

# Regnan Credit Impact Trust

Factsheet | As at 31 July 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	0.73	0.77	0.34
3 months	1.62	1.75	0.99
6 months	2.78	3.04	1.84
1 year	4.81	5.33	3.16
2 years (p.a)	1.89	2.40	1.71
3 years (p.a)	2.60	3.11	1.18
Since Inception (p.a)	2.67	3.18	1.06

Source: Pental as at 31 July 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 Pendal 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

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 <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 31 July 2023)	\$215 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.pendalgroup.com">www.pendalgroup.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 July 2023)

Yield to Maturity <sup>#</sup>	5.11%
Running Yield <sup>*</sup>	4.37%
Modified duration	0.08 years
Credit spread duration	2.65 years
Weighted Average Maturity	3.5 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 July 2023)

AAA	16.7%
AA	29.9%
A	25.4%
BBB	24.7%
Money Market	3.4%

## Sector Allocation (as at 31 July 2023)

Money Market	3.4%
Financials	45.3%
Industrials	23.3%
Supranational, Sovereign & Agencies	11.1%
Infrastructure & Utilities	10.1%
Real Estate	1.0%
Semis	2.0%
ABS	3.8%

## Market review

Australian bonds had a quiet month. Long end rates were largely unchanged although they had almost a 0.4% range. Short end rates had a modest rally in July, as easing inflation concerns helped the view that interest rates are nearing a peak. Indeed, the Reserve Bank of Australia left the cash rate unchanged at 4.10% at their July meeting, although they left a modest hawkish tone to the commentary. Retail sales are also trending lower although wages and employment remain buoyant.

Second quarter inflation released later in the month was weaker than expected and saw the market pare back pricing for further policy tightening. Headline rose 0.8% in the quarter and 5.4% over the past year, whilst the more relevant trimmed mean and weighted median rose 0.9% and 1% for the quarter, resulting in rises of 5.9% and 5.5% over the past year.

However, there were also components within the data that would cause concern for the RBA. Annual services inflation reached 6.3%, its highest level since 2001. Rents rose 6.7% since last year, its highest level since 2009. Services inflation was driven by wage inflation, higher utilities and rents according to the ABS release. New dwellings annual inflation fell to 7.8%, having peaked at just over 20% in late 2022 whilst the 6.7% fall in the diesel price over the quarter saw automotive fuel prices detract from the quarterly result.

Labour data exceeded expectations with employment growing by 32,600 jobs in June and the unemployment rate at 3.5%. The components were also strong with full time employment gaining 39,300 and the participation rate remaining around historical highs at 66.8%.

The NAB business survey showed business conditions stabilising although forward orders and capacity utilisation indicate slowing activity. The Westpac-Melbourne Institute consumer confidence survey continues to reflect deep pessimism as high inflation and interest rates take effect. Weaker consumer demand was borne out in the retail sales data for June which underwhelmed when falling by 0.8%. Declines were broad based.

Three year government bonds finished the month at 3.86%, down 0.15%. 10 year government bonds finished the month at 4.05%, or largely unchanged from June.

## Credit review

In July, the credit spreads experienced a rally driven by multiple factors: a continued decline in inflationary pressures, strong US company earnings, increasing acceptance of the idea of a soft landing, and the possibility of China easing regulations and monetary policy.

US inflation pressures continue to ease with CPI, Personal Consumption Expenditure prices, Producer prices, and the Employment Cost Index all showing signs of moderation during the month. This has been viewed positively by risk markets in that the Fed may be at or close to the peak of cash rates.

By the end of the month, just over half of the S&P500 had reported. 81% of companies beat earnings expectations by 8%, whilst revenues beat by 2%.

The Fed and ECB hiked rates as expected by 25bps, however their dovish statements hinting that this could mark the end of the hiking cycle which supported markets. Furthermore, the China Politburo meeting suggested potential stimulus measures in various sectors, fostering positive market sentiment.

Credit spreads tightened over the month. The Australian iTraxx index (series 39) traded in a 13bp range finishing 9bps tighter to close at 72bps. Australian physical credit spreads narrowed 5bps on average. The best performing sectors were utilities and

infrastructure that tightened 10 & 9bps respectively, whilst the worst performing sector was supra-nationals that only narrowed 2bps. Semi-government bonds underperformed, widening 3bps to commonwealth government bonds.

## Fund performance and activity

The Fund outperformed its benchmark in July.

Financials, industrials and utilities were the main drivers of outperformance.

Activity during the month included increasing exposure to offshore banks funded out of domestic sub bank bonds.

This month we invested in our first offshore green bond from a US-based issuer. We bought a JP Morgan Green Bond whilst also hedging out the currency risk back to AUD.

This bond is contributing to renewable electricity generation in the United States. This includes wind farms in North Dakota, Nebraska, Kansas, Oklahoma, Texas and Iowa.

The residential solar panels funded by this bond are in the sunny states of California, Nevada, Arizona and Florida, as well as some North-Eastern states.

## Market outlook

The Reserve Bank left the cash rate unchanged at 4.10% at their meeting in early August.

With the cash rate having increased 4% since May last year and economic growth forecast to be sub-trend for 2024 and 2025 at 1.75% and 2% respectively the RBA viewed it as prudent to adopt a wait and see approach. Their inflation forecast sees inflation at 3.25% by the end of 2024 and back to within the 2-3% target band by late 2025. With economic growth forecast to slow the RBA expects the unemployment rate to start to rise and end reach 4.5% in late 2024, in turn reducing wage inflation. Provided productivity growth picks up the RBA continues to see wages growth as being consistent with the inflation target.

On inflation the RBA was not claiming victory just yet. Certainly inflation has peaked and is headed in the right direction. One of the great uncertainties remains around services inflation, which the RBA pointed out has been surprisingly persistent overseas. It is also a cause for concern domestically. Looking at the recent 2nd quarter inflation data released in late July and annual services inflation hit 6.3%. The result was driven by wage inflation, higher utilities, and rents and is at the highest level since 2001.

The RBA retains a tightening bias however it is unlikely that the cash rate changes in September or October. A higher 3rd quarter inflation print released in late October is the likely catalyst should any further tightening be required.

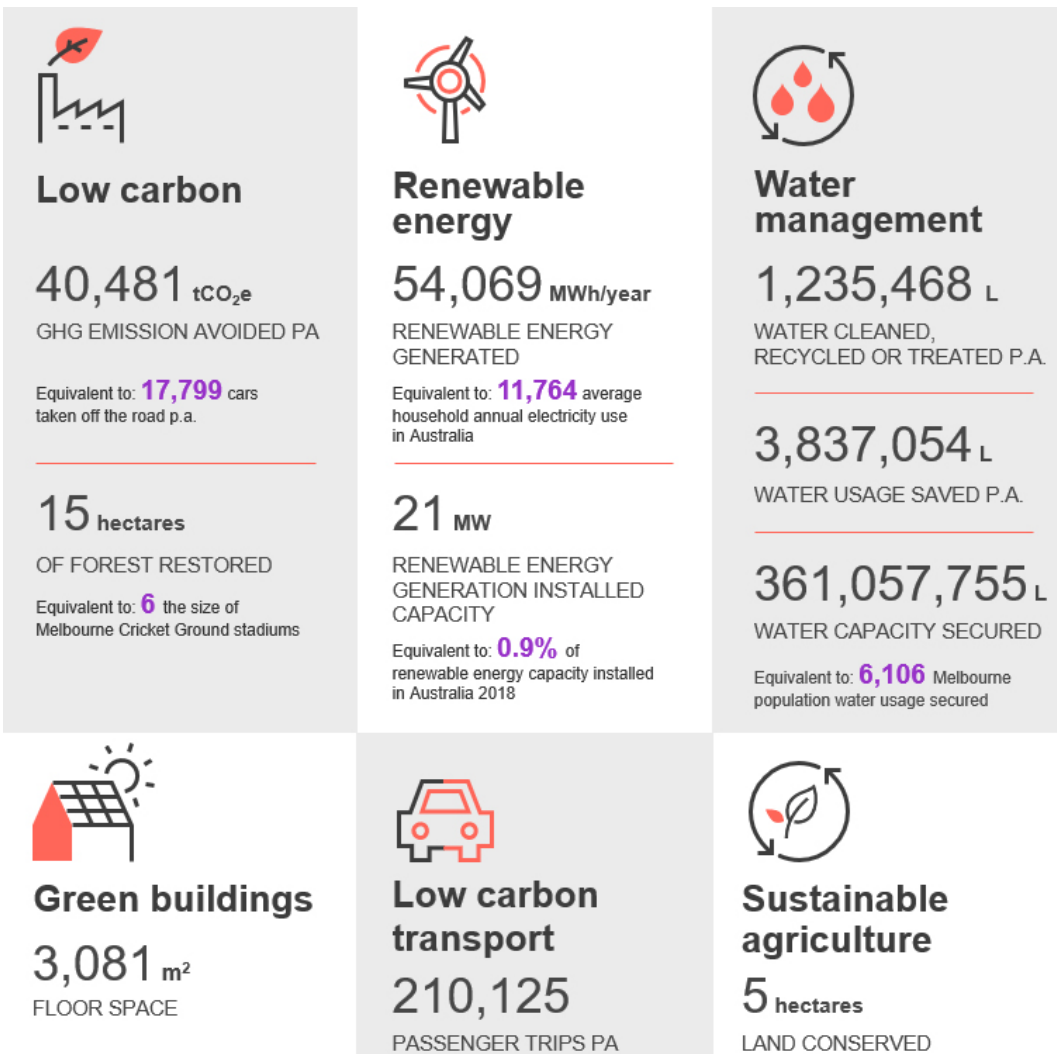
## Credit outlook

We are tactically positive on credit spreads given the recent fall in US inflation and the resilience of the consumer. This may end up seeing an economic soft landing and in turn would be positive for risk assets.

We are still cautious medium term as the tight labour markets globally could see services inflation remain sticky and would see Central Banks maintain cash rates higher for longer, which would translate into a deeper global economic growth slowdown and potential recession.

Tightening of credit lending globally is also a risk growth.

## 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.

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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 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.