Regnan Credit Impact Trust

Factsheet | As at 31 January 2022

ARSN: 638 304 220

About the Fund

The Regnan Credit Impact Trust (**Fund**) is an actively managed portfolio of floating and fixed interest securities. The Fund focuses on investments anchored to impact goals adapted from Sustainable Development Goals (SDG).

Investment Objective

The Fund aims to generate positive and measurable social or environmental impact, or both; and a return (before fees, costs and taxes) that exceeds the RBA Cash Rate over rolling 3 year periods.

Investment Strategy and Fund Features

This Fund is designed for wholesale investors and offers these investors access to a diversified portfolio of floating and fixed income securities that meet financial and social or environmental goals, or both.

The Fund aims to meet its investment objectives by investing primarily in impact securities. The Fund may also invest in non-impact securities (government and credit) that pass our sustainable and ethical screens. The Fund's investments are predominantly issued in Australian dollars. For non-Australian dollar denominated securities, the Fund will generally hedge back any foreign currency exposures to Australian dollars to the extent considered reasonably practicable.

The Fund uses a combination of active alpha strategies such as active security and sector selection, duration, yield curve and credit management in addition to impact analysis (including ethical and sustainable considerations) to build a portfolio that targets securities classified as contributing to impact goals (including green bonds, social bonds and sustainable bonds as appropriate).

The Fund focuses on investments anchored to impact goals adapted from the United Nations Sustainable Development Goals. Each security is assessed for its impact based on evidence of a contribution to:

- Improving access, affordability or adequacy of food, water, shelter or healthcare; or
- Preserving climate stability, biodiversity or natural resources; or
- Advancing empowerment, resilience or innovation.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.08	-0.03	0.01
3 months	-0.04	0.09	0.03
6 months	0.04	0.29	0.05
1 year (pa)	1.48	1.99	0.10
Since Inception (pa)	2.79	3.30	0.19

Source: Pendal as at 31 January 2022

Additionally, the Fund applies a sustainable and ethical process to all issuers.

The Fund will not invest in issuers directly involved in either of the following activities:

- tobacco production; or
- controversial weapons manufacture (such as cluster munitions, landmines, biological or chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments).

The Fund will also not invest in issuers directly involved in any of the following activities, where such activities account for 10% or more of an issuer's total revenue:

- the production of alcohol;
- manufacture or provision of gaming facilities;
- manufacture of non-controversial weapons or armaments;
- manufacture or distribution of pornography;
- direct mining of uranium for the purpose of weapons manufacturing; or
- extraction of thermal coal and oil sands production.

Derivatives are used to gain exposure to assets and markets. They are also used to reduce risk and can act as a hedge against adverse movements in a particular market or in the underlying assets.

About Regnan

Regnan is a responsible investment leader with a long and proud heritage providing advice and insights on important environmental, social and governance issues.

For many years our pioneering analysis has changed the way investors and businesses think about value creation and their wider responsibilities to society.

Building on that expertise, Regnan has now expanded its capabilities into responsible investment funds management, backed by the considerable resources of Pendal Group.

"Regnan" is a registered trademark of Pendal Group Limited (PGL) and is a standalone responsible investment business division of PGL. The Fund is issued by Pendal Fund Services Limited ABN 13 161 249 332 AFS Licence 431426 (PFSL). PFSL has appointed J O Hambro Capital Management Limited to manage the assets of the Fund.

Investment Team

Pendal's Income & Fixed Interest team includes nine dedicated investment professionals. The team also draws on a wide range of knowledge resources including Pendal's other specialist investment teams: Equity and Multi-Asset. The portfolio manager of the Fund is George Bishay, who has more than 26 years industry experience.

Management Costs[1]

Issuer fee[2]	0.50% pa

[1] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[2] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Other Information

Fund size (as at 31 Jan 2022)	$161 million
Date of inception	January 2020
Minimum investment	$25,000
Buy-sell spread[3] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR Code	PDL5969AU

[3] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest in the Fund, and may vary from time to time without notice.

Portfolio Statistics (as at 31 January 2022)

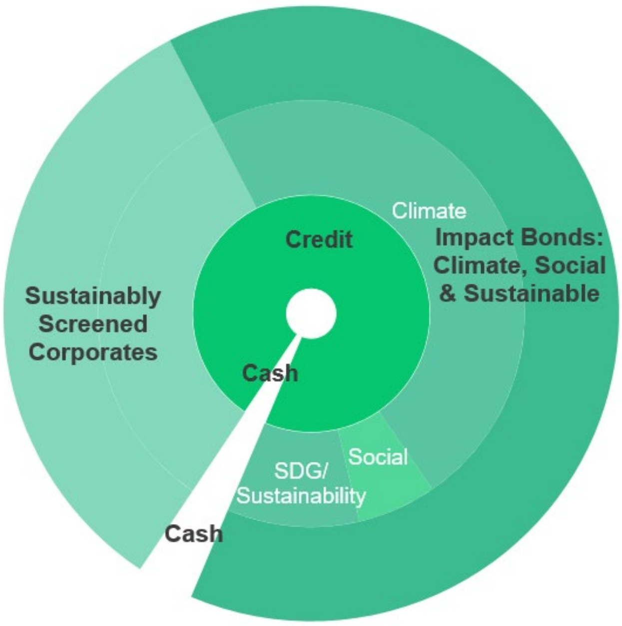
Running Yield*	0.98%
Yield to Maturity#	0.98%
Modified duration	0.05 years
Credit spread duration	3.23 years
Weighted Average Maturity	3.56 years

* The portfolio running yield is calculated as the weighted average coupon rate of the physical portfolio assuming all securities are held at par or face value. Carry/interest income from synthetic positions are excluded from this calculation. Running yield does not reflect the actual income return of the portfolio.

The portfolio yield to maturity is an estimate of the fund's internal rate of return. It is calculated as the yield to maturity of all securities comprised in the benchmark at the relevant time (sourced from Bloomberg), plus our estimate of the weighted average traded margin over the swap rate for each of those securities based on observed market prices. The portfolio yield to maturity does not represent the actual return of the fund over any period.

Sector Allocation (as at 31 January 2022)

Money Market	16.2%
Financials	33.4%
Industrials	27.7%
Supranational, Sovereign & Agencies	12.0%
Infrastructure & Utilities	6.1%
Real Estate	4.4%
Semis	0.3%



Market review

Ongoing inflation concerns and the spectre of more imminent and aggressive monetary policy tightening saw bond yields globally move higher over the month and led to increased volatility in equity markets. Tensions between Russia and Ukraine also weighed on sentiment.

With no RBA meeting held in January the main focus domestically for the month was the release of the quarterly inflation numbers. And what a set of numbers they were! Core, trimmed mean and weighted median inflation all exceeded expectations by a considerable margin. The trimmed mean rose by 1% in the 4th quarter, producing annual trimmed mean inflation of 2.6%. The weighted median rose by 0.9% over the quarter to see weighted median inflation at 2.7% over 2021. With the numbers now above the midpoint of the RBA's 2-3% target band and the move to more imminent policy tightening offshore the market understandably brought forward the timing for when the RBA can be expected to raise the cash rate.

The labour market continues to exceed both the markets and the RBA's expectations. Employment grew by 64,800 jobs in December taking the unemployment rate from 4.6% to 4.2%. The RBA's forecasts in November had the unemployment rate ending the year at 4.75%, considerably higher than the actual outcome. All eyes now will be focussed on wage inflation indicators as the labour market tightens

In the United States the Federal Reserve announced that Quantitative Easing will end in March, paving the way for a rate hike. Whilst this was anticipated the tone of Fed Chair Powell's press conference was seen as more hawkish than expected. In his conference Powell highlighted that this cycle was different from the previous one, with a higher inflation starting, a tighter labour market and growth running above trend leading to an unwillingness to rule out a rate rise at every Fed meeting this year.

The inflation numbers in the US continue to be eye-wateringly high. Annual headline inflation hit 7% at the end of 2021, its highest level since mid 1982. Rents and vehicle prices continue to be key contributors to the recent surge and although the peak in inflation is likely to be near in the US it will still remain well elevated in 2022 above a level that the Fed is comfortable with. The producer price index (PPI) continues to reflect supply chain issues, with annual headline PPI rising 9.7% and core PPI increasing 8.3%.

The labour market strength continues on with the unemployment rate falling from 4.2% to 3.9% in December and average hourly earnings rising by 4.7% over 2021.

In Europe, German inflation also exceeded expectations and saw 10 year bund yields rise back into positive territory for the first time since April 2019. Monthly inflation rose 0.4% (expectation -0.2%), resulting in annual inflation of 4.9%. Not to be outdone on the exceeded inflation expectations, annual headline inflation in the UK rose by 5.4% and the core measure rose by 4.2% (expectations were for 5.4% and 4.2% increases).

After peaking at 1.9% intra month US 10 year bond yields ended the month 27 basis points higher at 1.78%. Equity markets were volatile with the S&P500 falling by as much as 9% during the month before recovering some ground late in the month to end 5.3% lower. In Australia the S&P/ASX200 fell 6.4%. Australian bonds also ended the month higher in yield. Three year bonds rose 30 basis points to end at 1.28% and ten year bonds rose 22 basis points to close the month at 1.9%.

Credit review

Credit spreads, bond and equity markets had a weaker month in January due to concerns around inflation and the expected Central Bank response to this, as well as geopolitical tensions.

Rhetoric from the US Federal Reserve has pivoted to a more hawkish stance. Their transitory argument for inflation has gone completely out the window with talk of inflation taking hold longer than previously expected. The Fed has brought forward its guidance to raising rates "soon" most likely March, and asset purchases will conclude in March with balance sheet run off to begin some months after that. This acceleration in the Fed's timing of expected rate hikes and tapering has been due to a stronger labour market, elevated inflation and a stronger economy that no longer needs highly accommodative policy. However, the Fed believes inflation will fall from its current high level of 7% as covid pressures ease, people go back to the labour market and supply bottlenecks improve, also Fiscal policy will be less of an impulse to growth and inflation going forward.

Growing geopolitical tension between Ukraine and Russia also had a negative impact of risk markets. US ordered families of its diplomats in the Ukraine to leave the country due to the growing speculation about a Russian incursion. The UK also said it would also withdraw some staff and families.

Credit spreads were generally widened over the month. The Australian iTraxx (series 36) index traded in a 12bp range finishing 11bps wider to 75bps. Australian physical credit spreads were a touch wider. The best performing sector was supranationals which narrowed 1bp. The worst performing sector was resources which moved out 3bps. Semi-government bonds underperformed widening 4bps to commonwealth government bonds.

Fund performance and activity

The Fund underperformed its benchmark by 0.04% (pre-fee) in January.

Supranationals and utilities were a drag on performance.

Activity during the month included increasing exposure to supranationals whilst reducing exposure to bank sub debt.

This month we invested in a newly issued impact bond from the European Investment Bank (EIB), the supranational bank of the European Union. The EIB has a long history in impact bonds and was the first institution to issue green bonds in 2007. We have previously invested in the EIB's Climate Awareness Bond which funds projects relating to climate stability. The new bond we've invested in is called a Sustainability Awareness Bond has a broader scope beyond climate stability to fund projects that relate to sustainability for the environment and for greater social outcomes for the disadvantaged. This includes water supply and wastewater management, protecting and restoring biodiversity, flood protection, education, health and housing. Previous projects have included water supply in Malawi, Covid-19-related emergency healthcare response and capacity in Italy and inclusive education in France. Through this bond we can help fund projects all around the world with little risk given the AAA rating of the EIB.

We also invested in a newly issued impact bond from another supranational, the Asian Development Bank. This Health Bond will fund projects relating to healthcare around the world. This includes responses to Covid-19 and the flow-on consequences such as the capacity for other essential health services. Whilst obviously helping countries with their pandemic response has been a priority, through this bond the Asian Development Bank will also fund projects that provide healthcare access to women, primary health services in rural areas and investments in infrastructure to enhance healthcare capacity. These projects are across Asia and the Pacific. We have previously invested in Green and Gender bonds from the Asian Development Bank.

Market Outlook

The Reserve Bank left the cash rate unchanged at their February meeting. No surprises there. What was surprising was the lack of concern about inflation and the need to pull forward the timing of monetary policy tightening. The RBA has forecast inflation to exceed 3% in the coming quarters and to rise 2.75% over 2023. Yet somehow, despite 2 years of inflation above the midpoint of their 2-3% target band they do not see this inflation as being sustainable. And are sticking with no change anytime soon on the cash rate. The market will completely disagree with them as other central banks globally start the tightening process. The hangover from the lack of wage inflation pre COVID despite an ever tightening labour market seems to have scarred the RBA. And so they remain patient to wait for signs of it to emerge before responding. That is a recipe for being well behind the curve and require more aggressive tightening – and will see the RBA being one of the last central banks to tighten policy unless there is change in mindset soon.

Credit Outlook

We maintain our constructive view on credit spreads over the medium term however have moved to a more neutral stance in the short term as the market grapples with inflation and upcoming withdrawal of money supply. Over the medium term, credit and broader risk assets will continue to benefit from the sustained stimulus and strong fundamentals.

We continue to anticipate that there will be a few bumps in the road. Our two main concerns – a surprise rise in inflation that potentially drives a disorderly rise in bond yields and the corresponding weakness in risk markets, and secondly the prospect of spillover effects from the Chinese high yield property sector.

There are two sides to the inflation coin – goods inflation and services inflation. Lockdowns from COVID-19 led to supply constraints which pushed up goods prices. We view goods inflation to be largely transitory. However, services inflation could emerge in 2022 as pent-up consumer consumption drive up prices for retail services and travel-related expenditure. An orderly rise in bond yields due to demand-led inflation is not bad news as businesses will also reap the rewards from the consumer demand. However, there's still the risk of it being disorderly for short periods. We view this risk as low, as the central banks are watching the inflation measures closely and are determined to avoid any market surprise.

Additionally, we continue to keep a watchful eye on the Chinese high yield property development market. The risk of default spill over could triggering a risk-off event in global markets. But for now, it appears contained.

Over the medium term, fundamentals will support risk assets. Firstly, the macro environment continues to be supportive. Central banks will raise rates and run down their balance sheets, however even with future official cash rates at 2 to 2.5%, this would still be accommodative relative to history and supportive of strong economies. Furthermore, governments continue to stimulate with expansionary fiscal policies driving large infrastructure spend that will lift the overall economic activity.

Also, company earnings numbers continue to provide optimism for the future. Improving corporate fundamentals, the easing of bank lending standards and the positive outlook on consumer demand is a common theme we are hearing from corporates and will provide the tailwind for credit spreads.

Regnan

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The Fund's contribution to the environment

Low carbon

12,357 tCO_2e
GHG EMISSION AVOIDED PA

Equivalent to: **5,434** cars taken off the road p.a.

78 hectares
OF FOREST RESTORED

Equivalent to: **44** the size of Melbourne Cricket Ground stadiums

Renewable energy

12,553 MWh/year
RENEWABLE ENERGY GENERATED

Equivalent to: **2,731** average ousehold annual electricity use in Australia

3 MW
RENEWABLE ENERGY GENERATION INSTALLED CAPACITY

Equivalent to: **0.1%** of renewable energy capacity installed in Australia 2018

Water management

348,212 L
WATER CLEANED, RECYCLED OR TREATED P.A.

3,478,528 L
WATER USAGE SAVED P.A.

21,428,571 L
WATER CAPACITY SECURED

Equivalent to: **362** Melbourne population water usage secured

Green buildings

925 m²
FLOOR SPACE

Sustainable agriculture

8 hectares
LAND CONSERVED

Low carbon transport

43,542
PASSENGER TRIPS PA

The Fund's contribution to the society

Financial inclusion

4,333
MICRO-LOANS
made to financially under-served entrepreneurs from developing nations*

1,525
LOANS
made to female-owned micro, small and medium enterprises with little access to formal sources of financing*

10
SOCIAL/AFFORDABLE HOUSING*

Social quality

10,367
PEOPLE
with access to Information and Communication technology in third world remote regions*

2,924
UNDERPRIVILEGED STUDENTS
expected number of student education*

635
SMALL-SCALE FARMERS
reached for improved agricultural technology*

510
JOBS
created through supporting education & renewable energy plants in developing nations*

173
TEACHERS TRAINED
in developing nations*

278
YOUTH
in at risk training programs

*These outcomes are based on projections provided by issuers of bond securities. The projections may be inaccurate or may not take into account risks and uncertainties.

For more information

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Risks

An investment in the Fund involves risk, including:

- **Market risk**: The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk**: The risk associated with an individual security.
- **Interest rate risk**: The risk associated with adverse changes in asset prices as a result of interest rate movements.
- **Credit risk**: The risk of an issuing entity defaulting on its obligation to pay interest/principal when due.
- **Liquidity risk**: The risk that an asset may not be converted to cash in a timely manner.
- **Valuation risk**: The risk that the value of an investment in a less active or liquid market is lower than what is reflected in the Fund's unit price.
- **Counterparty risk**: The risk of another party to a transaction failing to meet its obligations.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.