

# Regnan Credit Impact Trust

Factsheet | As at 28 February 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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.52	0.56	0.25
3 months	1.43	1.56	0.76
6 months	2.01	2.27	1.40
1 year (pa)	1.62	2.13	1.77
2 years (pa)	1.26	1.76	0.93
Since Inception (pa)	2.29	2.80	0.69

Source: Pental as at 28 February 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.

For more information on how these exclusions are applied, refer to section 5 'How we invest your money' of the Fund's Product Disclosure Statement at

[www.pentalgroup.com/RegnanCreditImpactTrust-PDS](http://www.pentalgroup.com/RegnanCreditImpactTrust-PDS)

### About Regnan

Regnan is a specialist business unit within Pental and a responsible investment leader with a long and proud heritage providing our investment teams 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

Pental'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 Pental'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 <sup>1</sup>	0.50% pa
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<sup>1</sup> 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 28 Feb 2023)	\$208 million
Date of inception	January 2020
Minimum investment	\$25,000
Buy-sell spread <sup>2</sup>	For the Fund's current buy-sell spread information, visit <a href="http://www.pentalgroup.com">www.pentalgroup.com</a>
Distribution frequency	Quarterly
APIR Code	PDL5969AU

<sup>2</sup> 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 28 February 2023)

Yield to Maturity <sup>#</sup>	4.85%
Running Yield <sup>*</sup>	3.81%
Modified duration	0.09 years
Credit spread duration	2.51 years
Weighted Average Maturity	2.76 years

<sup>#</sup> 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.

<sup>\*</sup> 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 28 February 2023)

AAA	14.3%
AA	26.2%
A	24.4%
BBB	19.1%
Money Market	16.0%

### Sector Allocation (as at 28 February 2023)

Money Market	16.0%
Financials	39.8%
Industrials	22.2%
Supranational, Sovereign & Agencies	12.1%
Infrastructure & Utilities	2.5%
Real Estate	2.8%
Semis	0.2%
ABS	4.3%

## Market review

A combination of a hawkish shift by the RBA and stronger than expected data in the US resulted in rates higher across the curve in February. Three year bonds moved from 3.15% to 3.58%, which is now higher than the end of 2022. 10 year bonds moved from 3.55% to 3.85%, still lower than 4.05% where they began the year. This large flattening of the yield curve mirrors moves in offshore markets.

The move higher in short rates was largely caused by the wording of the RBA rates statement in early February. This included the words that 'further increases in interest rates will be needed over the months ahead', indicating that further tightening is likely to occur in March and April. The meeting minutes revealed that the RBA only considered a move of 25 or 50 basis points and saw bond yields rise. At their December meeting the RBA had also considered the case for no change to the cash rate.

This shift in RBA tone from nearing the end of the rates cycle to more work to do was driven by inflation and wages numbers. On inflation the higher than expected underlying number in Q4 2022, released late January, concerned them. Also their business liaison has indicated private sector wages on average are now pushing through 4%.

The Statement on Monetary Policy was also released during the month and provided the latest RBA forecasts. Trimmed mean inflation is forecast to be at 4.3% in 2023 and 3.1% in 2024, still above the RBA's 2-3% target band. Reflecting the tight labour market wage inflation is expected to peak at 4.2% at the end of 2023 before easing as the unemployment rate increases. Economic growth is forecast to be 1.6% over 2023 and 2024.

Labour data released subsequently was weaker than expected and saw yields rally. Employment fell by 11,500 jobs in January and the unemployment rate rose from 3.5% to 3.7%. The fourth quarter wage price index was also released and showed an increase of 0.8% and 3.3% over the year. Consensus had been for 1% and 3.5%.

Markets remain skittish, looking for any signs that rate hikes are starting to bite. The exact nature of the long and variable lags of monetary policy will determine the path for bonds in the months ahead.

## Credit review

The month of February yielded mixed results for credit spreads.

Economic data out of the US was generally stronger than expected which saw the market reprice terminal cash rates higher as the expectation is Central Banks will need to continue to hike rates to slow economies to bring inflation down. The main examples of the better than expected data included very strong payrolls, manufacturing and services surveys, producer prices and the Federal Reserve's favoured measure of inflation the personal consumption expenditures prices. The apprehension regarding Central Banks hiking rates resulted in a general weakening of risk assets during the month.

US reporting season was a little better than expected with companies beating earnings expectations by 1% on average, however that actual quarterly earnings were 3% lower on average than pcp. The broad theme has been stronger revenue offset by weaker margins with costs rising.

Credit spreads were mixed over the month. The Australian iTraxx index (series 38) traded in a 20bp range finishing 5bps wider to close at 86bps. Australian physical credit spreads on the over hand ended the month 5bp tighter on average as new primary

market deals saw strong buying interest that also fed through to the secondary market bid tone. The best performing sectors were utilities and infrastructure that narrowed 12 and 11bps respectively, whilst the worst performing sector was supra-nationals that ended unchanged. Semi-government bonds performed well tightening 4bps to commonwealth government bonds.

## Fund performance and activity

The Fund outperformed its benchmark in February.

Financials, industrials and real estate added to performance.

Activity during the month included some domestic banks and insurance switches.

## Market outlook

Central banks know that monetary policy is now restrictive. However, the heightened uncertainty post COVID means they are reluctant to show the patience required to sit out the inflation numbers that are slower to moderate. Therefore longer dated bonds have performed better in the short end led selloff in February than the episodes we saw last year.

The support for markets is partly coming from the real interest rate side. Both US and Australian 10 year real yields are around 1.5%. This risk free rate of return above inflation has a decent term premium as cash rates are expected to average around inflation in the medium term.

Therefore unless inflation expectations ramp up further we expect markets to maintain a range until mid year, when activity data is likely to significantly slow. This range is 4% to 3.5% for 10 year bonds and 3.6% to 3.2% for three year bonds. Investors should be planning for cuts in 2024 and targeting duration now.

## Credit outlook

We remain cautious on credit spreads in the near term given Central Banks will maintain restrictive monetary policy for longer in the hope of reducing services inflation, and will lead to an economic slowdown.

We are also keeping a watchful eye on wages growth not keeping up with inflation. This has led to a decrease in consumer savings and will ultimately impact consumer spending and potentially stalling economic growth.

However, recent developments in China have seen a relaxation of their zero covid policy, which could alleviate the supply chain disruptions, as well as reigniting Chinese demand.

Looking towards the longer term, our outlook for investment grade credit spreads is more sanguine. Given the China re-opening, strong global labour markets, 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.

## Expected Environmental Outcomes of the Fund



### Low carbon

**30,493** tCO<sub>2</sub>e

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



### Green buildings

**1,325** m<sup>2</sup>

FLOOR SPACE



### 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



### 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 of bond securities (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.

## 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](http://www.pendalgroup.com). The Target Market Determination (TMD) for the Fund is available at [www.pendalgroup.com/ddo](http://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 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.