Regnan Credit Impact Trust

Factsheet | As at 31 July 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)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.10	-0.06	0.11
3 months	-0.34	-0.21	0.19
6 months	-0.98	-0.74	0.22
1 year (pa)	-0.95	-0.45	0.27
2 years (pa)	1.51	2.02	0.20
Since Inception (pa)	1.82	2.33	0.24

Source: Pendal as at 31 July 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.

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[1]	0.50% pa

[1] 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 Jul 2022)	$193 million
Date of inception	January 2020
Minimum investment	$25,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR Code	PDL5969AU

[2] 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 2022)

Yield to Maturity#	3.21%
Running Yield*	3.21%
Modified duration	0.05 years
Credit spread duration	2.23 years
Weighted Average Maturity	2.76 years

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.

* 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.

Sector Allocation (as at 31 July 2022)

Money Market	26.0%
Financials	26.2%
Industrials	23.5%
Supranational, Sovereign & Agencies	12.5%
Infrastructure & Utilities	2.8%
Real Estate	3.3%
Semis	0.2%
ABS	5.4%

Market review

The Reserve Bank of Australia (RBA) raised the cash rate by 0.50% to 0.85%, their first 50 basis point hike since February 2000 and resulted in the market pricing in a cash rate closer to 4% by the end of the year. Expectations were pared back following comments from RBA Governor Lowe which indicated that moves of 25 or 50 basis points were more likely than 75 basis points. In a rare interview Governor Lowe stated that following the rise in commodity prices since the May release of the RBA's Statement on Monetary Policy that inflation is now seen as being at 7% by the end of 2022. The forecast in May was 5.9%.

The labour market continues to perform strongly. Employment grew by 60,600 jobs in May, with full time jobs adding 69,400 jobs and part time employment detracting slightly. The unemployment rate was unchanged at 3.9% due to the participation rate rising 0.3% to 66.7%. The minimum wage was increased during the month with the Fair Work Commission announcing a 5.2% increase, effective from 1st July. Other labour market indicators such as ANZ job ads and NAB's business survey continue to point to ongoing strength.

Despite the labour strength consumer sentiment fell sharply in May according to the Westpac-Melbourne Institute survey. The survey was weighed down by the 50 basis point rise in the cash rate during the month and made for concerning reading. The index has only been around current levels during major economic dislocations in its 46 year history, which included the Global Financial Crisis and recessions in the 1980's and 1990's. The 'time to buy a dwelling' index fell to a new post GFC low and the survey reflected that 58% of respondents expect rates to increase by more than 1% in the next year.

The NAB business survey painted a better picture despite business conditions and confidence easing slightly in May. Conditions remain well above the long term average and confidence is around long term averages. Forward looking indicators show capacity utilisation at near record high levels and forward orders remaining elevated. The survey indicated another elevated inflation outcome remains likely for the 2nd quarter. Most business are in a strong position and the economy has maintained momentum despite higher interest rates and global growth concerns.

The RBA released its review of the yield target during the month. Whilst initially seen as being successful when combined with other monetary policy measures in providing insurance against the effects from the pandemic the RBA acknowledged the exit from the yield target in late 2021 was disorderly and caused reputational damage following bond market volatility and market dislocation. The probability of using a yield target again is seen as low and would be of shorter tenor. The use of a bond purchase program rather than a yield target is seen as providing greater flexibility and would be the preferred option if non-conventional tools are required again. The RBA is undertaking a review of the bond purchase program later this year.

Bond yields moved higher over June. Australian three and ten year bond yields ended the month 28 and 31 basis points higher at 3.12% and 3.66%. US two and ten year bonds ended the month 40 and 17 basis points higher in yield at 2.96% and 3.02%. The larger than expected 50 basis point from the RBA saw the short end rates sell off further with three and six month yields 63 and 74 basis points higher at 1.81% and 2.67%.

Credit review

June saw credit spreads widen primarily driven by concerns that central banks would over-tighten and cause a recession. Markets aggressively increased expectations for future interest rate moves over the month on the back of 1) higher than expect inflation data, 2) hawkish central bank rhetoric, and 3) the growing risk of multi-year high inflation.

- **High inflation data** - Inflation prints globally continued to rise above expectations. The US CPI release was broad based across many categories. The headline level reached 8.6%, the highest level for 40 years. The Eurozone's inflation hit 8.8% for the month of May. In Australia, RBA governor Lowe revealed that he now expects Australian CPI to reach 7% later in the year.
- **Central banks responded hawkishly** to these inflation data points, reiterating their focus on controlling inflation with rate hikes as opposed to supporting economic growth. US Federal Reserve Chair Jerome Powell stated that his commitment to fighting inflation is "unconditional" and that the "only way" to ease inflation is to balance supply and demand.
- **The risk of persistently high inflation** also grew in the market's eyes given that materials & labour shortages are real world problems that are difficult to solve using just interest rates and could take years to remedy. The general public seems to be increasingly resigned to higher inflation, with its repercussions becoming embedded into greater wage expectations.

The net effect of these recent developments have lowered household confidence as seen by the poor US Consumer sentiment data, and led to investor caution in equity & fixed income markets. However in the latter part of the month, markets walked back some of their rate hike expectations as oil prices moved lower after a rally in the start of the month, allowing risk markets to benefit from a small relief rally.

Credit spreads underperformed over the month. The Australian iTraxx index (series 37) traded in a wide 37bp range finishing 35bps wider at 130bps. Australian physical credit spreads moved out a few basis points on average. The best performing sector was supranationals that tightened 1bp, whilst the worst performing sectors were utilities and industrials that widened 6 and 5bps respectively. Semi-government bonds also underperformed pushing out 14bps to commonwealth government bonds.

Fund performance and activity

The portfolio underperformed its benchmark by 0.17% (pre-fee) in July.

Industrials, utilities and financials were a drag on performance.

Activity during the month included reducing exposure to industrials and utilities sectors.

Market Outlook

The RBA is now on a determined path back to neutral cash rates. It has been vocal in viewing this as around the long term inflation target of 2.5%. Given it started June at 0.35% it now views 0.5% hikes as needed and will likely follow June's move with similar hikes in July and August. The Q2 inflation data at the end of July will justify these moves.

However from August onwards the scope and size of moves will be less clear. Emerging signs that improving supply chains may bring some commodity and global price relief will be watched closely. Adding to this is the fixed rate mortgage 'cliff' that begins in Q4. This will see over 30% of mortgages move from COVID low fixed rates of around 2% to floating rates closer to 5% by the end of 2023.

Markets for now have priced terminal rates at 3.5%, having briefly touched 4% in mid June. However this may come down further as the US economy eases and recession fears build. Our view is that any recession in the US will be more technical than anything and Australia will see lower growth but not enough to move unemployment higher. In this environment the RBA will be happy to let cash settle at 2.5% by year end with only modest hikes if any in 2023.

Credit Outlook

We have been cautious on credit spreads since the start of the year 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 and inflationary pressures.

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.

Regnan

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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

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*

635
SMALL-SCALE FARMERS
reached for improved agricultural technology*

187
TEACHERS TRAINED
in developing nations*

2,924
UNDERPRIVILEGED STUDENTS
expected number of student education*

93
JOBS
created through supporting education & renewable energy plants 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

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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.