

# Regnan Credit Impact Trust

Factsheet | As at 31 March 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	0.14	0.18	0.30
3 months	1.15	1.27	0.81
6 months	2.00	2.26	1.51
1 year	2.10	2.61	2.06
2 years (pa)	1.26	1.76	1.07
3 years (pa)	2.65	3.16	0.78
Since Inception (pa)	2.27	2.79	0.77

Source: Pental as at 31 March 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
-----------------------------	----------

<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 31 March 2023)	\$212 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 31 March 2023)

Yield to Maturity <sup>#</sup>	4.52%
Running Yield <sup>*</sup>	4.06%
Modified duration	0.09 years
Credit spread duration	2.55 years
Weighted Average Maturity	3.07 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 31 March 2023)

AAA	14.6%
AA	27.3%
A	23.8%
BBB	24.6%
Money Market	9.6%

## Sector Allocation (as at 31 March 2023)

Money Market	9.6%
Financials	46.2%
Industrials	24.0%
Supranational, Sovereign & Agencies	10.5%
Infrastructure & Utilities	2.6%
Real Estate	2.8%
Semis	0.2%
ABS	4.2%

## Market review

Bond markets in Australia had a strong month in March. Despite central bank hikes the narrative was dominated by risk off moves driven by bank failures in the US and Europe. Markets swung from pricing further hikes this year to cuts, meaning yields managed to push towards levels not seen since early August.

Economic data in Australia during March was mixed. There were signs that rate hikes are starting to impact growth. GDP for Q4 2022 was lower than expected at 0.5%. Building approvals are falling and retail sales are barely keeping up with inflation. Against this though was continuing strength in the job market as unemployment once again fell to 3.5%. These mixed signals mean an RBA pause in April is likely. Q1 CPI at the end of April will determine whether one more hike in May is still possible.

The big driver though is signs that higher rates globally are starting to cause pressures in the financial system ahead of a significant impact on the real economy. Whilst wounds at Silicon Valley Bank in the US and Credit Suisse in Europe were largely self-inflicted it helped markets chase the idea that weakness is coming across the system. This saw Australian cash rate expectations by the end of 2023 go from 4.15% at the start of the month to 3.40% by the end.

The RBA did hike at the start of the month and the statement said that 'the Board expects that further tightening of monetary policy will be needed to ensure that inflation returns to target'. If they pause in April it will be the first pause since May 2022 and 3.5% of hikes. Markets are perhaps getting ahead of events to assume a pause means the next move is down.

Three year bonds (April 2026) finished March 0.65% lower, falling from 3.6% to 2.95%. 10 year bonds (April 2033) fell from 3.85% to 3.30%.

## Credit review

March was a tumultuous month for credit spreads due to several events. The collapse of Silicon Valley Bank, Signature Bank, and Silvergate Bank, along with the forced takeover of Credit Suisse by UBS all drove very whippy action in markets. This in turn saw the US Fed become less hawkish in their rhetoric during the month, even though officials do not expect rate cuts this year.

Silicon Valley Bank's downfall was caused by its decision not to hedge their long duration asset portfolio, despite the rise in global rates over the past year. Signature and Silvergate experienced bank runs as well. First Republic Bank was at risk of triggering a bank run due to their exposure to falling commercial real estate values and private wealth outflows. The US Fed intervened by asking the 11 largest US banks to deposit \$30 billion with First Republic. To complicate matters, mixed messaging around whether deposit guarantees and FDIC insurance would be upscaled to large account balances further confused the market and depositors.

The government-brokered 'forced' takeover of Credit Suisse by UBS was a significant event, with outflows topping CHF10 billion per day at its peak. Global and Swiss regulators initially provided large liquidity windows, but eventually escalated their actions by asking UBS to take over CS. One key issue is the Swiss decision to wipe out AT1 investors but allow equity holders to retain c.40% of their value, upending the typical creditor loss hierarchy.

Questions arose about whether Australian banks were at risk of contagion, but their different business models, mainly focused on conventional banking while also operating with sound funding and liquidity under prudential regulations, make them less vulnerable to

risks. Regulations prevent Australian banks from being unhedged to large interest rate changes, which led to SVB's troubles.

The Federal Reserve continues to hike rates, with officials indicating that they do not expect rate cuts this year which is the opposite of what the market is pricing. The Fed is navigating the fine line between recognising inflation remains too high and yet accepting that the economic outcome from the current banking crisis has a long way to unfold with obvious risks to the downside.

Overall, the month of March was very skittish on the back of these events.

Credit spreads were mixed over the month. The Australian iTraxx index (series 38) traded in a large 29bp range finishing 3bps tighter to close at 83bps. The new series 39 contract ended the month at 90bps. Australian physical credit spreads were 12bps wider on average. The worst performing sectors were banks and resources that widened 19 and 17bps respectively, whilst the best performing sector was supra-nationals that moved out 6bps. Semi-government bonds also underperformed moving out 7bps to commonwealth government bonds.

## Fund performance and activity

The Fund underperformed its benchmark over the month of March.

Financials, supra-nationals and utilities were the main drivers of underperformance.

Activity during the month included increasing exposure to telcos and banks funded out of cash.

## Market outlook

The Reserve Bank left the cash rate unchanged at their meeting in early April. In terms of the future path for the cash rate the RBA has thrown it far and wide: "In assessing when and how much further interest rates need to increase, the Board will be paying close attention to developments in the global economy, trends in household spending and the outlook for inflation and the labour market." Note that they are still assessing when and how much, not if and how much. The other tweak in the final paragraph of their statement was around rate hikes "will be needed" last month to "may well be needed".

The key domestic data release this month will first quarter inflation released on the 26<sup>th</sup> April. The recently minted monthly inflation series, which covers two-thirds of the inflation basket, has indicated that inflation has peaked. Inflation remains too high for the RBA to be comfortable however and a surprise to the upside will see a potential May rate hike back on the cards. What is buying the RBA time and likely to see them on the fence again next month is the lag with which monetary policy works, along with the fixed rate mortgage cliff coming up. And the recent bank wobbles that saw the demise of 3 banks in the United States and the forced takeover of Credit Suisse by UBS only add to the uncertainty. There are lessons learnt from the 2008 experience when the RBA continued to tighten policy to combat inflation despite bank funding spreads widening sharply. The economy is slowing, unemployment will start to increase and inflation should start to dissipate in the medium term. Some patience from the RBA is warranted given the cracks that emerged in March. It is a narrow path – overtighten and cause more pain than is necessary versus the risk of not doing enough and inflation becoming embedded. We see the RBA on hold and maintaining a tightening bias in the near term.

## Credit outlook

We are cautious on the near term outlook for credit spreads given the recent banking turmoil. It is critical to monitor developments closely and adjust our investment strategies as needed to mitigate risks.

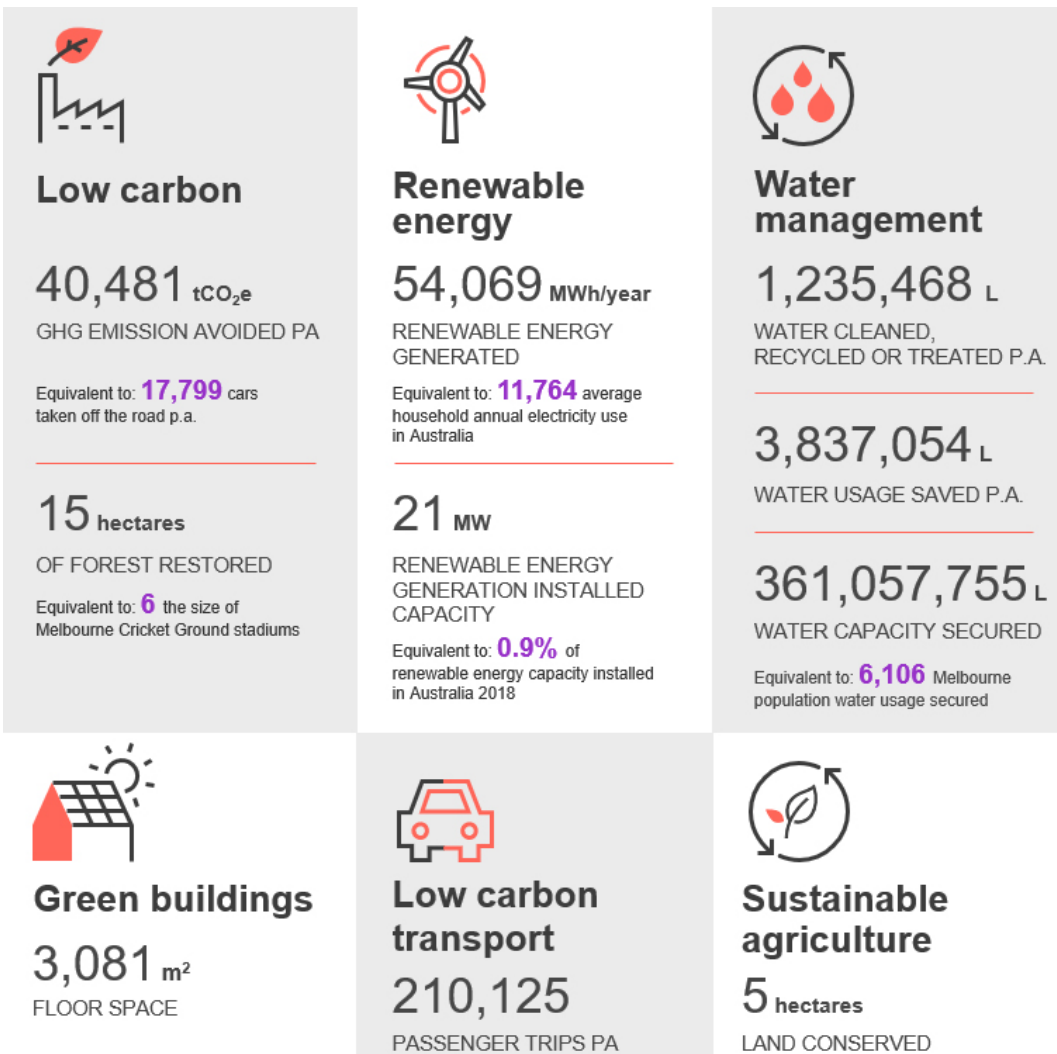
We also have concerns around services inflation continuing to remain high which will see Central Banks maintain restrictive monetary policy for longer and will lead to an economic slowdown.

We are 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 will 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



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 December 2022 to 31 December 2022.

Expected Social Outcomes of the Fund



**Financial inclusion**

**4,880**

MICRO-LOANS

made to financially under-served entrepreneurs from developing nations\*

**1,521**

LOANS

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

**60**

SOCIAL/AFFORDABLE HOUSING\*



**Social quality**

**9,191**

PEOPLE

with access to Information and Communication technology in third world remote regions\*

**517**

SMALL-SCALE FARMERS

reached for improved agricultural technology\*

**212**

TEACHERS TRAINED in developing nations\*

**3,589**

UNDERPRIVILEGED STUDENTS

expected number of student education\*

**385**

JOBS

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

**80**

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.

The aggregated expected social 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 December 2022 to 31 December 2022.

For more information



**Jeremy Dean**

Head of Regnan and Responsible Investment Distribution

Tel: 0419 460 551

[Jeremy.dean@regnan.com](mailto: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.

This factsheet has been prepared by Pandal Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

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.

"Regnan" is a registered trademark of Pandal Group Limited (PGL) and is a standalone responsible investment business division of PGL. The Fund is issued by Pandal Fund Services Limited ABN 13 161 249 332 AFS Licence 431426 (PFSL).

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pandal group accepts any responsibility or liability for the accuracy or completeness of this information.

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 January 2022 to 31 December 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.