Betashares Global Sustainability Leaders ETF

ASX: ETHI

Quarterly Report - June 2024

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Performance[1]	1 month %	3 month %	6 month %	1 year %	3 years % p.a.	Inception % p.a.[2]
Fund Return (net)	2.35%	-1.64%	15.26%	21.89%	10.50%	17.77%
Growth Return	2.35%	-1.64%	14.91%	16.11%	5.73%	12.89%
Income Return	0.00%	0.00%	0.35%	5.78%	4.77%	4.88%
Index	2.39%	-1.56%	15.48%	22.37%	10.94%	18.24%

Past performance is not a reliable indicator of future performance.

[1] As at 28 June 2024. 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 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	$3036.35m
Historical Tracking Error (annualised)	0.13%
ASX Code	ETHI
Bloomberg Code	ETHI.AU
IRESS Code	ETHI.ASW

Fees	% p.a.
Management fee	0.49
Recoverable expenses	0.10

Investment strategy

The Fund generally invests 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 their 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).
- **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 (including, without limitation, 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
- Alcohol
- Tobacco
- Junk foods
- Armaments and militarism
- Pornography
- Uranium and nuclear energy
- Human and labour rights
- Destruction of valuable environments
- Chemicals of concern
- Animal cruelty
- Lack of board diversity i.e. no women on the board of directors
- Payday lending
- ESG related reputational risk or controversy
- Mandatory detention of asylum seekers and for-profit prisons

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	5.5
Apple Inc	5.0
Visa Inc	3.8
Mastercard Inc	3.7
Home Depot	3.5
Toyota Motor Corp	3.2
ASML Holding NV	2.9
Adobe Inc	2.0
Novo Nordisk	2.0
UnitedHealth Group	1.9

[1] As at 28 June 2024

Industry exposure	Fund Weight %[1]
Information Technology	33.2
Financials	22.0
Health Care	15.8
Consumer Discretionary	14.4
Industrials	6.5
Communication Services	4.1
Real Estate	3.0
Utilities	0.4
Materials	0.3
Consumer Staples	0.3
TOTAL	100.00

[1] As at 28 June 2024

Country allocation[1]	%
United States	78.4
Japan	7.8
Netherlands	4.4
Denmark	2.5
Britain	1.8
Canada	1.4
Finland	1.0
Germany	0.7
Switzerland	0.7
Other	1.4

[1] As at 28 June 2024

Fund performance summary

The Fund returned -1.64% (in AUD) during the quarter. Assets decreased from $3,219.92m to $3,036.35m over this period.

Consumer Discretionary and Financials were the largest sector detractors to total return, with returns of -12.31% and -4.35% in AUD; their contributions were -1.81% and -0.99%, respectively. Information Technology was the largest positive sector contributor with a return of 8.09%, and contribution of 2.41%.

Toyota, Home Depot and Mastercard were the largest three stock detractors to total return, and with returns of -20.30%, -11.80% and -10.45% in AUD; their contributions were -0.75%, -0.42% and -0.40% respectively. Nvidia, Apple and Novo Nordisk were the largest positive contributors, returning 33.48%, 20.07% and 10.68% in AUD; they contributed 1.38%, 0.76% and 0.19% respectively.

Other commentary

In June 2024, the International Energy Association (IEA) released its World Energy Investment Report 2024, highlighting the significant growth in investments in clean energy compared to fossil fuels. According to the report, global investments in clean energy are now double those in fossil fuels. For the first time, total energy investment worldwide is expected to exceed US$3 trillion in 2024, with approximately US$2 trillion allocated to clean technologies. These technologies include renewables, electric vehicles, nuclear power, grids, storage, low-emissions fuels, efficiency improvements, and heat pumps. China is projected to lead in clean energy investment in 2024, with an estimated US$675 billion driven by strong domestic demand in the solar, lithium battery, and electric vehicle industries. Europe and the United States follow, with investments of US$370 billion and US$315 billion, respectively. Together, these three major economies account for over two-thirds of global clean energy investment, highlighting disparities in international capital flows into energy[1].

Hundreds of leading climate scientists predict global temperatures will rise to at least 2.5°C above pre-industrial levels this century, surpassing internationally agreed targets and leading to catastrophic consequences. A Guardian survey found that almost 80% of respondents from the Intergovernmental Panel on Climate Change (IPCC) expect at least 2.5°C of global heating, with nearly half foreseeing 3°C or more. Only 6% believe the 1.5°C limit will be met. Many scientists envision a "semi-dystopian" future marked by famines, conflicts, and mass migration driven by severe weather events. Despite the clear evidence, the lack of governmental action has left many experts feeling hopeless and infuriated. Gretta Pecl from the University of Tasmania predicts major societal disruption within the next five years due to extreme weather events[2].

The European Parliament has approved the Corporate Sustainability Due Diligence Directive (CSDDD), set to take effect in 2027. Companies will have 3 to 5 years to comply, depending on their size. The directive imposes new ESG obligations on firms, focusing on due diligence to identify, prevent, and mitigate adverse impacts on human rights and the environment within supply chains. Key changes include higher thresholds for company size and turnover, a phased compliance timeline, and specific provisions for financial institutions and franchising agreements.

1. https://www.iea.org/news/investment-in-clean-energy-this-year-is-set-to-be-twice-the-amount-going-to-fossil-fuels

2. https://www.theguardian.com/environment/article/2024/may/08/world-scientists-climate-failure-survey-global-temperature

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 Q2 2024

	Number	Proportion of total
Votes lodged	2427	100%
Votes against management	444	18%

Votes against management by topic

	Number	Proportion of total
Governance	415	93%
Social	18	4%
Environmental	11	2%

The RIC engaged with The Home Depot, Inc. in relation to the updated 2024 Forestry Policy and Sustainable Forestry Report (link). This was released following previous shareholder action through proxy voting, demonstrating the demand among shareholders for further transparency on these topics. While releasing this report was a step in the right direction, the report did not address concerns around supply chain traceability and protection of Canadian Boreal forests. The engagement sought to better understand how The Home Depot planned on managing these risks within its supply chain.

In its response, The Home Depot indicated that it was taking a number of steps to improve the overall traceability of its wood supply chain, including enhancing wood survey processes and additional due diligence measures to verify sourcing, including audits. The RIC intends to continue to monitor and engage with The Home Depot to ensure that it continues to improve its responsible sourcing practices.

Managem, a supplier to BMW, has been accused of poor health and safety practices for its workers. Workers claim that they were not provided with proper safety equipment and were exposed to toxic dust. Cobalt and arsenic, which is commonly present in cobalt ores, are carcinogenic, and chronic exposure to arsenic causes skin, lung and bladder cancers, neurological and cardiovascular diseases, and reproductive disorders. We wrote to BMW to seek clarification on the policies and procedures it follows relating to the health and safety for workers in its supply chain. In response, BMW stated that it has commissioned two external audits of the supplier's workplace practices relating to health and safety, including a review of the supplier's social and environmental policies. We will continue to engage with BMW and encourage it to improve its policies and procedures relating to health and safety for the workers in its supply chain.

There are risks associated with an investment in ETHI, including market risk, international investment risk, non-traditional index methodology risk and foreign exchange risk. For more information on risks and other features of ETHI, please see the Product Disclosure Statement.

CERTIFIED BY RIAA

The Betashares Global Sustainability Leaders ETF (ASX: ETHI) has been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au for details*.

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