

BETASHARES GLOBAL SUSTAINABILITY LEADERS ETF

ASX: ETHI

Quarterly Report - June 2021

Performance ¹	1 Month	3 Months	6 Months	1 Year	3 Years	Inception ²
	%	%	%	%	% p.a.	% p.a.
Fund Return (net)	6.52%	11.04%	16.67%	30.80%	24.59%	22.90%
Growth return	6.52%	11.04%	16.47%	17.32%	17.71%	17.94%
Income return	0.00%	0.00%	0.20%	13.48%	6.88%	4.96%
Index	6.56%	11.20%	16.93%	31.43%	25.19%	23.38%

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 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	\$1545.96m
Historical Tracking Error	0.14%
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 ¹	%		%
NVIDIA Corp	5	Mastercard Inc	3.2
Apple Inc	4.1	Adobe Inc	2.7
Visa Inc	3.9	ASML Holding NV	2.4
Home Depot	3.4	Toyota Motor Corp	2.4
PayPal Holdings	3.4	Cisco Systems Inc	2.2

¹ As at 30 June 2021

Industry exposure	Fund Weight % ¹
Information Technology	41.2
Healthcare	15.8
Financials	15.1
Consumer Discretionary	13.6
Industrials	4.9
Real Estate	4.0
Communication Services	3.2
Consumer Staples	1.3
Utilities	0.5
Materials	0.4
TOTAL	100.0

¹ As at 30 June 2021

Country allocation ¹	%		%
United States	69.7	France	2.5
Japan	8.5	Hong Kong	2.3
Netherlands	3.9	Germany	2.3
Switzerland	3.7	Denmark	1.1
Britain	3.5	Other	2.4

¹ As at 30 June 2021

Fund performance summary

The Fund returned 11.04% (in AUD) during the quarter. Assets grew from \$1,281m to \$1,546m over this period.

Information Technology and Healthcare were the strongest sector contributors, returning 16.5% and 11.31%, while contributing 6.44% and 1.64% respectively towards total return in AUD. Utilities and Consumer Staples were the lowest contributors, returning 1.07% and 6.05%, while contributing 0.04% and 0.06% respectively.

Nvidia Corp, Paypal Holdings and Adobe were the three largest stock contributors to total return, and with returns of 52.10%, 21.8%, 25.02% in AUD, their contributions were 1.93%, 0.68% and 0.60% respectively. Tesla, Netflix and Prudential PLC were the three largest stock detractors to total returns with returns of -14.35%, -6.01% and -7.80% in AUD, they detracted -0.62%, -0.13% and -0.07% respectively.

Other commentary

The annual ETHI index rebalance and reconstitution was completed in May 2021. Of the 230 companies that passed the screens, there were 40 new companies added to the index. For example:

- Vestas Wind Systems was reintroduced to the index after being excluded in the 2020 rebalance. The company had demonstrated it is taking action to address its operations which exposed employees to toxic chemicals.
- Walgreens Boots Alliance was included for the first time as the RIC could verify that none of their in-house brands involved cosmetic animal testing.

There were 39 companies removed from the index. For example:

- Tesla was removed following a series of controversies over the past 12 months that the RIC noted it had failed to adequately address. This included reopening its U.S.-based production facility contrary to government COVID-19 related orders, concerns regarding the potential environmental impacts of a new Germany-based production facility, and potential exposure to Uighur forced labour in its supply chain.

Overall:

- 13 companies no longer qualified as Carbon Leaders (including Netflix), meaning they did not meet the criteria to be in the top third most carbon efficient companies within their industry.
- 16 companies were removed due to their size ranking.
- 10 companies did not pass the ESG negative screens.

A comprehensive list of companies added and removed from ETHI's index is available [here](#)

Proxy voting & engagement

During the quarter, the RIC actively engaged in Proxy Voting on ESG resolutions for index constituents. A total of 75 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 five companies over the quarter. They received responses from the 2 companies below.

BMW was listed in a report describing their exposure to illegal deforestation in the amazon. In particular, leather supplied to BMW was linked to cattle raised on illegally deforested land. The RIC reached out to BMW to better understand if they had made any attempts to engage with their leather suppliers on deforestation, and if they could deliver on a commitment to assess deforestation risks in their leather supply chain. BMW replied that the Group took measures several years ago and began to restructure their leather supply chains. They are continuously reducing the sourcing of leather from South America, and will not use leather from South America by 2050. Furthermore, from the end of next year, they will no longer source leather from Brazil.

Proxy voting & engagement continued.

They did not deliver an explicit commitment to assess deforestation risks in their leather supply chain.

Booking Holdings continues to operate in Myanmar, following the ongoing military coup. The US Government tightened financial sanctions on Myanmar, as the death toll has reportedly risen to more than 700 since the coup, while 3,300 people are in detention. US travel and hospitality groups must now demonstrate the revenue generated by the sale of travel and hospitality services in Myanmar does not filter through to companies linked to the military.

The RIC sought to understand what actions Booking Holdings is taking in light of these updated sanctions and the measures they are taking to ensure revenue generated from services in Myanmar does not link back to the military. Bookings replied they are performing enhanced due diligence on their largest properties in Myanmar through a highly reputable third-party due diligence firm, to understand whether any of these properties have hidden ownership or are controlled by sanctioned parties.

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