

# BETASHARES GLOBAL SUSTAINABILITY LEADERS ETF

ASX: ETHI

## Quarterly Report - September 2020

Performance <sup>1</sup>	1 Month	3 Months	6 Months	1 Year	3 Years	Inception <sup>2</sup>
	%	%	%	%	% p.a.	% p.a.
Fund Return (net)	-0.49%	5.43%	18.76%	27.09%	22.47%	20.89%
Growth return	-0.49%	-5.27%	6.70%	14.02%	15.71%	18.12%
Income return	0.00%	10.70%	12.06%	13.07%	6.76%	2.77%
Index	-0.47%	5.63%	19.25%	27.87%	23.03%	21.37%

**Past performance is not a reliable indicator of future performance.**

<sup>1</sup> Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

<sup>2</sup> Inception date for the Fund is 5th Jan 2017.

### Investment objective

The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to 200 large global stocks (excluding Australia) which are climate change leaders (as measured by their relative carbon efficiency) and which are not materially engaged in activities deemed inconsistent with responsible investment considerations.

### Responsible entity

BetaShares Capital Ltd

### Distribution frequency

Semi-annual

### Fund Facts

Inception Date	5-Jan-17
Fund Size	\$847.41m
Historical Tracking Error	0.15%
ASX Code	ETHI
Bloomberg Code	ETHI.AU
IRESS Code	ETHI.ASW

### Suggested minimum investment timeframe

At least five years

### Fees

	% p.a.
Management fees	0.49
Recoverable expenses	0.10

### Investment strategy

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

The Index includes 200 large global stocks from developed market countries (excluding Australia) that have been identified as "Climate Leaders" and that have also passed certain eligibility screens designed to exclude companies with direct or significant exposure to the fossil fuel industry or that are engaged in other activities deemed inconsistent with responsible investment considerations.

Climate Leaders are companies that have carbon efficiency that places them in the top one-third of companies in the respective industry, or are otherwise superior performers in relation to "Scope 4" carbon emissions (also known as "avoided emissions").

- **Carbon impact:** calculated based on the total greenhouse gas emissions from a company's operations, fuel use, supply chain and business activities, divided by its annual revenue.

- **Avoided emissions:** superior performers are those companies involved in commercialising technologies that have net positive climate benefits through substantial greenhouse gas emission reductions (e.g. primary business activities in renewable energy, energy efficiency, sustainable agriculture and land use, and carbon sequestration).

## Investment strategy cont.

• **Fossil Fuel Screen:** is applied to the universe of Climate Leaders which removes companies with any direct involvement in the fossil fuel industry, as well as companies with material indirect exposure and those with particularly high use of fossil fuels.

Eligibility screens are applied to remove companies which have exposure to other activities deemed inconsistent with responsible investment considerations (subject to certain materiality thresholds):

- Gambling
- Tobacco
- Armaments
- Uranium and nuclear energy
- Destruction of valuable environments
- Animal cruelty
- Mandatory detention of asylum seekers
- Alcohol
- Junk foods
- Pornography
- ESG related reputational risk or controversy
- Human rights and supply chain concerns
- Chemicals of concern
- Lack of board diversity i.e. no women on the board of directors

The Index is weighted by market capitalisation, with a maximum weight per security of 4% at each annual rebalance date. Industry weights cannot exceed the corresponding industry weights of the Nasdaq Developed Markets Index (a traditional broad global equities benchmark), by more than 3%.

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

Top 10 positions <sup>1</sup>	%		%
Apple Inc	5.3	Adobe Inc	3.5
NVIDIA Corp	4.9	PayPal Holdings Inc	3.1
Mastercard Inc	4.1	Tesla Inc	3.1
Visa Inc	3.6	Toyota Motor Corp	2.4
Home Depot	3.6	Netflix Inc	2.4

<sup>1</sup> As at 30 September 2020

Industry exposure	Fund Weight % <sup>1</sup>
Information Technology	38.7
Healthcare	15.0
Consumer Discretionary	14.8
Financials	13.9
Communication Services	6.4
Real Estate	4.7
Industrials	3.5
Materials	1.2
Utilities	0.9
Consumer Staples	0.9
<b>TOTAL</b>	<b>100.0</b>

<sup>1</sup> As at 30 September 2020

Country allocation <sup>1</sup>	%		%
United States	71.8	Hong Kong	2.2
Japan	8.2	France	2.2
Switzerland	3.6	Britain	2.0
Netherlands	3.4	Germany	1.9
Other	3.3	Canada	1.3

<sup>1</sup> As at 30 September 2020

### Fund performance summary

The Fund returned 5.43% (in AUD) during the quarter. Assets grew from \$703m to \$847m over this period.

Technology and Consumer Discretionary were the strongest sector contributors, returning 23.72% and 15.09%, while contributing 5.02% and 2.54% towards total return in AUD. Telecommunications and Utilities were the lowest contributors, returning -13.5% and 0.44%, while detracting 0.27% and an immaterial value, respectively.

Apple, PayPal and Tesla were the three largest stock contributors to total return. With returns of 27.72%, 61.59% and 82.98% in AUD, their contribution was 1.28%, 1.24% and 0.88% respectively. While Roche, AIA Group and KDDI Corp were the three largest stock detractors to total return. With returns of -5.23%, -7.27% and -10.17% in AUD, they detracted -0.18%, -0.15% and -0.11% respectively.

### Other commentary

Effective 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;

### Proxy voting & engagement

During the period, the RIC actively engaged in Proxy Voting on environmental, social, and governance (ESG) resolutions for index constituents. A total of 4 votes on ESG matters were lodged since June 2020. For more information on Proxy Voting, please feel free to contact our Client Services team on 1300 487 577 (in Australia) or +61 2 9290 6888 (outside Australia).

The RIC engaged with two companies over the quarter.

First, BlackRock was engaged in the June quarter as they are a significant investor in China Shenhua Energy. China Shenhua Energy is planning to construct an open-cut coal mine in NSW on the traditional lands of the Gomeroi people, who are fiercely opposed to the proposed mine due to historic and culturally significant artefacts at the site.

The RIC asked BlackRock to be transparent about the outcomes of their engagement with China Shenhua Energy on this issue and to consider all actions, including divestment, as a means of creating pressure on the company to preserve the site. We also asked how they were engaging with China Shenhua Energy on this issue and the outcomes they hoped to achieve through their engagement.

## Proxy voting & engagement continued

BlackRock confirmed both their concern with the issue, and their commitment to stewardship and continuous engagement with companies on environmental and social issues - including the protection of Indigenous heritage sites across miners' operations. They had met with the company and voiced their concerns and expectations. They clarified that BlackRock holds around 1.36% of China Shenhua's total issued capital as reported in Shenhua's annual report (page 125), as opposed to the 5.97% incorrectly reported. The remaining exposure is through their passive index holdings, as they have already removed companies that generate more than 25% of their revenues from thermal coal production, including China Shenhua, from their active discretionary portfolios as part of their sustainability commitments.

Second, Ubisoft was engaged following reports in July that current and former employees were accused of sexual misconduct. It was also claimed that in at least two instances, managers at Ubisoft were made aware of the sexual misconduct and declined to investigate further. Ubisoft has stated it has "started by launching investigations into the allegations with the support of specialized external consultants".

The RIC engaged with Ubisoft to better understand the specific actions they will take to address these allegations, and ensure staff are protected from harassment and assault. Since these allegations have come to light, Ubisoft has made concerted efforts to institute changes to their work environment. They acknowledged that female representation in their workforce and industry was a challenge. They made particular mention that these company culture issues needed to change, but that in general they have a good retention rate and their staff are happy. Overall, despite the seriousness of the allegations, the RIC believes that the company is taking appropriate measures to change their workplace culture in a meaningful way. The RIC will continue to monitor developments and engage further should they see the need.

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