Regnan Credit Impact Trust

Factsheet | As at 31 March 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 wholesale 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.33	-0.29	0.01
3 months	-0.53	-0.41	0.02
6 months	-0.47	-0.23	0.05
1 year (pa)	0.42	0.93	0.10
Since Inception (pa)	2.35	2.87	0.18

Source: Pendal as at 31 March 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.

Brought to you by PENDAL

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 nine 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.

Management Costs[1]

Issuer fee[2]	0.50% pa

[1] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[2] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Other Information

Fund size (as at 31 Mar 2022)	$177 million
Date of inception	January 2020
Minimum investment	$25,000
Buy-sell spread[3] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR Code	PDL5969AU

[3] 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 in the Fund, and may vary from time to time without notice.

Portfolio Statistics (as at 31 March 2022)

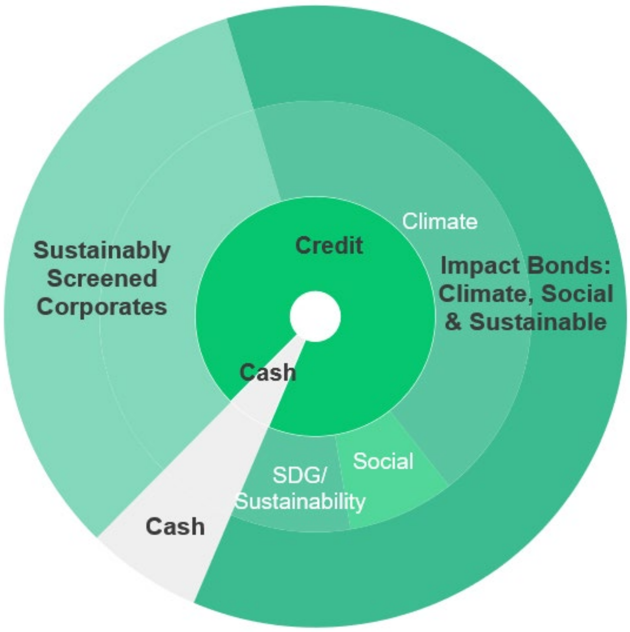
Running Yield*	1.27%
Yield to Maturity#	1.27%
Modified duration	0.09 years
Credit spread duration	3.08 years
Weighted Average Maturity	3.35 years

* 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.

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.

Sector Allocation (as at 31 March 2022)

Money Market	16.0%
Financials	28.7%
Industrials	25.9%
Supranational, Sovereign & Agencies	13.8%
Infrastructure & Utilities	5.1%
Real Estate	3.7%
Semis	0.2%
ABS	6.5%



Market review

It was another volatile month in financial markets. Commodity prices surged during the month leading to increased inflationary concerns and the Federal Reserve acknowledging they are behind the curve. Bond yields sold off aggressively globally against this backdrop although risk markets held in surprisingly well over the course of the month.

The Reserve Bank of Australia left the cash rate unchanged at their March meeting. They see wage inflation as only picking up gradually although acknowledge the uncertainty about how labour costs will behave given the historically low levels of unemployment. The inflation outlook also remains uncertain given disruptions to supply chains and developments in the energy market due to the conflict in Ukraine. They repeated the line that it will be sometime yet before growth in labour costs is at a rate that is consistent with inflation being sustainably at target. We don't expect that to last long.

The labour market continues to tighten with employment rising by 77,400 jobs in February, taking the unemployment rate from 4.2% to 4%. Other job indicators continue to point to ongoing strength with ANZ job ads +8.4% in February and job vacancies data remaining elevated.

First quarter gross domestic product data reflected the Australian economy expanding by 3.4% in the first quarter of the year, bouncing back from the COVID lockdown induced contraction in the last quarter of 2021. Annual growth came in at 4.2%.

Bond yields globally sold off aggressively. In the United States 2 year bond yields rose 0.90% and 10 year yields rose 0.51% to both end the month at 2.34%. Potential inversion of the yield curve in the United States is starting to create more headlines about a pending recession in the worlds largest economy. Australia was taken along for the ride with 3 and 10 year bond yields rising by 0.76% and 0.64% to 2.30% and 2.81% respectively. 6 month yields rose by 0.46% to 0.71% giving cash investors some hope of better days ahead.

Credit review

March was a volatile month for markets with credit spreads ending mixed.

Internationally, Russia's ongoing invasion of Ukraine saw risk markets continue to weaken. News that Russia had damaged Europe's largest nuclear power plant in Ukraine was a major concern for markets.

We saw very large rises in commodity prices fuelled by expectations of broadening sanctions against Russia driving commodity supply concerns and stoking further stagflation fears.

Another headwind for markets was hawkish communication from the US Federal Reserve and the ECB. Their rhetoric focused on more rate hikes and balance sheet adjustments in an effort to try to control inflation.

Mid-month we saw a recovery in markets as diplomatic resolution commentary from Ukraine/Russia was suggested. We also saw Iraq and the US talk to increasing supply of oil which helped market sentiment around supply.

Separately, in a very supportive move for risk markets, the Chinese State Council vowed to keep the Chinese stock market stable.

Later in the month the Fed President Powell buoyed market sentiment by talking about the confidence he has that the Fed could navigate policy tightening without triggering a recession, saying the US economy was "very strong" and that recession risks were "not particularly elevated".

Market sentiment was further boosted by reports that payments had been received and processed on some Russian bonds, averting a potential default.

Late in the month we received positive news around Russia and Ukraine. Talk of Russia de-escalating military operations in Ukraine were a positive driver despite mixed reports on future talks, but there were signs that Putin and Zelensky may have had a meeting and talk that Russia is no longer seeking to overthrow Zelensky and Ukraine appears to have dropped the goal of NATO membership provided support. However the day after Russia said talks with Ukraine yielded no breakthroughs and that it was regrouping forces in a push to complete the takeover of the eastern Donbas region.

Credit spreads were mixed over the month. The Australian iTraxx index (series 36) traded in a large 31bp range finishing 20bps tighter to 73bps. The new iTraxx index (Series 37) closed the month at 81bps. Australian physical credit spreads were 14bps wider on average. The best performing sectors were resources and REITs that finished unchanged and 7bps wider respectively, whilst the worst performing sectors were domestic and offshore banks that both moved out 16bps. Semi-government bonds narrowed 1bp to commonwealth government bonds.

Fund performance and activity

The portfolio underperformed its benchmark by 0.30% (pre-fee) in March.

Financials, industrials, utilities and supranationals were a drag on performance.

Activity during the month included increasing exposure to financials and supranationals green bonds, supranationals social bond, and insurance sector. We also invested in a new university green bond from the University of Tasmania.

Energy production from coal, gas and oil is by far the biggest contributor to carbon emissions globally and in Australia. Green bonds have often tried to respond to this challenge by increasing the amount of energy coming from renewable sources and improving energy efficiency. This green bond issued by the University of Tasmania is interesting as they are responding to a different challenge than most. The state of Tasmania, due to hydroelectricity, is almost at full renewable energy. By 2040 Tasmania hopes to be exporting as much electricity from renewable sources as it currently uses. As such, the University of Tasmania has different objectives than many other green bonds. For their campus renewable projects which entails constructing new buildings across their campus, the university is seeking a minimum target reduction of 20% in upfront carbon emissions embedded in construction. This is particularly notable as cement, a core component of most buildings, accounts for around 8% of global emissions. For context, agriculture is around 12% of emissions. The University of Tasmania green bond highlights a decarbonisation trend: as more easy-to-abate areas such as electricity become carbon neutral, other areas that are harder to reduce emissions from will need to be addressed. We are happy to support the University of Tasmania in addressing one of the next big challenges once energy sources are renewable. We are looking forward to more of these types of bonds in Australia as other jurisdictions increase renewables and can address new challenges to get to a net zero world.

Market Outlook

The RBA is likely to start hiking in June. We expect the next two meeting to lay the groundwork, removing references to being patient and acknowledging post the Q1 CPI in late April that inflation is now sustainably within their band.

We expect rates to be at 1.25% at the end of 2022 and 2.5% at the end of 2023 which would be around a neutral rate.

Markets however are expecting more with rates expected to peak closer to 3.5% in early 2024. For the average new mortgage of around $625,000 a rate of 3.5% would mean an extra $22,000 a year in interest payments. House prices should fall by around 15% if interest rates are to follow.

Therefore we think that 3 year bonds at 2.5% and ten years at 3% represent medium term value. However, given we expect US rates to keep rising it is not yet time near term to be overweight duration in Australia. We would recommend though that investors get their bonds allocations back to neutral now and prepare to go overweight mid year as higher rates and improving supply chains see inflation and bond rates peak.

Credit Outlook

Geopolitical concerns are front of mind as the market grapples with the impact of the Russian-Ukraine war. With this, as well as inflation risks and the upcoming withdrawal of money supply, we maintain our more neutral stance on credit spreads in the short term.

In the longer-term however, we remain constructive on credit spreads. Credit and broader risk assets will continue to benefit from sustained global stimulus and strong fundamentals. Global economies continue to exceed growth expectations as pent-up consumer consumption continues to drive demand for goods and services. Demand led growth is positive for company earnings and beneficial for credit fundamentals.

Whilst we remain constructive on credit longer term, we anticipate a few hurdles.

A disorderly rise in bond yields may result in weakness in risk markets. However, with Central Banks’ moving to a ‘tackle inflation’ mantra, as well as a freeing up of supply chain constraints caused by COVID-disruptions, this should see an easing of inflationary pressures and reduce the probability of a disorderly unwind in yields going forward.

We continue to keep a watchful eye on the Chinese high yield property development market, as defaults may trigger risk-off sentiment in global markets. For now, it appears that the Chinese government is committed to supporting the sector in an orderly unwind of bad debts.

As noted above, we will see headlines continue in relation to the Russian-Ukraine war. Nevertheless, it is unlikely that the uncertainty will halt the march of growth in global economies however there will be short term commodity supply constraints.

Our view is that the overarching macro credit fundamentals will be the dominant theme going forward, despite the occasional bumps in the road. Therefore, we remain constructive on credits spreads in the longer-term, even as we have shifted to neutral stance in the short-term.

Regnan

Brought to you by PENDAL

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*

2,924
UNDERPRIVILEGED STUDENTS
expected number of student education*

635
SMALL-SCALE FARMERS
reached for improved agricultural technology*

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

187
TEACHERS TRAINED
in developing nations*

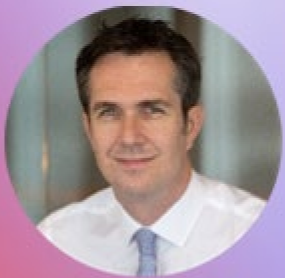
72
YOUTH
in at risk training programs

*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.

Regnan

Brought to you by PENDAL

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.