BetaShares Exchange Traded Funds

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

Quarterly Report - June 2021

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	0.37%	0.38%	-2.57%	-0.55%		1.09%
Growth return	*0.37%*	*0.31%*	*-2.73%*	*-0.97%*		*0.65%*
Income return	*0.00%*	*0.07%*	*0.16%*	*0.42%*		*0.44%*
Index return	*0.41%*	*0.50%*	*-2.35%*	*-0.04%*	*4.48%*	*1.52%*

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]	2.19%
Yield to Maturity (% p.a.)[2]	0.94%
Average Maturity (Yrs)[3]	8.30
Modified Duration (Yrs)[4]	7.60
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	$147.78m
Historical Tracking Error	0.23%
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	5.8	NSW Treasury Corp 3% Apr-29	1.2
Netherlands Govt Bond 0.5% Jan-40	1.8	NSW Treasury Corp 3% May-27	1.1
Belgium Govt 1.25% Apr-33	1.8	Ireland Govt Bond 1.35% Mar-31	1.1
NSW Treasury Corp 3% Feb-30	1.2	French Govt OAT 0.5% Jun-44	1.0
Treasury Corp VIC 5.5% Nov-26	1.2	NSW Treasury Corp 3% Mar-28	1.0

[1] As at 30 June 2021

Sector exposure	Fund Weight % [1]
Sovereign	13.5
Supranational	10.7
Sovereign Agency	6.7
Special Purpose Banks	7.9
Local Authority	41.1
Corporates	20.2
TOTAL	100.00

[1] As at 30 June 2021

Country allocation [1]	%		%
Australia	41.6	United States	3.8
SNAT	10.6	Spain	2.3
France	14.5	Norway	1.6
Netherlands	8.5	Ireland	1.1
Germany	6.1	Other	9.9

[1] As at 30 June 2021

Fund performance summary

GBND returned +0.38% in the June quarter, owing to a retracement lower in benchmark government yields and a continued compression in credit spreads, albeit at a slower pace.

The June quarter saw US$292 billion of ESG debt issued, including US$132 billion of green bonds, taking YTD total issuance to US$660 billion and US$245 billion respectively, a marked increase from 2020 issuance, which saw only US$759 billion ESG debt and US$306 green bonds sold. Although social bonds continue to be issued in size thanks to ongoing COVID-19 issuance programs, its proportion is decreasing compared to other types of ESG debt. Over the quarter, there were 146 new issuers of ESG debt, including 59 new green bond issuers. EUR green bond sales remained the highest of all currencies at 45.95%, followed by USD at 28.49% and CNY at 8.17%. By country of risk, the top 5 were China – 11.95%, Germany – 11.41%, United States – 10.24%, France – 9.53% and Korea – 6.84%. Finally, by sector, corporates again accounted for the majority at 72.70%, with financials comprising 36.13%.

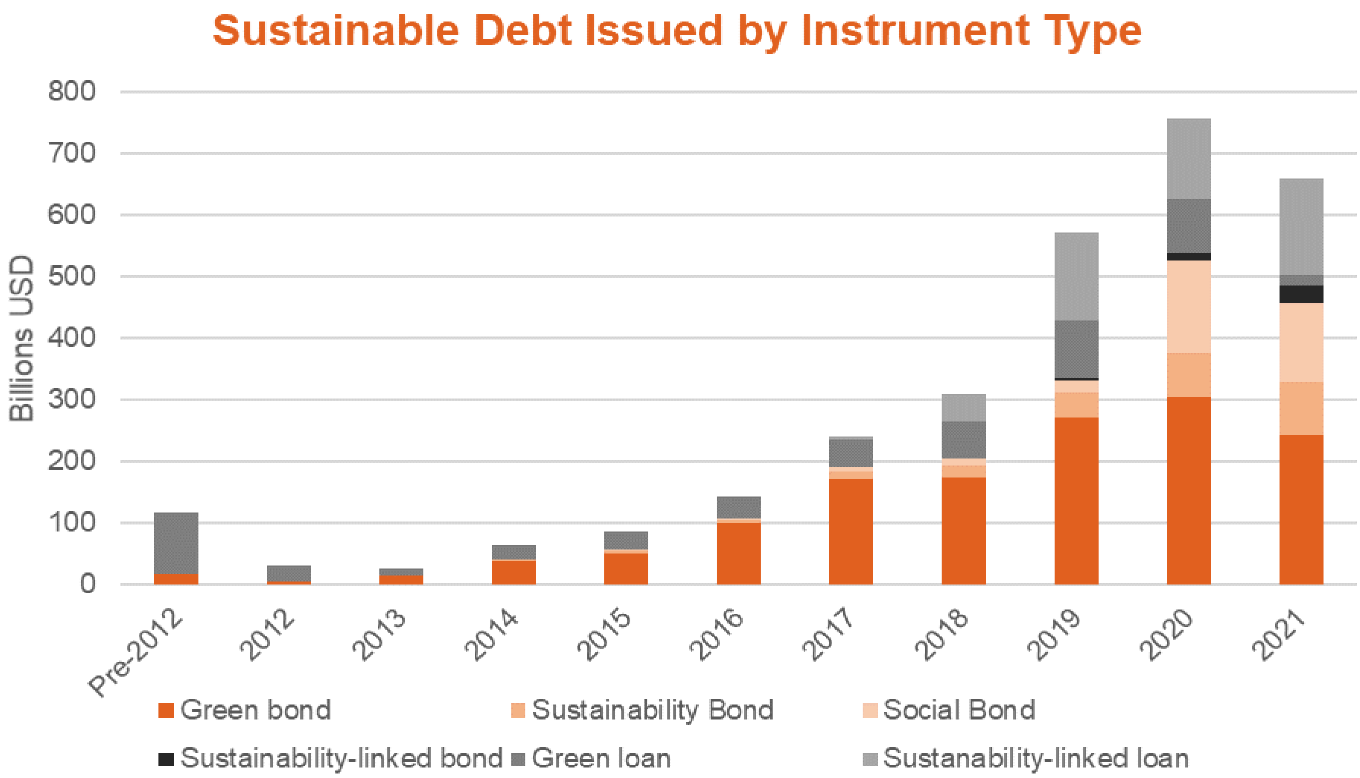
The largest green bond deal was the EUR6 billion, August 2050 Germany sovereign green bond. This line was issued at a yield 2bps lower than its non-green equivalent, firmly establishing a “Greenium” in primary issuance. Another issuance of note was from Westpac, with an EUR1 billion ten-year maturity bond launched in May. Looking at ESG bonds more broadly, the European Union continued its social bond issuance program, with EUR14 billion issued in May across two maturities. Domestically, there were two green bonds issued this quarter: A A$750 million 7-year bond by Canadian pension plan investment and an $A200 million 15-year bond by the EIB.

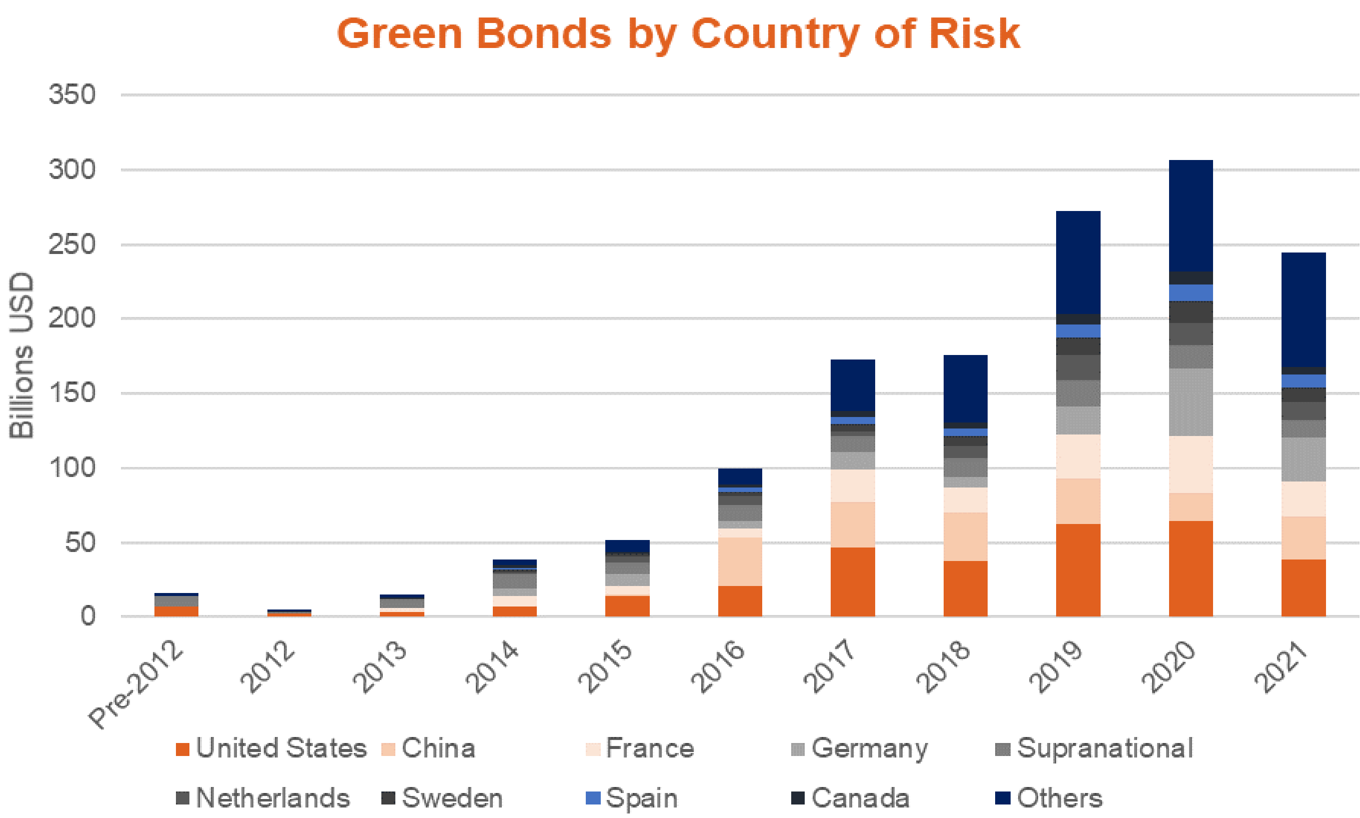
Longer term, global cumulative green bond issuance stands at US$1.45 trillion, with both EUR currency and European entities being the largest contributors. Although if the trend continues, the rapidly increasing pace of issuance in recent years by U.S. and Chinese entities sets them up to overtake European issuers within the next 5 years. Corporates account for close to 2/3rd of total green bond issuance (financials alone taking up 28%), eclipsing the combined total of government, government related, and supranational entities. The boost to social bonds issuance due to Covid-19 is now tapering, albeit slowly.

Finally, ECB President Lagarde made a speech at the Brussels Economic Forum in June that is worth highlighting for its implications to the future of green bonds and capital markets in general. Lagarde proposed the fast-tracking of a green capital markets union (CMU), and envisions it to achieve pan-European scale given the dominance of Europe and the Euro in green debt. Furthermore, her speech makes implicit the addition of climate goals to the ECB mandate.

Historical Charts

Data soured from Bloomberg and BNEF





Historical Charts

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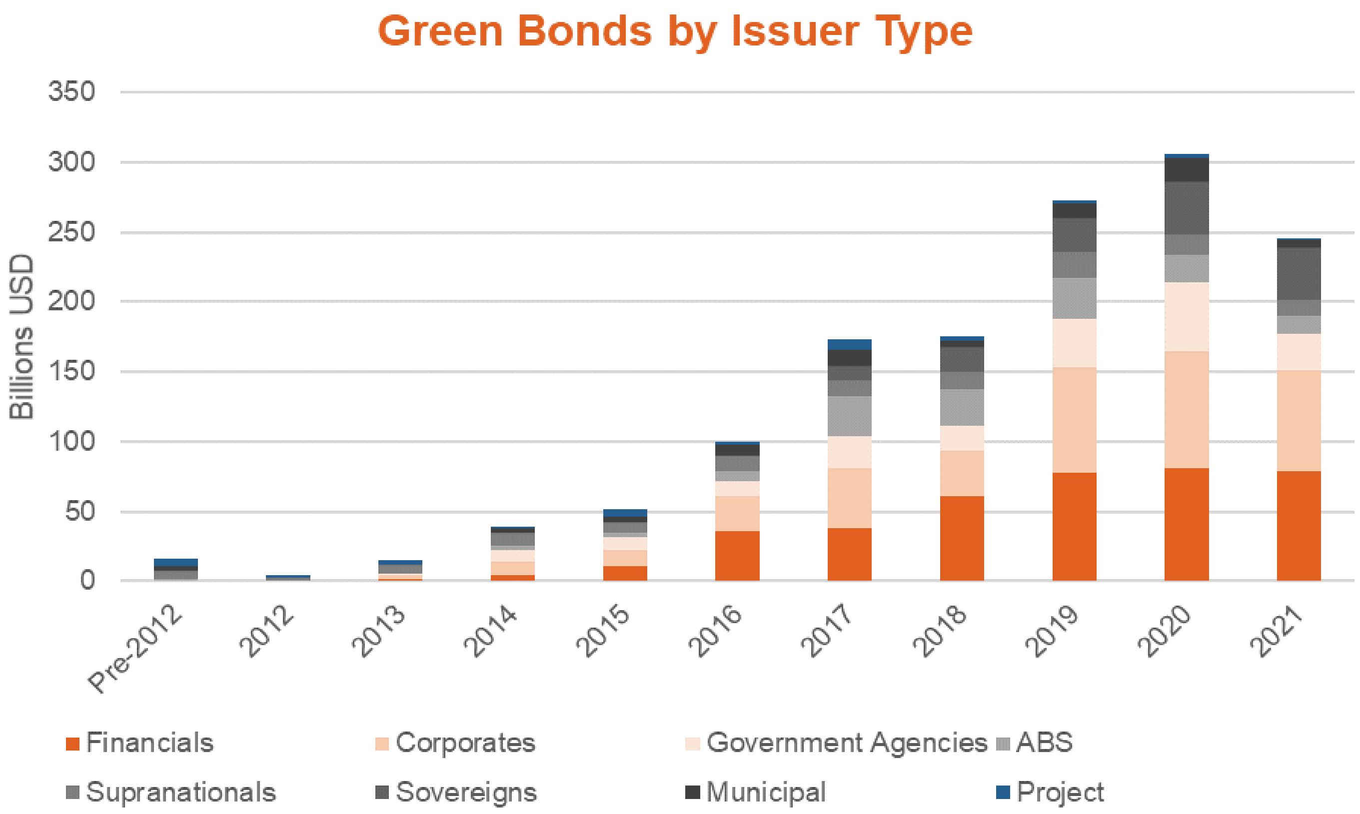

Other commentary

The British Government plans to issue at least £15 billion of its first ever sovereign green bond this September, known as a green gilt. The government-owned National Savings & Investments bank will also issue a world-first green savings bond, to enable UK savers to play their part in tackling climate change. The funds will finance projects such as electric buses, offshore wind and schemes to decarbonise homes and buildings. GBND does not currently hold any investments in British Government bonds.

A new report by the Climate Bonds Initiative found that US$106.86 billion of green bonds were issued in Q1, putting 2021 on track to surpass the $269 billion issued in 2020, despite the economic downturn from the COVID-19 pandemic. The majority came from five countries: the US, France, China, Germany and Italy. The European Commission will aim to create more certainty for investors by introducing stricter requirements on disclosures for financial institutions and will target "greenwashing" through its taxonomy, which defines how environmentally sustainable different economic activities are. In addition, China's target of net zero emissions by 2060 and the US re-signing the Paris Agreement is expected to drive global green bonds issued up to US$2.36 trillion by 2023.