Regnan Credit Impact Trust

Factsheet | As at 31 January 2023

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 the United Nations Sustainable Development Goals (**SDGs**).

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 offers investors access to a diversified portfolio of floating and fixed income securities that meet financial and social and/or environmental goals.

The Fund aims to meet its investment objectives by investing in securities including social bonds, climate/green bonds and sustainability bonds. The Fund may also invest in government and credit securities 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 analysis of ethical and sustainable considerations to build a portfolio that contributes to the Fund's social or environmental goals.

The Fund focuses on investments anchored to goals adapted from the SDGs. Each security is monitored for its reported social or environmental outcomes related to the following goals:

- 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	0.49	0.53	0.26
3 months	1.15	1.27	0.75
6 months	1.97	2.23	1.30
1 year (pa)	0.97	1.47	1.52
2 years (pa)	1.22	1.73	0.81
Since Inception (pa)	2.18	2.69	0.63

Source: Pendal as at 31 January 2023.

"Post fee" returns assume reinvestment of distributions and is calculated using exit prices. "Pre-fee" returns exclude the effects of management costs and any taxes. Returns for periods greater than one year are annualised. Fund inception: January 2020

Past performance is not a reliable indicator of future performance.

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 (including e-cigarettes and inhalers); or
- controversial weapons manufacture (including cluster munitions, landmines, biological or chemical weapons, depleted uranium weapons, nuclear 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 gross revenue:

- the production of alcoholic beverages;
- 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.

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About Regnan

Regnan is a specialist business unit within Pendal and a responsible investment leader with a long and proud heritage providing our Income and Fixed Interest team with insight and advice on important themes relating to environmental, social and governance (ESG) issues, including impact investment, engagement and advocacy.

Regnan's pioneering analysis has changed the way investors and businesses think about value creation and their wider responsibilities to society. Regnan remains committed to undertaking engagement that contributes to growing the market for impact investments.

Investment Team

Pendal’s Income & Fixed Interest team is a large team of 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 28 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 Jan 2023)	$208 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 January 2023)

Yield to Maturity#	4.46%
Running Yield*	3.58%
Modified duration	0.10 years
Credit spread duration	2.28 years
Weighted Average Maturity	2.74 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 January 2023)

AAA	16.6%
AA	26.3%
A	22.4%
BBB	20.6%
Money Market	14.2%

Sector Allocation (as at 31 January 2023)

Money Market	14.2%
Financials	41.0%
Industrials	22.4%
Supranational, Sovereign & Agencies	12.2%
Infrastructure & Utilities	2.6%
Real Estate	3.0%
Semis	0.2%
ABS	4.3%

Market review

January saw the Australian bond market recover most of the losses from the late December selloff. This was despite a higher than expected Q4 2022 inflation number released late in January. The rally was driven by growing signs in the US and other economies that inflation has peaked and central banks will be slowing the pace of hikes or even stopping them completely. This encouraged the idea of a soft landing for economies, boosting assets in general.

There was no RBA meeting in January but it looks like there will be another 0.25% hike in February. Activity data is mixed, with leading indicators showing softness in activity. Employment data was also soft, with a loss of 14,000 jobs and unemployment rising to 3.5%. Whilst the direction of data is for slowing, the outright levels generally remain buoyant but are expected to further moderate during 2023.

The inflation data in late January saw markets give up part of their strong start of year performance. Headline CPI was 1.9% for the quarter and 7.8% for the year, above market expectations but around RBA forecasts. Underlying CPI was 1.7% and 6.9% annual, which would concern the RBA more as services inflation remains elevated. The main upside surprise in the numbers was around domestic and international travel, reflective of supply chains yet to normalise.

Three year bonds finished the month at 3.15% from 3.5% and 10 year bonds at 3.55% from 4.05%. Credit spreads were generally tighter, helped by a 6.2% rally in equities.

Credit review

January was a stronger month for risk assets with credit spreads tightening.

Markets reacted positively to the US wages and Services ISM data early in the month with the weaker than expected prints driving sentiment around the Fed potentially pausing rates hikes sooner. The jobs data showed US wages growing at 0.3% for the month against 0.4% expected, also the prior month was revised down to 0.4% from 0.6%. ISM services index fell to 49.6 against 55.0 expected which was the first fall into contractionary territory since May 2020. The market also liked the US inflation print, even though it came in as expected, the fall in the year on year rate from 7.1% to 6.5% was taken positively with the view that inflation has peaked and coming down in the US.

However, in an interesting twist, mid-month after soft US retails sales, producer prices and industrial production data, risk assets appeared to shift their attention to recession concerns instead of the recent ‘bad news equals good news’ mantra as that means the FED will cut rates earlier than expected. The market is now focussed on how significant an economic downturn will be and the resulting earnings impact. In this context bad economic news now becomes bad for the market as it indicates a worse downturn.

Credit spreads narrowed over the month. The Australian iTraxx index (series 38) traded in a 17bp range finishing 12bps tighter to close at 81bps. Australian physical credit spreads ended the month 5bp narrower on average. The best performing sectors were infrastructure and utilities which tightened 21 & 20bps respectively, whilst the worst performing sector was supra-nationals that ended unchanged. Semi-government bonds were also unchanged to commonwealth government bonds.

Fund performance and activity

The Fund outperformed its benchmark by 27bps (pre-fee) in January.

Industrials, financials, utilities and real estate added to performance.

Activity during the month included increasing exposure to supra-nationals and domestic banks funded out of cash.

This month we invested in a new Australian dollar Asian Development Bank (ADB) Education Bond. This is a social bond that finances projects relating to education in developing countries in Asia and the Pacific. This includes projects relating to access and quality of education, as well as projects that focus on getting students in school and work readiness training. One of the projects funded through these Education Bonds is a social protection system in Pakistan – essentially social welfare – that provides money to poor families of school children to enable them to attend education. This is especially powerful in encouraging girls attendance and, due to the targeting of recipients, also has enhanced health and nutrition outcomes.

Market outlook

The Australian bond market is finding more support in 2023 as the long and variable lags of monetary policy start to impact. Whilst the end of 2022 saw generally solid data the trend is turning down. A combination of slightly higher RBA rates and large scale expiry of low interest rate fixed rate mortgages in 2023 will see a significant further tightening in conditions. This should see rate hikes cease and markets price in the possibility of cuts.

Australia as always will be impacted by events offshore, particularly in the US. The US economy seems to be three to six months ahead of Australia. Their inflation has peaked and looks set to settle down closer to 3% by mid year. In Australia the Q1 inflation numbers should moderate to around 1.25% but Q2 may be a low as 0.5% as utility prices flatline and other cost pressures moderate.

We expect longer rates to gravitate back towards longer term neutral levels around 3%. We still estimate a neutral RBA cash rate is circa 2 to 2.5%. This may mean we have cash rates higher than bond rates for most of 2023, something most offshore markets already have. However, we do not expect a recession in Australia so any rate cuts are more likely in 2024.

Credit outlook

We maintain our cautious stance on credit spreads given Central Banks will maintain restrictive monetary policy for longer in the hope of reducing services inflation, however this may lead to a deeper economic slowdown in the future.

We are also keeping a watchful eye on wages growth not keeping up with inflation. This has driven a reduction in consumer savings which could see consumer spending moderate and slow global economic growth.

However, with China now easing its zero covid policy restrictions and re-opening, this will alleviate supply chain disruptions and also see the re-emergence of Chinese consumer demand.

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

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Expected Environmental Outcomes of the Fund

Low carbon

30,493 tCO_2e

GHG EMISSIONS AVOIDED PA

Equivalent to: **13,408** cars taken off the road p.a.

15 hectares

OF FOREST RESTORED

Equivalent to: **9** the size of Melbourne Cricket Ground stadiums

Renewable energy

52,520 MWh/year

RENEWABLE ENERGY GENERATED

Equivalent to: **11,427** average household annual electricity use in Australia

11 MW

RENEWABLE ENERGY GENERATION INSTALLED CAPACITY

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

Low carbon transport

115,546 MWh/year

PASSENGER TRIPS PA

Green buildings

1,325 m^2

FLOOR SPACE

Water management

1,238,862 L

WATER CLEANED, RECYCLED OR TREATED P.A.

3,902,471 L

WATER USAGE SAVED P.A.

378,845,280 L

WATER CAPACITY SECURED

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

Sustainable agriculture

5 hectares

LAND CONSERVED

The aggregated expected environmental outcomes shown above are based on data provided by the Issuers held by Fund. That data relates to the outcome attributable to those securities held by the Fund. Information provided is indicative only and should not be relied upon when making an investment decision or recommendation in relation to the Fund. The information provided to us by the Issuers has not been verified by us and may be inaccurate or incomplete. Actual results may differ and subsequent changes in circumstances may occur at any time that impact the accuracy of the results. Past performance is not a reliable indicator of future performance. The outcome numbers are based on data from 1 July 2021 to 30 June 2022.

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Expected Social Outcomes of the Fund

Financial inclusion

8,143
MICRO-LOANS
made to financially under-served entrepreneurs from developing nations*

2,638
LOANS
made to female-owned micro, small and medium enterprises with little access to formal sources of financing*

49
SOCIAL/AFFORDABLE HOUSING*

Social quality

17,579
PEOPLE
with access to Information & Communication technology in developing nations & remote regions*

999
SMALL-SCALE FARMERS
reached for improved agricultural technology*

212
TEACHERS TRAINED
in developing nations*

3,596
UNDERPRIVILEGED STUDENTS
number of student educated*

385
JOBS
created through supporting education & renewable energy plants in developing nations*

80
YOUTH
in at-risk training programs*

*Contribution is based on forecast numbers provided by the issuer

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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.

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PFSL is the responsible entity and issuer of units in the Regnan Credit Impact Trust (**Fund**) ARSN: 638 304 220. A product disclosure statement (**PDS**) is available for the Fund and can be obtained by calling 1300 346 821 or visiting www.pendalgroup.com. The Target Market Determination (**TMD**) for the Fund is available at www.pendalgroup.com/ddo. You should obtain and consider the PDS and TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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Performance figures are calculated in accordance with the Financial Services Council (**FSC**) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

The aggregated expected environmental and social outcomes shown in this factsheet are based on data provided by the issuers (Issuers) held by Fund. That data relates to the outcome attributable to those securities held by the Fund. Information provided is indicative only and should not be relied upon when making an investment decision or recommendation in relation to the Fund. The information provided to us by the Issuers has not been verified by us and may be inaccurate or incomplete. Actual results may differ and subsequent changes in circumstances may occur at any time that impact the accuracy of the results. Past performance is not a reliable indicator of future performance. The outcome numbers are based on data from 1 July 2021 to 30 June 2022.

Any projections contained in this factsheet are predictive and should not be relied upon when making an investment decision or recommendation. Whilst we have used every effort to ensure that the assumptions on which the projections are based are reasonable, the projections may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. The actual results may differ materially from these projections.

If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.