Regnan Credit Impact Trust

Factsheet | As at 31 December 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 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	0.41	0.46	0.26
3 months	0.84	0.97	0.70
6 months	1.37	1.63	1.15
1 year (pa)	0.40	0.90	1.27
2 years (pa)	1.17	1.68	0.68
Since Inception (pa)	2.07	2.58	0.56

Source: Pendal as at 31 December 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.

Regnan

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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 eight 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.

Fees and costs

You should refer to the latest Product Disclosure Statement for full details of the ongoing fees and costs that you may be charged.

Management fee[1]	0.50% pa

[1] This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund’s assets and reflected in its unit price.

Other Information

Fund size (as at 31 Dec 2022)	$205 million
Date of inception	January 2020
Minimum investment	$25,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR Code	PDL5969AU

[2] 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 or withdraw funds, and may vary from time to time without notice.

Portfolio Statistics (as at 31 December 2022)

Yield to Maturity#	4.29%
Running Yield*	4.29%
Modified duration	0.11 years
Credit spread duration	2.19 years
Weighted Average Maturity	2.62 years

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.

* 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.

Credit Quality (as at 31 December 2022)

AAA	16.5%
AA	24.0%
A	23.0%
BBB	21.0%
Money Market	15.4%

Sector Allocation (as at 31 December 2022)

Money Market	15.4%
Financials	39.4%
Industrials	22.8%
Supranational, Sovereign & Agencies	11.9%
Infrastructure & Utilities	2.6%
Real Estate	3.0%
Semis	0.2%
ABS	4.6%

Market review

The Reserve Bank of Australia (RBA) raised the cash rate in early December by a further 0.25% to finish the year at 3.10%. The RBA believes that the 3% of cash rises since May should begin to have a decent effect on economic activity into 2023, citing that the “full effect of the increases in interest rates is yet to be felt in mortgage payments.” Inflation should also begin to moderate in the first quarter of 2023 after a high energy driven number for Q4 2022 is released in late January.

However, the RBA also maintained the line that they expect to “increase interest rates further over the period ahead”, although not on a “preset course”. Markets now expect the RBA cash rate to hit 4% by late 2023, with a hike priced in for each quarter. We expect two further hikes but that the fixed rate mortgage ‘cliff’ in 2023 will mean further hikes are not necessary.

Forward looking indicators are quite pessimistic on the Australian economy. Purchasing Manager Indices remain below 50 and consumer confidence is near all-time lows at 80. Business confidence is also now falling with the NAB survey now –4. However, nearly all current indicators remain healthy. NAB Business Conditions remain near all-time highs at 20, unemployment is at 3.4% and Q3 GDP was a respectable 0.6%. This all shows that the savings boom through COVID has underwritten a strong economy for now but that rate rises are making people very concerned about the future. Added to the international volatility it makes it difficult waters for a central bank to navigate.

Bonds had a modest rally over the first part of December on the back of lower US inflation numbers. However, 2022 had one last bearish surprise in store for bonds as a hawkish US Fed followed by a widening of the Bank of Japan Yield Curve Control saw a steep selloff over Christmas. Three year Australian bonds finished the month at 3.50%, from 3.16% at the start of month. 10 year bonds finished the month at 4.05% from 3.53% at the start. They sold off 0.5% in five trading sessions, highlighting that the skittishness and uncertainty of markets is alive and well into 2023.

Credit review

Credit spreads ended mixed in December.

News of the easing of China's zero covid policy and corresponding China re-opening story was initially viewed positive for markets on the back of improved future global economic growth, however later in the month concerns grew that the end of China's zero-Covid policy could lead to a spike in global covid cases as the infection will spread as Chinese passengers return to international travel.

Strong data out of the US (average hourly earnings, ISM services & producer prices) at the start of the month saw risk markets weaken on the fear of higher inflation, however mid-month we had the US CPI print which was the 2nd consecutive positive (lower) surprise on US inflation which gave the market a lift.

Both the US Federal Reserve and European Central Banks provided some quite hawkish rhetoric in December. As expected, the FOMC raised their cash rates by 50bps, however they also revised higher their interest rate forecasts (dots) and said that ongoing increases in the funds rate are likely appropriate. The ECB also hiked by 50bps as expected, however they said interest rates will need to rise significantly at a steady pace to reach sufficiently restrictive levels.

The Bank of Japan broadened the tolerance for its yield curve control target band on the 10yr JGB yield from 25bps to 50bps, this leaves the YCC now +/- 50bps around 0%. The BoJ messaged this decision around removing yield curve shape distortions and providing more flexibility around achieving their inflation target of 2%. However, the move surprised the market driving yields higher globally as the expectation is now that the BOJ will need to hike rates to curb their rising inflation.

Credit spreads were mixed over the month with synthetic credit underperforming whilst physicals spreads performed. The Australian iTraxx index (series 38) traded in a 14bp range finishing 3bps wider to close at 93bps. Australian physical credit spreads ended the month 3bp narrower on average. The best performing sectors were infrastructure and utilities which tightened 12 & 6bps respectively, whilst the worst performing sector was supra-nationals that only narrowed 1bp. Semi-government bonds underperformed widening 2bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed its benchmark by 20 basis points (pre fee) in December.

Financials, industrials and supra-nationals added to performance.

Activity during the month included adding exposure to industrials funded out of cash.

Market Outlook

The Australian bond market finished 2022 on a poor note, with 10 year yields just shy of the yield highs of the year in June and October of 4.2%. They began 2022 below 2%.

Whilst the worst of the inflation fears seem to have passed and expectations are now for inflation to move back towards 4% over the next year, markets are sceptical about further improvements from there. The RBA's own forecasts do not see inflation back in the 2-3% band until 2025. This backdrop, combined with pressure on real rates to move higher, mean bond markets are struggling to hold on to any rally.

However, the battleground for 2023 will move from supply led inflation to wages. We are in new territory here as the race to increase labour supply through immigration hits up against current shortages across multiple industries. By 2024 there should be more balance in many sectors but this may come too late to prevent outsized increases in 2023. The minimum wage decision in Q2 alone should see an outcome nearer 6%, adding to recent double digit outcomes in a number of areas like aged care workers. Overall wages should push higher than the RBA comfort zone of 3.5-4%.

We expect markets are entering an extended period of range trading as competing influences buffet the market. Activity data should remain strong into the end of 2022 but start to turn down by Q2 2023 and struggle in the second half of 2023 as higher mortgage rates bite. However, services inflation and higher wage outcomes will limit any chances of RBA rate cuts although the market may speculate.

Real yields remain a big question mark. 10 year real yields rallied from 2% to 1% from September to November but gave back over half in December up to 1.6%. With productivity forecast around 1.2% over the medium term that provides some sort of signpost. Against this are central banks globally who are determined to crush inflation and may see the need for higher real cash rates in the near term.

Credit Outlook

We continue to be cautious on credit spreads as markets are likely to remain volatile given the uncertainty around global inflation and Central Banks' resolve to fight it. However, the two most recent consecutive months of softer than expected US CPI prints gives us hope that inflation may have peaked. Another concern we have is around Central Banks maintaining restrictive monetary policy for longer which may lead to a deeper recession in the future.

With China now easing its zero covid policy restrictions, this would alleviate supply chain disruptions and inflation pressures, however will take some time to filter through.

Over the medium term we are more sanguine on the outlook for credit spreads. Given China re-opening, the strong labour markets globally, consumer consumption will continue to drive demand for goods and services which is supportive for economic growth, positive for company earnings and beneficial for credit fundamentals.

The Fund's contribution to the environment

Low carbon

21,014 tCO_2e

GHG EMISSION AVOIDED PA

Equivalent to: **9,240** cars taken off the road p.a.

127 hectares

OF FOREST RESTORED

Equivalent to: **72** the size of Melbourne Cricket Ground stadiums

Renewable energy

38,079 MWh/year

RENEWABLE ENERGY GENERATED

Equivalent to: **8,285** average household annual electricity use in Australia

12 MW

RENEWABLE ENERGY GENERATION INSTALLED CAPACITY

Equivalent to: **0.5%** of renewable energy capacity installed in Australia 2018

Sustainable agriculture

8 hectares

LAND CONSERVED

Water management

371,000 L

WATER CLEANED, RECYCLED OR TREATED P.A.

4,182,412 L

WATER USAGE SAVED P.A.

378,845,280 L

WATER CAPACITY SECURED

Equivalent to: **6,407** Melbourne population water usage secured

Green buildings

1,436 m^2

FLOOR SPACE

Low carbon transport

84,526

PASSENGER TRIPS PA

Sustainable agriculture

6 hectares

LAND CONSERVED

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*

56
SOCIAL/AFFORDABLE HOUSING*

Social quality

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

635
SMALL-SCALE FARMERS
reached for improved agricultural technology*

187
TEACHERS TRAINED
in developing nations*

2,924
UNDERPRIVILEGED STUDENTS
expected number of student education*

93
JOBS
created through supporting education & renewable energy plants in developing nations*

72
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.

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For more information

Jeremy Dean

Head of Regnan and Responsible Investment Distribution

Tel: 0419 460 551

Jeremy.dean@regnan.com

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.