Regnan Credit Impact Trust

Factsheet | As at 30 April 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	-0.20	-0.16	0.01
3 months	-0.65	-0.53	0.02
6 months	-0.69	-0.44	0.05
1 year (pa)	-0.05	0.45	0.10
Since Inception (pa)	2.18	2.69	0.18

Source: Pendal as at 30 April 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.

Regnan

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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 30 Apr 2022)	$184 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 30 April 2022)

Running Yield*	1.75%
Yield to Maturity#	1.75%
Modified duration	0.08 years
Credit spread duration	2.86 years
Weighted Average Maturity	3.15 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 30 April 2022)

Money Market	19.0%
Financials	27.8%
Industrials	24.8%
Supranational, Sovereign & Agencies	13.1%
Infrastructure & Utilities	4.9%
Real Estate	3.5%
Semis	0.2%
ABS	6.1%

Market review

The Australian bond market had another large negative month as global rates climbed sharply. Added to this inflation in Australia has pushed to 5.1% headline and 3.7% underlying, making the case for decent rate hikes sooner rather than later.

The Reserve Bank of Australia left the cash rate unchanged at their April meeting. However, they dropped their reference to being patient, a clear reference to imminent hikes. The RBA stated that over the coming months further additional information will be available on both inflation and the evolution of labour costs.

On inflation, gains in food prices (+2.8%, largely due to the floods), transportation (+4.2% due largely to fuel price increases), education (+4.5%) and housing (+2.7%) were the main drivers of the headline number. Whilst there will be some relief on fuel and education this quarter the lockdown in China and impact of the Ukraine war mean that supply chains remain challenged and will likely stay that way into year end.

The next piece of wage inflation data released is the wage price index (WPI) in May. The RBA in their meeting minutes noted the uncertainty about the behaviour of labour costs with the unemployment rate at historically low levels. Whilst the WPI is slow to move other forward indicators such as the NAB employment cost index show that private sector wage rises are already above 3%. Public sector wages are more restrained but some large upcoming agreements for state governments will be difficult as unions push for increases above the current 2.5% policy.

Bond yields continued their march higher in yields. In Australia 10 year bond yields ended the month 29 basis points higher to close at 3.13%, outperforming the US 10 year bond which rose by 60 basis points to 2.94%. In the short end Australian 6 month bank bill yields rose by 0.75% to 1.45%. 3 month implied yields are now priced to peak at near 3.5% mid next year, a move of almost 2% since the start of the year.

Credit review

April saw credit spreads widen primarily driven by inflationary concerns.

The global rebound post COVID has led to strong inflationary pressures across the world, particularly in finished goods, commodity prices and labor costs. Recent COVID lockdowns in several Chinese cities on the back of their zero-covid policy and supply bottlenecks in various global ports have led investors to expect inflation to be more persistent than previously expected. Central banks that had been eager to boost the economy for the last two years are now starting to acknowledge that the economy can deal with higher interest rates and the removal of monetary stimulus.

Some prominent members of the FOMC, including Federal Reserve Chair Powell and voting member Brainard, spoke multiple times through April about the possibility of 50bps hikes and the commencement of the reversal of quantitative easing (quantitative tightening) as early as May. Other FOMC members including Bullard and Evans also spoke about the Federal Reserve's commitment to control high inflation using interest rate hikes. In prior hiking cycles globally, central banks have typically hiked in 25bps increments, so the possibility of 50bps hikes demonstrates their conviction in the strength of the global economy.

Investors in bond, equity and credit markets reacted to this hawkish central bank rhetoric and the Chinese covid lockdowns by reducing risk.

One positive for the month was US earnings announcements. As at the end of April, 55% of the S&P 500 had reported, with 81% of companies beating earnings expectations by 3%.

Credit spreads were wider over the month. The Australian iTraxx index (series 37) traded in a 22bp range finishing 14bps wider to 95bps. Australian physical credit spreads moved out 5bps on average. The best performing sector was supranationals that only widened 1bp, whilst the worst performing sector was resources that moved out 18bps. Semi-government bonds also underperformed widening 3bps to commonwealth government bonds.

Fund performance and activity

The portfolio underperformed its benchmark by 0.17% (pre-fee) in April. Financials and industrials were a drag on performance.

Market Outlook

The RBA has spent the last 12 months with their narrative on the economy and inflation wrong. When trying to adapt to the changing circumstances they have been far too cautious and have attempted to avoid an about turn. Events have constantly overtaken their narrative.

The RBA is likely to start hiking in May. Their commentary will reveal whether they have hit their 'stop loss' and will be quick to get rates back towards neutral (around 2.5%) or whether they keep a more gradual narrative, pushing rates to 1.5% this year and then 2.5% during 2023.

Markets are expecting even 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 this path.

Therefore we continue to think that 3 year bonds at 3% and ten years at 3.25% 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

We have been more neutral on credit spreads over the last few months with a view that we will see short-term volatility in markets due to the rising global inflation fears and upcoming withdrawal of money supply. This defensive positioning has assisted in reducing downside performance given the recent widening in credit spreads.

In the near term we expect continued market volatility as global central banks tighten monetary policy to combat higher inflation. The lockdowns and continued zero-COVID policy in China will likely add to supply chain disruptions, inflationary pressures, and rising rates.

That said, we are still constructive on the medium-term outlook for 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.

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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

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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.

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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.