

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

## Quarterly Report - September 2021

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)	-1.41%	0.04%	0.41%	-1.81%		0.96%
Growth return	-1.41%	-1.90%	-1.59%	-3.98%		-0.47%
Income return	0.00%	1.94%	2.00%	2.17%		1.43%
Index return	-1.36%	0.17%	0.68%	-1.39%	4.45%	1.41%

**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 26 November 2019.

### Yield and portfolio characteristics

Running Yield (% p.a.) <sup>1</sup>	2.05%
Yield to Maturity (% p.a.) <sup>2</sup>	0.95%
Average Maturity (Yrs) <sup>3</sup>	8.06
Modified Duration (Yrs) <sup>4</sup>	7.45
Average Credit Rating <sup>5</sup>	AA

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Average (weighted by market value) length of time until the current bonds in the portfolio mature.

<sup>4</sup> 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%.

<sup>5</sup> 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	\$166.71m
Historical Tracking Error	0.21%
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	4.5	NSW Treasury Corp 3% Feb-30	1.1	
Belgium Govt 1.25% Apr-33	1.8	WA Treasury Corp 5% Jul-25	1.1	
Netherlands Govt 0.5% Jan-40	1.4	French Govt OAT 0.5% Jun-44	1.1	
NSW Treasury Corp 3% May-27	1.1	NSW Treasury Corp 3% Mar-28	1.1	
Treasury Corp VIC 5.5% Nov-26	1.1	NSW Treasury Corp 3% Apr-29	1.1	

<sup>1</sup> As at 30 September 2021

Sector exposure	Fund Weight % <sup>1</sup>
Sovereign	13.6
Supranational	11.4
Sovereign Agency	6.5
Special Purpose Banks	8.7
Local Authority	37.7
Corporates	22.2
<b>TOTAL</b>	<b>100.00</b>

<sup>1</sup> As at 30 September 2021

Country allocation <sup>1</sup>	%		%
Australia	38.4	United States	4.1
SNAT	11.3	Spain	2.6
France	13.0	Norway	1.8
Netherlands	8.7	Ireland	1.0
Germany	8.9	Other	10.3

<sup>1</sup> As at 30 September 2021

### Fund performance summary

GBND returned +0.04% over the September quarter, with performance peaking in mid-August as bond yields initially bottomed before reversing higher towards starting levels towards the end of September.

The Responsible Investment Committee (RIC) held its annual Index review in August, and recommended the inclusion of 58 new issuers, whilst 9 issuers were removed. (Please note that an issuer can be removed from non-green bond eligibility whilst keeping their eligibility for green bonds.) The most notable change to issuers was the removal of Queensland Treasury Corp (QTC) non-green bonds. Before the annual review, bonds issued by QTC accounted for 10% of the index, and following the latest rebalance, only QTC's green bonds remain, at an index weight of 1.19%. The RIC engaged with QTC post its 2020 review, and based on disclosures obtained via the engagement, the RIC determined that substantial amounts of QTC non-green bonds' proceeds went towards fossil fuel projects. (In contrast, green bonds are ringfenced towards funding only eligible green projects).

The September quarter saw US\$260bn of ESG bonds issued, including US\$142bn of green bonds, taking YTD total issuance to US\$815bn and US\$415bn respectively. This was higher than the entirety of 2020's issuance of US\$543bn ESG bonds and US\$352bn Green bonds. As the ongoing impact of COVID-19 lessens, the pace of issuance of social bonds have also slowed, with only US\$34bn of issuance in the last quarter. There were 201 new issuers of ESG debt this quarter, including 130 new green bond issuers. EUR green bonds again led issuance by currency, at 37.55%, followed by USD at 26.20% and CNY at 11.86%, though the gaps between the top 3 are narrowing. By country of risk, the top 5 were China – 17.37%, United States – 15.11%, Germany – 12.56%, UK – 11.15% and Spain – 8.40%. Finally, by sector, corporates accounted for the majority of issuance at 68.07% with financials making up 32.35%.

In September, the UK government launched their inaugural green bond and raised a record GB£10bn, overtaking the previous record set by the Italian government in March this year with their EU€8.5bn sale. Remarkably, the bookbuild was completed in just one hour after GB£90bn of orders were received, demonstrating that demand for green bonds remains robust. Domestically, in early September QTC set an Australian record with AU\$3bn printed on the issuance of their March 2032 maturity green bond. There were several AUD green bond deals over the period, with 8 other issuers printing a combined US\$1.72bn, with the issuers being a mix of local entities and supranational banks. This helped the AUD to rank 5th in terms of total green bond issuance this quarter, behind EUR, USD, CNY, and GBP.

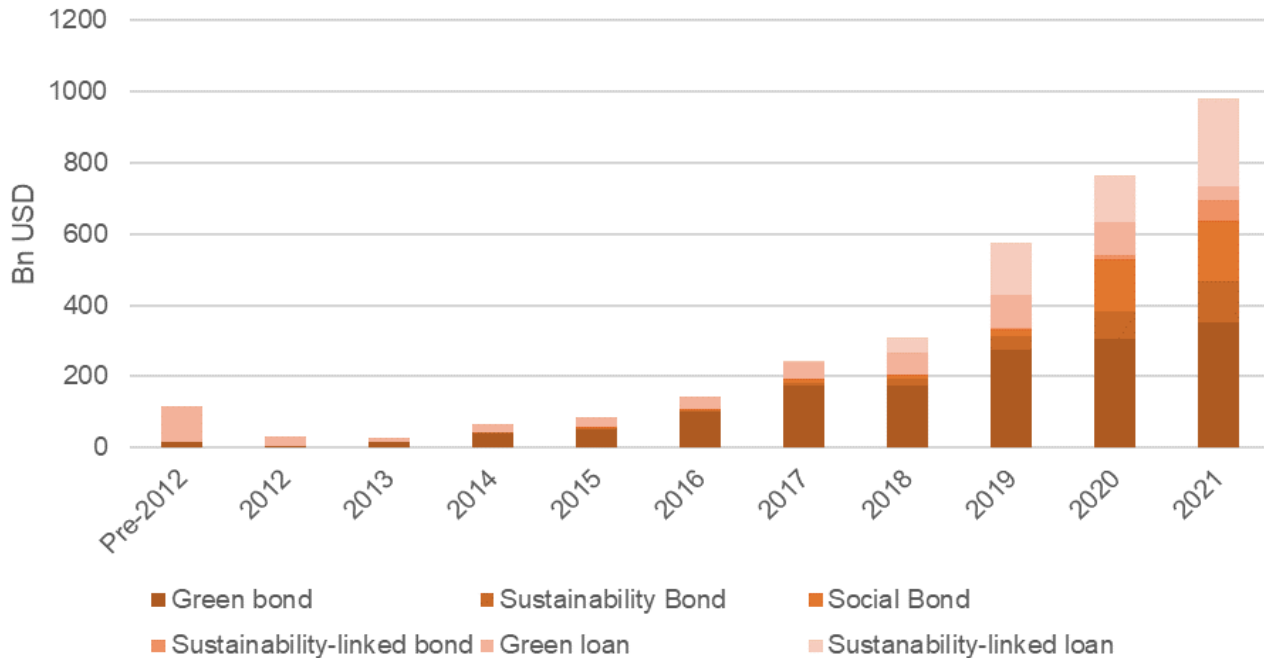
## Fund performance summary continued.

Since the market's beginnings, global cumulative green bond issuance now totals US\$1.58 trillion, with EUR currency and European entities being the largest contributors, although Chinese and U.S. entities continue to close the gap. Of note is the fact that Chinese entities' YTD green bond issuance size is now just below the combined total of 2019 and 2020 Chinese issuance, showing significant rates of increase. Globally, corporates account for 64% of total green bond issuance (financials at 29%), with the combined total of government, government related, and supranational entities at 34% (the other 2% were project-based issuers).

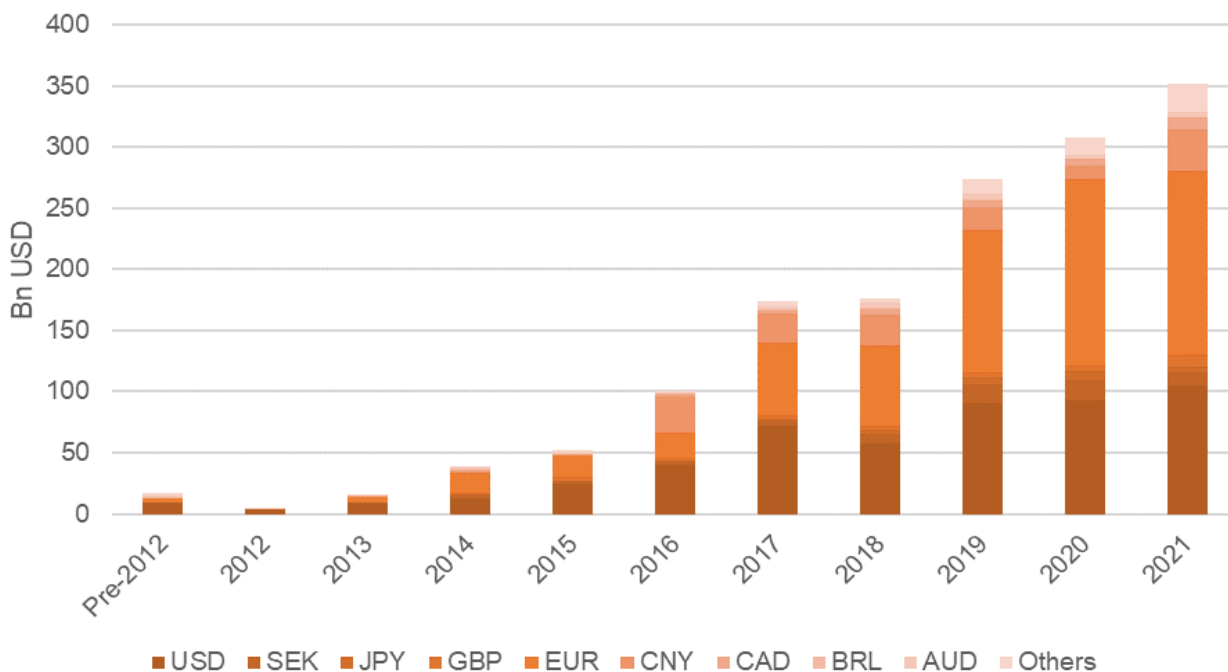
## Historical Charts

Data sourced from Bloomberg and BNEF; chart data only available to August 31, 2021.

### Sustainable Debt Issued by Instrument Type



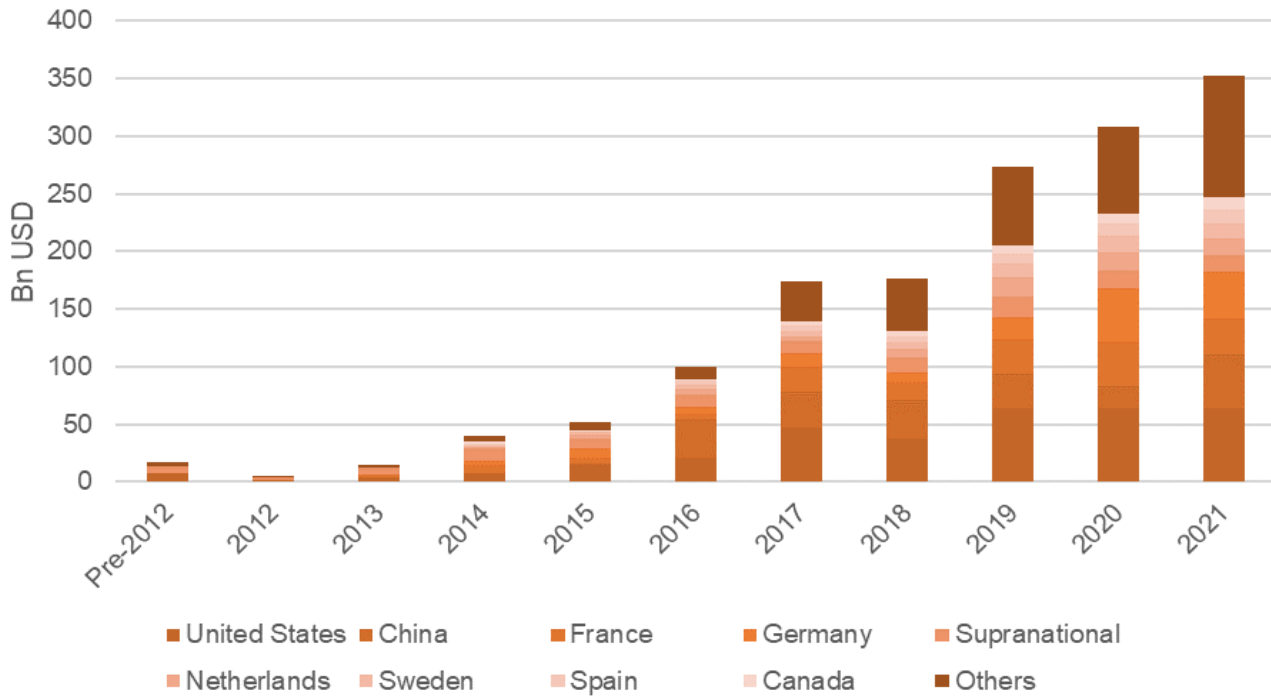
### Green Bonds by Currency



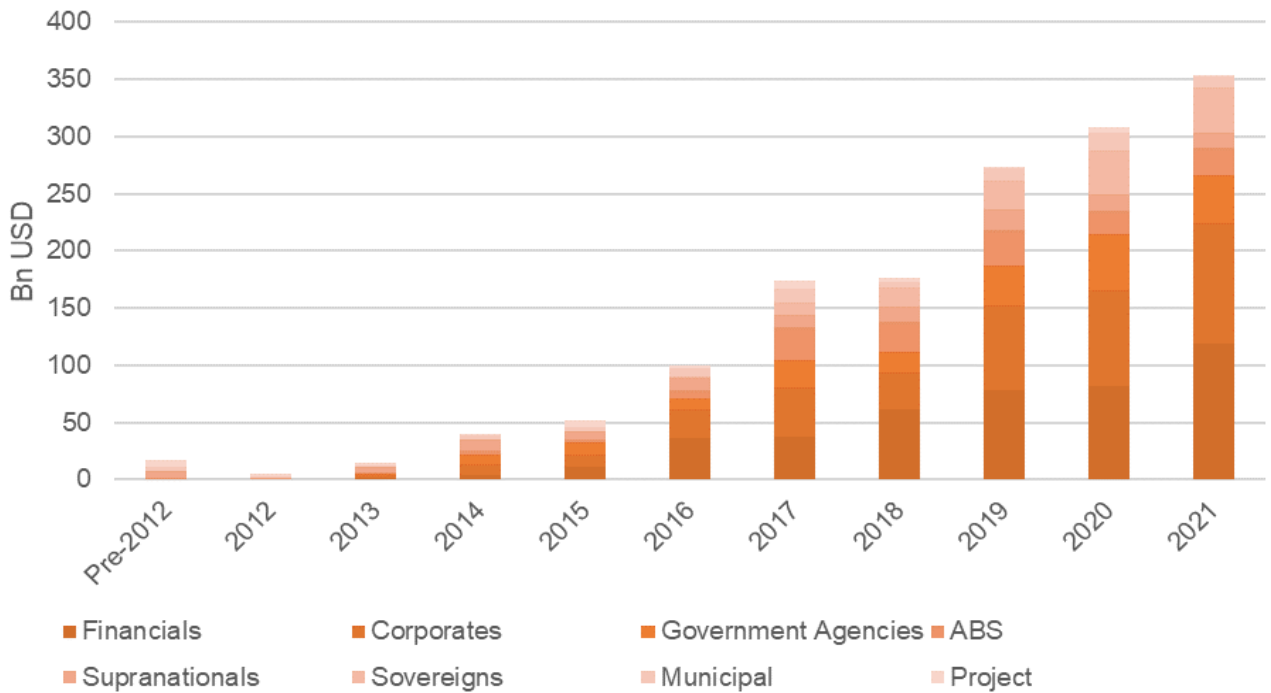
## Historical Charts

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### Green Bonds by Country of Risk



### Green Bonds by Issuer Type



## Other commentary

The U.S. Treasury released new energy financing guidance to multilateral development banks in which it is a majority shareholder, such as the World Bank and the African Development Bank (ADB), saying it would not support fossil fuel projects, except for downstream natural gas processing in low-income countries and if there were no viable low-carbon alternatives. This is the first time the U.S. will broadly restrict its international finance for coal, oil and gas. It also backed an ADB plan with several multinational banks to acquire and prematurely close coal plants in Asia in order to help countries meet their emissions reduction targets. Both announcements are building momentum in the lead up to the COP26 Climate Summit in November 2021.

China's President, Xi Jinping, also pledged to stop funding overseas coal power plants in front of the UN General Assembly, following pressure from G7 partners to make bolder commitments before the COP26 summit in November. China follows similar pledges from South Korea and Japan. More than 70% of global coal-fired power plants rely at least partly on Chinese funding. It is also the largest state-based financier of coal plants and sent a strong signal that it will step up financing for low carbon energy.

## Proxy voting & engagement

During the quarter, the RIC actively engaged in Proxy Voting on 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 10 issues over the quarter. They received responses from the four companies below.

The RIC engaged with Suncorp, IAG and Bendigo & Adelaide Bank as a result of them scoring poorly on the 2020 Financial Services Human Rights Benchmark Report from the University of Sydney. The new benchmark report found that despite talk of human rights awareness and company policies among ASX-listed investors, there is no accountability for human rights breaches at the board level. The report assessed the performance of 22 companies against six human rights categories: privacy and information; discrimination; economic security; health and safety; voice and participation; and right to remedy. The firms' performance across retail, commercial lending investment and services; employees; suppliers and supply chain; and society in the 2019 financial year were ranked. Researchers David Kinley and Kym Sheehan found all companies assessed were deficient.

Suncorp, IAG, Bendigo & Adelaide Bank responded. Bendigo & Adelaide Bank replied to us stating that they understood the reputational and financial risks that modern slavery presents to their business and the stakeholders they interact with daily. The Bank also stated that while they have had very few inquiries to date about their approach to human rights, they welcomed the RIC's engagement and would use it as a catalyst to further reflect on how the Bank approaches, acts, communicates and reports on what the Bank is doing in this space. They committed to exploring our recommendation on implementing accountability mechanisms for human rights breaches at a board level. The Bank is currently reworking their ESG framework, and will consider this during its implementation. The Bank also stated that they will be updating us on their ESG framework progress.

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