

# BETASHARES AUSTRALIAN SUSTAINABILITY LEADERS ETF

## ASX: FAIR

### Quarterly Report - December 2020

Performance <sup>1</sup>	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception <sup>2</sup> % p.a.
Fund Return (net)	-1.99%	8.16%	6.79%	2.24%	9.12%	9.01%
Growth return	-1.99%	8.16%	5.03%	-0.73%	6.33%	6.31%
Income return	0.00%	0.00%	1.76%	2.97%	2.79%	2.70%
Index	-1.97%	8.27%	7.04%	2.76%	9.68%	9.57%

**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 27 Nov 2017.

### Investment objective

The Fund aims to track the performance of an index (before fees and expenses) that provides exposure to Australian companies that have been screened to preference companies engaged in sustainable business activities and to avoid companies engaged in activities deemed inconsistent with responsible investment considerations.

### Responsible entity

BetaShares Capital Ltd

### Fund Facts

Inception Date	27-Nov-17
Fund Size	\$810.44m
Historical Tracking Error	0.27%
ASX Code	FAIR
Bloomberg Code	FAIR.AU
IRESS Code	FAIR.ASW

### Distribution frequency

Semi-annual

### Suggested minimum investment timeframe

At least five years

### Fees % p.a.

Management fees	0.39
Recoverable expenses	0.10

### Investment strategy

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

### > Screening Criteria

From the universe of eligible ASX listed securities, the Index methodology removes companies which are exposed to activities considered to carry significant negative environmental, social and governance (ESG) risks, including:

- Fossil Fuels – including any direct and any material indirect exposure + any companies with high use of fossil fuels
- Gambling
- Tobacco
- Armaments
- Uranium and nuclear energy
- Destruction of valuable environments
- Animal cruelty
- Chemicals of concern
- Mandatory detention of asylum seekers
- Alcohol
- Junk foods
- Pornography
- Human rights and supply chain concerns
- Lack of gender diversity at the board level
- Payday lending

## Investment strategy cont.

### > Sustainability Leaders

From the companies passing the above screens, the Index preferences companies classified as “Sustainability Leaders”, which means that the company must satisfy at least one of the following criteria:

- More than 20% revenue derived from one or more of the following: renewable energy; energy efficiency; water efficiency; recycling; waste remediation and re-use of materials; public transport and energy efficient transport; education; healthcare; animal health; healthy foods and nutrition products; green star rated buildings; community and regional banking; health insurance and personal insurance; social services and social infrastructure (e.g. employment services, child care); sustainability certified products and services (e.g. Fairtrade, certified organic); sustainable forestry; access to knowledge and information; access to communications;
- Recipient of either an “A” or “B” grade (or equivalent) rating from a trusted ethical consumer report;
- Certified B Corporation (a certification issued by B Lab, which is available to companies that meet specified governance, transparency, environmental and social impact standards).

Note that not every security in the Index is necessarily a Sustainability Leader (but every security will have met the above Screening Criteria).

The Index uses a modified market capitalisation weighting method, includes sector concentration limits, gives preferential weighting to Sustainability Leaders, and applies a maximum weight per security of 4% at each annual rebalance date.

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

Top 10 positions <sup>1</sup>	%		%
Xero	4.6	Fisher & Paykel Healthcare	3.7
ResMed Inc	4.2	CSL	3.7
Goodman Group	4.0	Sonic Healthcare	3.6
Telstra Corp	3.7	Suncorp Group	3.4
Brambles	3.7	Cochlear	3.4

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

Sector exposure	Fund Weight % <sup>1</sup>
Healthcare	24.9
Real Estate	19.1
Financials	17.0
Communication Services	11.5
Information Technology	10.0
Industrials	5.6
Consumer Discretionary	5.3
Consumer Staples	3.5
Materials	2.8
Utilities	0.4
<b>TOTAL</b>	<b>100.00</b>

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

## Fund performance summary

The Fund returned 8.16% during the quarter. Assets grew from \$640m to \$810m over this period.

Real Estate and Financials were the largest sector contributors, returning 13.36% and 9.90% over the period, while contributing 2.46% and 1.63% respectively. Consumer Staples and Healthcare were the lowest contributors, returning -12.08% and -0.44%, and contributed -0.48% and -0.01% respectively.

XRO, SEK and RMD were the largest stock contributors to total return. With returns of 45.73%, 34.01% and 14.19% in the period, their contributions were 1.53%, 0.68% and 0.58% respectively. A2M, ASX and MSB were the largest detractors to total return. With returns of -20.39%, -11.13% and -55.71% in the period, they detracted -0.60%, -0.40% and -0.39% 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 FAIR that received an 'A' score are listed below:

- Dexus
- Vicinity Centres

## 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 3 votes on ESG matters were lodged since September 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 for the Fund engaged with two companies over the quarter.

An engagement letter was sent to Cleanaway regarding reports of poor treatment of staff, particularly senior female staff, by the current CEO. Additionally, there were reports regarding Cleanaway's Operations Manager being aggressive towards a union representative of the Transport Workers Union. Lastly, there were also reports of NSW EPA investigations into Cleanaway and the mishandling of medical waste during COVID-19 by their Victoria operations.

In response, Cleanaway detailed the range of a measures the board had put in place to improve the CEO's behaviour, including the following:

- ongoing mentoring by a senior ex-Chairwoman of an ASX-100 company
- an incentive mechanism had been adjusted to factor in culture and employee turnover
- the Board will review exit interviews of Executive Leadership Team members, and within the business they will 'take the temperature' through their informal networks as appropriate.

They stated that it will ultimately be a decision for the Board to assess what is deemed success and consequences of failure, but the Board has made it very clear that it will not tolerate further instances of overly assertive behaviour.

Regarding reports of their Operations Manager's aggressive behaviour towards a union representative of the Transport Workers Union, Cleanaway confirmed they are investigating the matter. However no public disclosure will be made about the results of this investigation.

### Proxy voting & engagement continued

In response to the allegations of mishandling medical waste during COVID-19 by their Victorian operations, Cleanaway strongly disagreed with the characterisation. They reiterated that at all times, their employees were handling medical waste following approved procedures.

Overall, the RIC believes that Cleanaway is taking reasonable measures to rectify these various issues. As varied investigations are ongoing, the RIC expects to learn more about various issues over the coming months. The RIC will assess new information as it becomes available and evaluate whether further engagement will be necessary.

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