

BETASHARES GLOBAL SUSTAINABILITY LEADERS ETF

ASX: ETHI

Quarterly Report - September 2021

Performance ¹	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception ² % p.a.
Fund Return (net)	-3.73%	3.58%	15.01%	28.51%	22.76%	22.46%
Growth return	-3.73%	-1.83%	9.01%	21.58%	14.55%	16.46%
Income return	0.00%	5.41%	6.00%	6.93%	8.21%	6.00%
Index	-3.69%	3.71%	15.32%	29.04%	23.36%	22.95%

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	\$1809.41m
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	5.2	PayPal Holdings	3.0
Apple Inc	4.2	ASML Holding NV	2.7
Visa Inc	3.8	Adobe Inc	2.6
Home Depot	3.6	Toyota Motor Corp	2.5
Mastercard Inc	3.0	Cisco Systems Inc	2.3

¹ As at 30 September 2021

Industry exposure	Fund Weight % ¹
Information Technology	41.3
Healthcare	15.4
Financials	15.3
Consumer Discretionary	14.0
Industrials	4.9
Real Estate	4.0
Communication Services	2.9
Consumer Staples	1.3
Utilities	0.5
Materials	0.4
TOTAL	100.0

¹ As at 30 September 2021

Country allocation ¹	%		%
United States	69.4	France	2.5
Japan	9.0	Hong Kong	2.2
Netherlands	4.3	Germany	2.1
Britain	3.6	Denmark	1.2
Switzerland	3.2	Other	2.5

¹ As at 30 September 2021

Fund performance summary

The Fund returned 3.58% (in AUD) during the quarter. Assets grew from \$1,546m to \$1,809m over this period.

Information Technology and Financials were the strongest contributors, returning 3.78% and 5.83%, while contributing 1.54% and 0.86% respectively towards total return in AUD. Communication Services and Materials were the lowest contributors, returning -2.96% and -3.66%, they detracted -0.09% and -0.01% respectively.

Nvidia Corp, ASML Holding and Apple were the largest three stock contributors to total return, and with returns of 7.64%, 13.23%, 7.52% in AUD, their contributions were 0.36%, 0.32% and 0.31% respectively. Paypal Holdings, Twilio Inc and Activision Blizzard were the lowest contributors, returning -7.23%, -15.88% and -15.74% in AUD, they detracted -0.24%, -0.10% and -0.10% respectively.

Other commentary

The Japanese Government launched an investigation into thousands of its largest textile and clothing companies due to concerns over their exposure to human rights violations. The announcement followed allegations of forced labour in cotton production in China's Xinjiang region and the potential increased exposure of Japanese companies to an exodus by overseas investors. The investigation is expected to result in guidelines for companies to follow in order to monitor suppliers or laws mandating human rights due diligence, following calls for similar laws in the EU and United States.

Proxy voting & engagement

During the quarter, the Responsible Investment Committee (RIC) actively engaged in Proxy Voting on Environmental, Social, and Governance (ESG) resolutions for index constituents. 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 16 companies over the quarter and received responses from 11 companies. Three cases are highlighted below.

California's Department of Fair Employment and Housing (DFEH) filed a lawsuit against Activision Blizzard, collecting "numerous complaints about unlawful harassment, discrimination, and retaliation" from employees at the company. The RIC engaged with Activision Blizzard, seeking to apply pressure on them to commit to the demands set by their employees, and to improve their workplace culture. The company has stated that they have engaged with law firm Wilmer Hale to conduct a review of their policies and procedures to ensure they maintain best practices to promote a respectful and inclusive workplace. The RIC is currently in discussion with a shareholder of Activision Blizzard on how to best collaborate on this engagement with Activision Blizzard.

A New York Times article stated that a top Toyota executive met with congressional leaders in recent weeks to advocate against the Biden administration's plans to spend billions of dollars to incentivise the shift to Electric Vehicles (EVs). There have also been other international reports of Toyota's efforts to go against EV's. In light of this, the RIC reached out to Toyota individually to ask them why they were lobbying against electric cars. Toyota replied stating that their company has never lobbied for lower U.S. emission standards or to lower incentives for any particular technology, including battery electric vehicles (BEVs). Instead, Toyota stated that they were acknowledging the current challenges with BEVs, and putting more emphasis on other technologies, such as the Hybrid EV.

Proxy voting & engagement continued.

The RIC contacted Fast Retailing to understand how they are ensuring that their auditing processes are reliable given the issues identified with auditors in China, as raised by the Human Rights Watch. Fast Retailing responded and stated that their third-party auditors come unannounced and free from external interference to ensure no human rights violation takes place in their supply chain. In addition to such audits, they have installed hotlines for workers to contact Fast Retailing directly and anonymously. Fast Retailing stated that through these mechanisms, there has been no evidence of forced labour or any other human rights violation at any of their suppliers. If such evidence should arise, they will cease to do business with that supplier.

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