond issuance this quarter was by the Bank of China, with CNY30bn (US$4.75bn) issued on February 16. Another notable issuance was the inaugural green bond from the Government of Canada, with a size of CA$5bn (US$4bn), which achieved a “greenium” of 2 basis points on the issue. In the AUD market, the University of Tasmania issued their first bonds ever, which also happened to be green bonds; totalling AU$350m (US$0.26bn) across two maturities.

Since the market’s inception, global cumulative green bond issuance totals US$1.94 trillion, with EUR currency and European entities the largest contributors. However, the combined cumulative issuance in USD (US$626bn) and CNY (US$189bn) has now overtaken EUR (US$761bn). CNY continues to be the standout currency when looking at growth in new issuance, with more sales in the past 18 months than the prior 4 years combined. Globally, corporates account for 55% of cumulative green bond issuance (financials at 25%), with the combined total of government, government related, and supranational entities at 44% (the other 1% were project-based issuers).

Historical Charts

Data soured from Bloomberg and BNEF; chart data only available to February 2022. (Commentary reflects March issuance as well).





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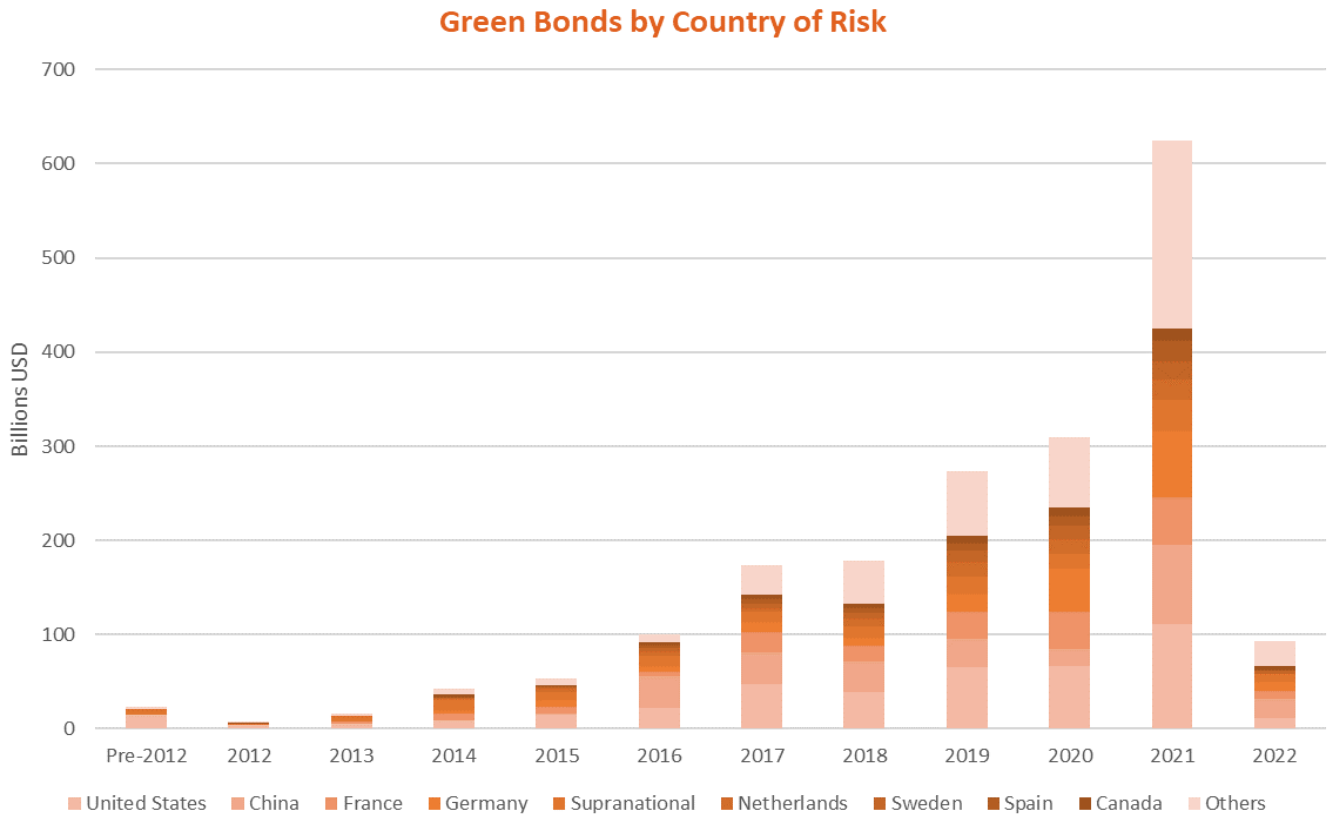

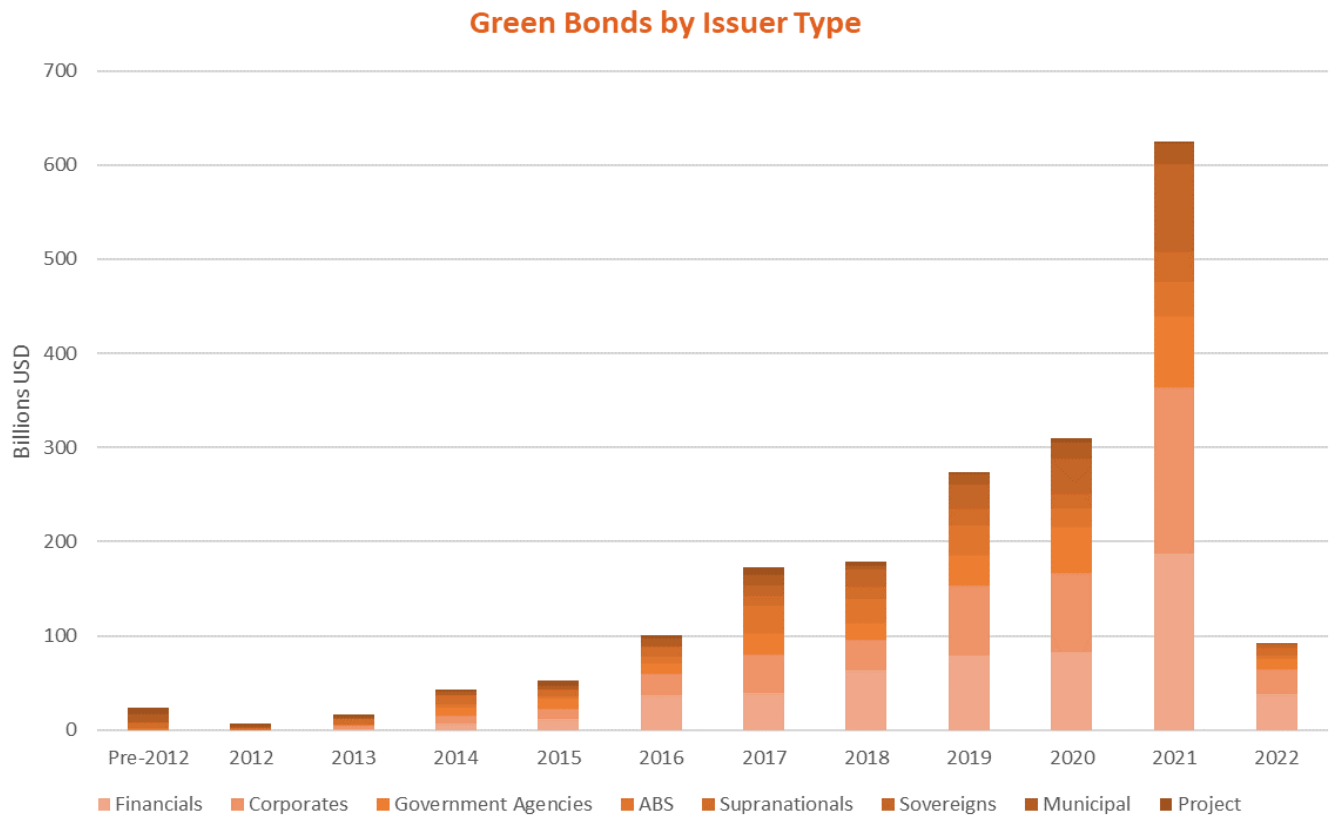

Other commentary

A group of 102 European lawmakers sent a letter to the European commissioner for financial services, demanding the EU Commission withdraw its proposal to include gas as a part of its Sustainable Finance Taxonomy. The proposal will go to a first vote at the committee stage at the end of May, followed by a final vote in the plenary expected by the first week of July. Critics fear its inclusion could see billions invested in gas infrastructure from funds labelled sustainable under the taxonomy, which underpins the EU's strategy to achieve its ambitious Green Deal policy for sustainable development. In addition, some prominent NGOs and scientists argued it risks undermining the scheme if fossil gas, nuclear, and factory farming are included as sustainable. The European Commission's chief scientific advisor suggested the taxonomy includes a red, amber and green traffic light system to distinguish more clearly environmentally harmful economic activities [red], from transitional [amber] and sustainable [green] activities.

The Climate Bonds Initiative (CBI), a sustainable finance taxonomy specifically for debt markets, began consulting with industry, investors and experts to develop its new Transition Bonds in 2022. The CBI will begin with heavy-emitting industries such as cement and steel. For example, cement manufacturing is a large contributor to greenhouse gas emissions, and reducing these emissions requires improving thermal and electrical efficiency, switching to alternative fuels, as well as implementing carbon capture measures. At least 50% of the Betashares Sustainability Leaders Diversified Bond ETF - Currency Hedged (ASX: GBND) portfolio is made up of "green bonds", issued specifically to finance environmentally friendly projects, as certified by the Climate Bonds Initiative.