

# BETASHARES GLOBAL SUSTAINABILITY LEADERS ETF

ASX: ETHI

Quarterly Report - December 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)	0.57%	6.34%	12.11%	24.94%	22.58%	21.30%
Growth return	0.57%	6.34%	0.73%	12.09%	15.81%	15.87%
Income return	0.00%	0.00%	11.38%	12.85%	6.77%	5.43%
Index	0.61%	6.42%	12.40%	25.64%	23.13%	21.78%

**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	\$1067.4m
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	PayPal Holdings	3.3
Tesla Inc	4.5	Adobe Inc	3.1
NVIDIA Corp	4.1	Home Depot	3.0
Mastercard Inc	3.8	Toyota Motor Corp	2.4
Visa Inc	3.5	ASML Holding NV	2.4

<sup>1</sup> As at 31 December 2020

Industry exposure	Fund Weight % <sup>1</sup>
Information Technology	38.7
Consumer Discretionary	15.8
Financials	14.7
Healthcare	13.8
Communication Services	6.5
Real Estate	4.3
Industrials	3.4
Materials	1.1
Utilities	0.9
Consumer Staples	0.8
<b>TOTAL</b>	<b>100.0</b>

<sup>1</sup> As at 31 December 2020

Country allocation <sup>1</sup>	%		%
United States	71.5	France	2.1
Japan	8.4	Germany	2.0
Netherlands	3.8	Britain	2.0
Switzerland	3.5	Canada	1.2
Hong Kong	2.4	Other	3.2

<sup>1</sup> As at 31 December 2020

### Fund performance summary

The Fund returned 6.34% (in AUD) during the quarter. Assets grew from \$847m to \$1,067m over this period.

Information Technology and Consumer Discretionary were the strongest sector contributors, returning 6.19% and 13.93%, while contributing 2.36% and 2.02% respectively towards total return in AUD. Real Estate and Healthcare were the lowest contributors, returning -3.18% and -0.8%, while detracting -0.13% and -0.08% respectively.

Tesla, ASML Holding and Apple were the three largest stock contributors to total return. With returns of 52.79%, 22.87% and 6.61% in AUD, their contribution was 1.61%, 0.48% and 0.34% respectively. NVIDIA Corp, Home Depot and Adobe were the three largest stock detractors to total return. With returns of -10.35%, -10.67% and -5.28% in AUD, they detracted -0.49%, -0.37% and -0.19% respectively.

### Other commentary

In December, the Carbon Disclosure Project (CDP) released their Climate Change A list. This scores companies based on the comprehensiveness of disclosure, awareness and management of environmental risks and best practices associated with environmental leadership, such as setting ambitious and meaningful targets. Companies held in ETHI that received an 'A' score are listed below:

- Adobe
- Apple
- Best Buy Co
- BMW
- CVS Health Corporation
- Daiwa House Industry Co., Ltd.
- eBay
- Ford Motor Co
- Host Hotels & Resorts, Inc.
- Nokia
- Novo Nordisk
- Prologis
- Symrise
- Takeda Pharmaceutical Company Limited
- Toyota Motor Corporation

### Proxy voting & engagement

During the quarter, the RIC actively engaged in Proxy Voting on environmental, social, and governance (ESG) resolutions for index constituents. A total of 2 votes on ESG matters were lodged. 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.

Engagement letters were sent to both State Street and BlackRock, asking why they had consistently voted against or abstained from voting on every shareholder resolution requiring companies to act on deforestation since 2012.

State Street explained that they had opted to abstain on shareholder resolutions related to deforestation more often than their peers. They have discussed deforestation with other advocates and experts in the field, and have continued to engage companies in their portfolio on this important topic. They recognize the need for a more comprehensive and thoughtful approach to this issue and they are currently updating their framework for evaluating deforestation-related shareholder proposals, which will be shared with the market in the coming months. The RIC expects to see more effective oversight going forward and will continue to engage as necessary.

## Proxy voting & engagement continued

BlackRock acknowledged that deforestation and Indigenous Rights are critical issues, which also carry risks to investment returns. They engage with companies on these and other ESG risks, and where they are not being appropriately managed or progress is not considered sufficient, they take voting action against management.

Additionally, BlackRock was asked to comment on whether there is a policy for handling investments that may negatively impact the rights of Indigenous peoples being developed and if not, the reasons for not doing so. BlackRock stated that they are largely an index based manager, which does not have discretion to remove securities that continue to be held in the relevant index. Therefore, they emphasise their stewardship activities and take a long-term perspective to achieve outcomes most aligned with their clients' long-term economic interest.

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