

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

Quarterly Report - December 2022

| Performance ¹ | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years | Inception ² |
|--------------------------|---------|----------|----------|---------|---------|------------------------|
| | % | % | % | % | % p.a. | % p.a. |
| Fund Return (net) | -2.95% | -0.32% | -3.49% | -15.46% | -4.87% | -5.02% |
| Growth return | -2.95% | -0.99% | -5.37% | -17.30% | -6.42% | -6.53% |
| Income return | 0.00% | 0.67% | 1.88% | 1.84% | 1.55% | 1.51% |
| Index return | -2.89% | -0.19% | -3.17% | -14.97% | -4.38% | -4.56% |

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 | 2.53% |
| Yield to Maturity (% p.a.) ² | 4.32% |
| Average Maturity (Yrs) ³ | 7.31 |
| Modified Duration (Yrs) ⁴ | 6.37 |
| 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 | \$191.58m |
| 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 Govt OAT 1.75% Jun-39 | 2.8 | NSW Treasury Corp 3% Mar-28 | 1.1 |
| European Union 0.4% Feb-37 | 1.2 | WA Treasury Corp 5% Jul-25 | 1.0 |
| Netherlands Govt 0.5% Jan-40 | 1.2 | Treasury Corp VIC 5.5% Nov-26 | 1.0 |
| French Govt OAT 0.5% Jun-44 | 1.1 | Treasury Corp VIC 2.5% Oct-29 | 1.0 |
| NSW Treasury Corp 3% Feb-30 | 1.1 | WA Treasury Corp 2.5% Jul-24 | 0.9 |

¹ As at 31 December 2022

| Sector exposure | Fund Weight % ¹ |
|-----------------------|----------------------------|
| Sovereign | 11.5 |
| Supranational | 15.0 |
| Sovereign Agency | 4.1 |
| Special Purpose Banks | 8.8 |
| Local Authority | 36.5 |
| Corporates | 24.0 |
| TOTAL | 100.00 |

¹ As at 31 December 2022

| Country allocation ¹ | % | | % |
|---------------------------------|------|---------------|-----|
| Australia | 36.7 | United States | 4.2 |
| SNAT | 14.8 | Spain | 2.9 |
| France | 9.9 | Norway | 1.8 |
| Germany | 10.0 | Italy | 1.8 |
| Netherlands | 8.6 | Other | 9.3 |

¹ As at 31 December 2022

Fund performance summary

GBND returned -0.32% (net of fees) over the December quarter as volatility in global bond yields remained at the high levels experienced throughout 2022. However, major currency bond yields ended the year only slightly higher than compared to the start of the October. Attributing GBND's performance; shifts in the yield curve accounted for -1.73% of the returns: of which EUR (39% weight), AUD (50% weight) and USD bonds (11% weight) contributed -1.48%, -0.24% and -0.01% respectively; with EUR bonds being the clear underperformer. Offsetting the negative performance, contracting credit spreads added 0.31%, whilst the combined carry of yield and FX contributed another 1.1%.

The December quarter saw US\$174 billion of ESG bonds issued, including US\$99 billion of green bonds, making Q4 the lowest quarter this year in terms of total issuance size. Issuers continued to be hesitant in a challenging funding environment with high yield volatility. There were 100 new issuers of ESG debt this quarter, including 64 new green bond issuers. Looking at green bonds' issuance in more detail: by currency, EUR was the highest at 44.45%, followed by CNY at 22.92% and USD at 13.52%. By country of risk, the top 5 were China (including HK) – 29.79%, Germany – 8.02%, Supranational – 7.21%, Spain – 6.61% and France – 6.60%. Finally, by sector, corporates accounted for the majority of issuance at 66.26% (of which financials accounted for 36.84% of overall issuance); the remaining 33.74% representing Government-related entities.

The largest green bond sales this quarter was by the European Union, with EU€6 billion issued in November. Second place went to the Bank of China with their CN¥30 billion (~US\$4.75 billion) deal in December, creating a new record issuance size for green bonds in CNY. Locally in the AUD market, both the International Finance Corp and KFW issued green bonds in good size in November, with AU\$1.05 billion and AU\$900 million respectively.

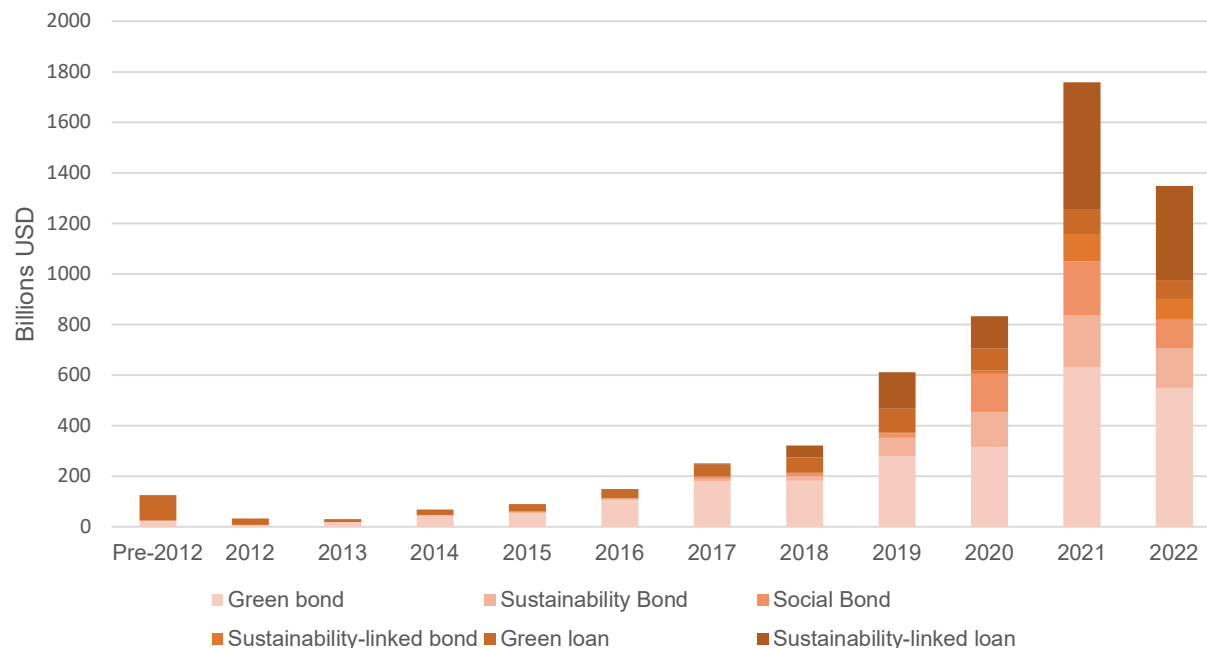
Since the market's inception until the end of November 2022, global cumulative green bond issuance totals US\$2.39 trillion, with EUR currency and European entities the largest contributors. However, the combined cumulative issuance from the second and third largest contributing currencies, USD (US\$737 billion) and CNY (US\$253 billion) are now equal to EUR (US\$990 billion). CNY green bond issuance this year (US\$78.6 billion) is above 2021 (US\$62.5 billion) and over 7 times 2020's issuance size. As a proportion of total global green bond issuance, CNY is at 14.17% this year compared with 9.9% in 2021 and only 3.5% in 2020. Globally, corporates account for 62.24% of cumulative green bond issuance (financials at 28.92%), with the combined total of government, government related, and supranational entities at 36.23% (the other 1.53% were project-based issuers).

Source: Bloomberg and BNEF.

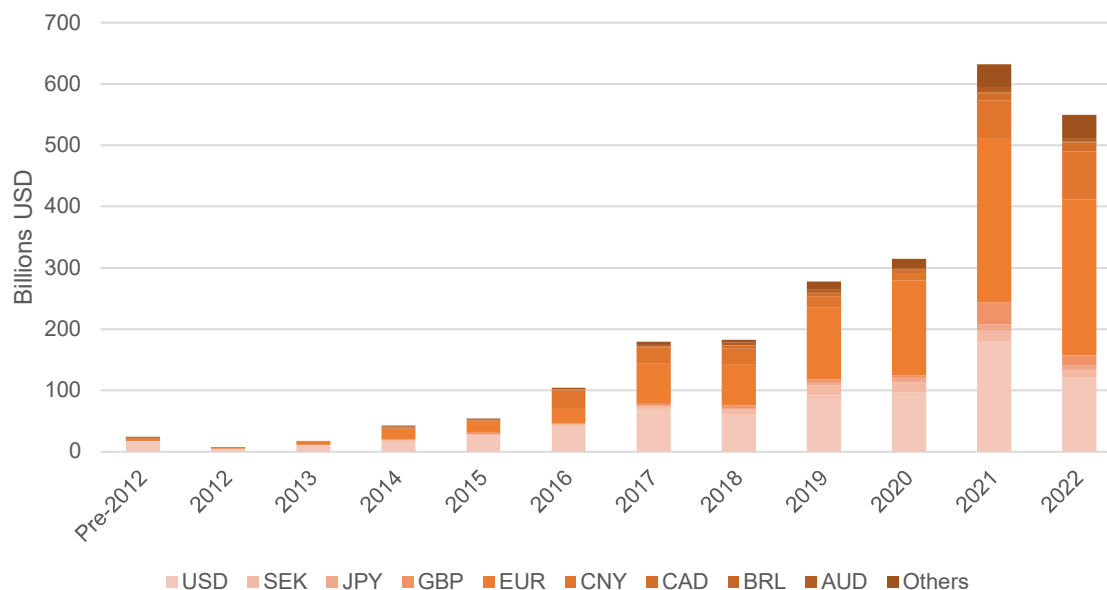
Historical Charts

Data sourced from BNEF chart data as of November 2022. (Commentary reflects December issuance as well)

Sustainable Debt Issued by Instrument Type



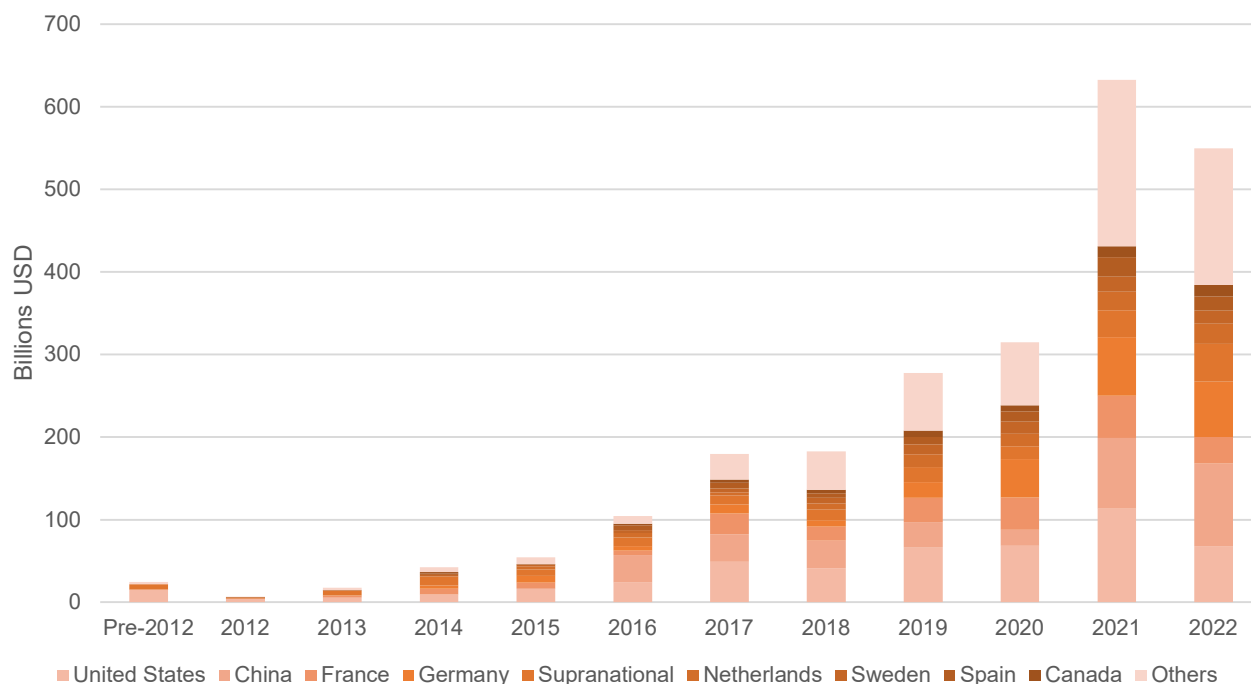
Green Bonds by Currency



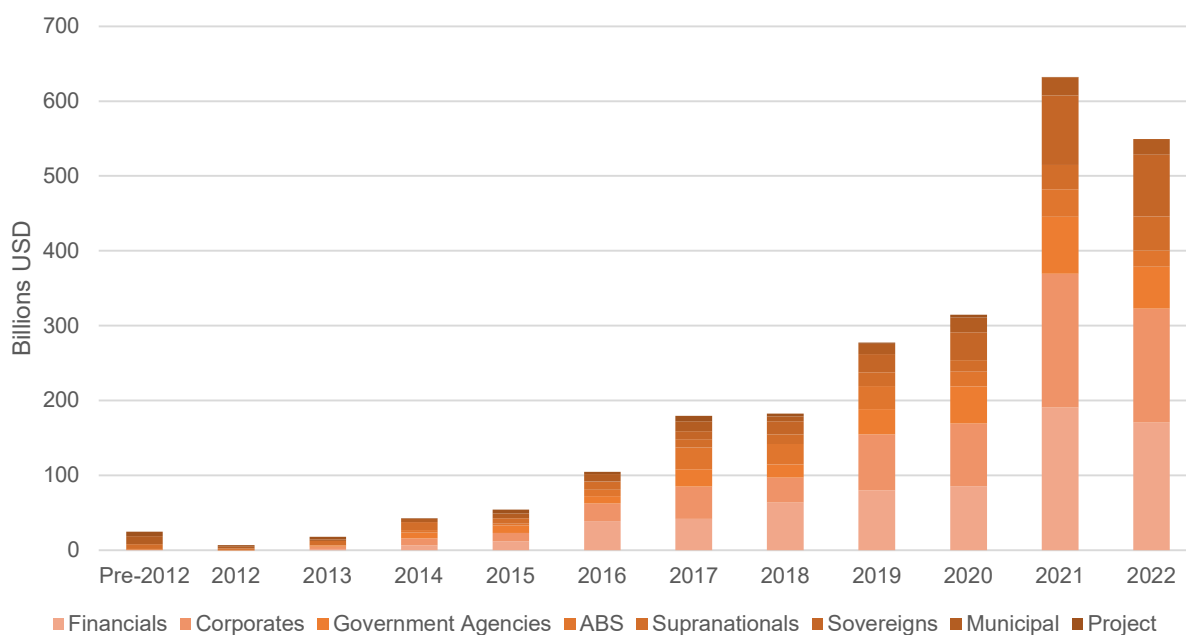
Historical Charts

Data sourced from BNEF chart data as of November 2022. (Commentary reflects December issuance as well)

Green Bonds by Country of Risk



Green Bonds by Issuer Type



Other commentary

Please note: We have made a correction to the September 2022 GBND Quarterly Report issued. In the Non-Green Bond component, 3 issuers - Apple, Vodafone and Volkswagen Financial Services Australia - were removed as they no longer issued bonds eligible to be included in the non-green universe.

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