BETASHARES GLOBAL SUSTAINABILITY LEADERS ETF
ASX: ETHI
Quarterly Report - March 2023

Performance[1]	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Inception[2] % p.a.
Fund Return (net)	3.48%	8.96%	16.21%	4.05%	15.01%	16.58%
Growth return	*3.48%*	*8.63%*	*15.85%*	*1.10%*	*7.86%*	*11.67%*
Income return	*0.00%*	*0.33%*	*0.36%*	*2.95%*	*7.15%*	*4.91%*
Index	*3.49%*	*9.05%*	*16.44%*	*4.37%*	*15.56%*	*17.04%*

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 5 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

Suggested minimum investment timeframe
At least five years

Fund Facts	
Inception Date	5-Jan-17
Fund Size	$2435.6m
Historical Tracking Error	0.14%
ASX Code	ETHI
Bloomberg Code	ETHI.AU
IRESS Code	ETHI.ASW

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
- Payday lending
- 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	4.4	Toyota Motor Corp	2.6
Visa Inc	4.3	Cisco Systems Inc	2.5
Apple Inc	4.1	ASML Holding NV	2.2
Home Depot	3.6	UnitedHealth Group	2.2
Mastercard Inc	3.6	Adobe Inc	1.9

[1] As at 31 March 2023

Industry exposure	Fund Weight %[1]
Information Technology	40.9
Health Care	17.4
Consumer Discretionary	15.9
Financials	13.4
Industrials	4.7
Real Estate	3.8
Communication Services	1.7
Consumer Staples	1.2
Utilities	0.6
Materials	0.4
TOTAL	100.0

[1] As at 31 March 2023

Country allocation[1]	%		%
United States	69.0	Britain	2.8
Japan	8.4	France	1.7
Switzerland	4.3	Denmark	1.7
Netherlands	4.2	Hong Kong	1.5
Germany	3.6	Other	2.8

[1] As at 31 March 2023

Fund performance summary

The Fund returned +8.96% (in AUD) during the quarter. Assets increased from $2,187.56m to $2,435.60m over this period.

Information Technology and Consumer Discretionary were the largest sector contributions to total return, with returns of 28.53% and 6.71% in AUD, their contributions were 6.96% and 1.06%, respectively. Health Care was the largest sector detractor with a return of -0.31%, and contribution of -0.11%.

NVIDIA, Apple and ASML Holding were the largest three stock contributors to total return, and with returns of 92.58%, 28.76% and 28.32% in AUD, their contributions were 2.31%, 0.99% and 0.54% respectively. Schwab, CVS Health and UnitedHealth Group were the lowest contributors, returning -36.07%, -18.66% and -9.38% in AUD, they detracted -0.55%, -0.3% and -0.26% respectively.

Other commentary

In March 2023, the Intergovernmental Panel on Climate Change (IPCC) released its Sixth Assessment Report (AR6), summarising the work of climate scientists over the last ten years. The report warns that to limit global warming to 1.5C, greenhouse gas emissions must peak by 2025 and the world must rapidly shift away from the burning of fossil fuels. The report made for grim reading and highlighted several imminent risks as a result of climate change. The report also highlighted that while the things were looking bleak, humanity had all the tools needed to curb and adapt to climate change and a lack of political commitment was the largest barrier to progress.

In March 2023, responsible investment NGO ShareAction, along with an investor coalition accounting for $4 trillion in funds under management, issued a joint statement targeting major European chemical companies for failing to reduce their dependence on fossil fuels, in-line with publicly disclosed climate commitments . The 15 investors, including Amundi and Legal & General Investment Management, targeted 13 leading chemical providers in Europe, including BASF, LyondellBasell, Air Liquide and Koninklijke DSM. The chemicals sector accounts for more than 6% of global greenhouse gas emissions but has avoided scrutiny over its use of fossil fuels compared to other sectors. The coalition expects chemical companies to set out a plan with short, medium, and long-term targets to fully electrify its chemical production processes, as well as transition to renewable energy, by 2050.

As per a research note published by Blackrock, thousands of ESG ETFs will see their ESG ratings being downgraded as MSCI is set to introduce changes to its ESG ratings methodology. As per the note, the number of European ETFs with ‘AAA’ rating from MSCI is set to fall from 1,120 to 54, while the number of ETFs with no rating will increase from 23 to 462 . The proposed changes come at a time when regulators across the world are intensifying their efforts to curb greenwashing.

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.

Voting activities in Q1 2023

	Number	Proportion of total
Votes lodged	288	100%
Votes against management	67	23%

Votes against management by topic

	Number	Proportion of total
Governance	62	93%
Social	2	3%
Environmental	3	4%

Proxy voting & engagement cont.

The RIC examined commitments by companies in the fashion industry to pay workers a living wage and to have democratically elected worker representation across their supply chains. A 2021 study by Oxfam and a more recent study by Aberdeen University and advocacy group, Transform Trade, indicates fashion brands are not living up to publicly made past commitments on pay and workers' rights. The RIC wrote to fashion industry holdings: Fast Retailing (UNIQLO), H&M and Zalando, requesting greater transparency for investors on average wages and the steps being taken to ensure all workers receive a living wage.

Fast Retailing, in its response, acknowledged the importance of paying a living wage but also highlighted challenges in establishing a single reliable living wage level across its entire supply chain due to regional differences in economic conditions. The company said that it would be hard to disclose living wage data in a meaningful manner but continues to work towards developing a blueprint of living wage.

In a report issued by The NewClimate Institute, Novartis has been criticized for its climate targets. The company plans to offset 65% of its emissions footprint with projects associated with limited permanence. The report also noted a lack of transparency on scope 3 emissions. The RIC reached out to Novartis to understand if the company had considered changing their climate action plan based on the publication of the report.

Novartis said their plan has integrity as they report greenhouse gas emissions in line with the widely used Greenhouse Gas Protocol reporting standard. Regarding their climate plans, they pointed out their net zero target by 2040 uses Science-Based Target initiative (SBTi) standards that require reducing overall scope 1, 2 and 3 emissions by at least 90% and removing the rest with offsets. The RIC was satisfied with their reply, but followed up to seek clarity on the truth of the report's claim that the company plans to use low quality offsets to meet its target.