Regnan Credit Impact Trust

Factsheet | As at 31 May 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 (post-fee)	(pre-fee)	Benchmark Return
1 month	-0.11	-0.06	0.03
3 months	-0.63	-0.51	0.04
6 months	-0.69	-0.45	0.07
1 year (pa)	-0.39	0.11	0.12
Since Inception (pa)	2.05	2.56	0.18

Source: Pendal as at 31 May 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.

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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 eight 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 May 2022)	$190 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 May 2022)

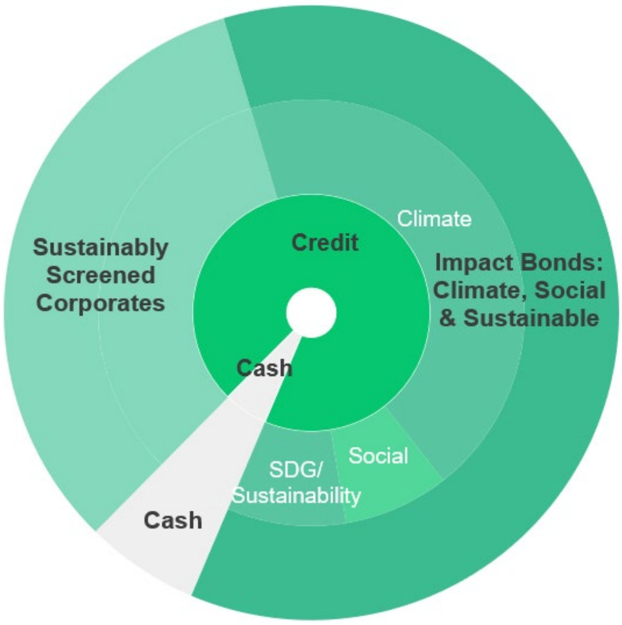
Running Yield*	2.26%
Yield to Maturity#	2.26%
Modified duration	0.05 years
Credit spread duration	2.70 years
Weighted Average Maturity	2.98 years

* 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 May 2022)

Money Market	22.6%
Financials	26.8%
Industrials	23.9%
Supranational, Sovereign & Agencies	12.7%
Infrastructure & Utilities	4.6%
Real Estate	3.4%
Semis	0.2%
ABS	5.8%



Market review

The Federal election was held in May and resulted in a change of government with Anthony Albanese leading the Australian Labor Party (ALP) to victory and becoming Australia's 31st prime minister. The ALP won 77 seats, enough to form a majority government. There was minimal market reaction following the result, given the economic policies of the two main parties are similar.

The Reserve Bank of Australia wrong footed everyone when they raised the cash rate by 25 basis points to 0.35% (expectation had been for a 15 basis point increase). The meeting minutes revealed that 15 basis points was not considered: only a move of 25 or more was discussed. The minutes also stated that given the Board meets monthly that it would have the opportunity to review the setting of interest rates again within a relatively short period of time, based on additional information. This is one advantage that the RBA has over other central banks that meet less frequently (the Fed, ECB, BoE all meet in 6 week intervals).

First quarter wage inflation disappointed, rising by 0.7% to 2.4% over the past year. Employment growth was disappointing April, rising by only 4k jobs. The unemployment rate remained a historically low 3.9%. From the Reserve Bank's meeting minutes it was noted that business liaison indicated that labour costs were rising at a faster pace and that many firms were having difficulties hiring workers with the right skills. It was also noted that firms were turning to bonuses, allowances and other measures to attract and retain workers. These measures are not reflected in the wage priced index data.

Australian bonds underperformed their US peers in May, with three and ten year bond yields ending the month 13 and 22 basis points higher at 2.84% and 3.35%. By contrast US two and ten year bonds ended the month 16 and 9 basis points lower in yield at 2.56% and 2.85%. This reflected the view that US inflation, although far higher than Australian inflation, is starting to turn lower whilst Australia will only peak later this year. The short end of the curve sold off in Australia with three and six month yields 47 and 48 basis points higher at 1.18% and 1.93%, reflecting the expectation of hikes at every RBA meeting this year.

Credit review

May saw credit spreads widen overall but managed partial recovery during the last week.

Similar to last month, credit spreads were driven wider due to higher inflation around the world, supply chain difficulties, central bank hikes and concerns about global growth. We also had mixed earnings results from US retailers with concerns around whether profit margins can be maintained in the face of rising input costs. This all led to investor caution in equity and fixed income markets.

However, towards the last week of May, investors began to acknowledge the emergence of two positive developments.

The first positive was that the US Federal Reserve could pause its pace of rate hikes in September after their June and July meetings, to better monitor the impact of the initial rate hikes. This is viewed as a positive signal because it suggests that the US Federal Reserve could be turning less hawkish.

The second positive was the broad based stimulus measures China unveiled to support areas impacted by the zero-COVID policy lockdowns. The 33 policies totaled c.USD30bn and included items such as boosting infrastructure spending, improving supply chain disruptions, providing cash subsidies to maintain staff levels, Value-added tax rebates, reducing taxes on car purchases and beginning a new round of rural road building. In addition, Premier Li Keqiang (China's second in charge) held an unprecedented conference call to multiple levels of the Chinese government to address concerns about the economy. This is viewed as a positive signal because it suggests the Chinese government may be shifting its thinking on zero-COVID. At the very least, it suggests the Chinese government is committed to supporting the economy further should it be required.

Credit spreads were generally wider over the month. The Australian iTraxx index (series 37) traded in a 19bp range finishing unchanged at 95bps. Australian physical credit spreads moved out a few basis points on average. The best performing sector was supranationals that tightened 2bps, whilst the worst performing sector was bank seniors that widened 10bps. Semi-government bonds also were unchanged to commonwealth government bonds.

Fund performance and activity

The portfolio underperformed its benchmark by 0.09% (pre-fee) in May.

Financials and utilities were a drag on performance.

Market Outlook

The RBA has finally joined the global central bank community (ex-Japan), hiking in May. Markets have taken a very aggressive approach to pricing future hikes, with rates priced to be at 2.75% by December and 3.5% by mid 2023. There are 7 more meetings this year so this implies hikes at each and every meeting with two of them being 50bp. The next two CPI numbers will help this narrative but we think the RBA may pause several times and expect rates at 2% by year end.

Despite markets expecting this few in the real economy expect rates 3% higher than here. There will be some mortgage stress along the way, especially in the recent cohort of mortgages which enjoyed the benefit of very low fixed rates and high loan to income ratios. Although this may be less than 10% of households it will have a large impact on both house prices and demand. We expect this to be a late 2022 and early 2023 story though as for now strong savings will provide some buffer to higher rates.

Overall we think that 3 year bonds at 3% represent medium term value. Ten year bonds near 3.5% will ultimately provide some value but we are concerned upcoming inflation prints and higher US rates may weigh on them near term.

Credit Outlook

We have been more cautious on credit spreads over the last number of 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 continue to expect 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. Pent-up consumer consumption continues to drive demand for goods and services which is supportive for economic growth, positive for company earnings and beneficial for credit fundamentals.

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

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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. The Target Market Determination (**TMD**) for the Fund is available at 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.

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.