Regnan Credit Impact Trust

Factsheet | As at 31 August 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	0.48	0.52	0.15
3 months	0.25	0.37	0.32
6 months	-0.39	-0.13	0.36
1 year (pa)	-0.56	-0.06	0.41
2 years (pa)	1.61	2.11	0.27
Since Inception (pa)	1.95	2.46	0.29

Source: Pendal as at 31 August 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.

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 Aug 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 August 2022)

Yield to Maturity[#]	3.46%
Running Yield[*]	3.46%
Modified duration	0.09 years
Credit spread duration	2.49 years
Weighted Average Maturity	3.04 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.

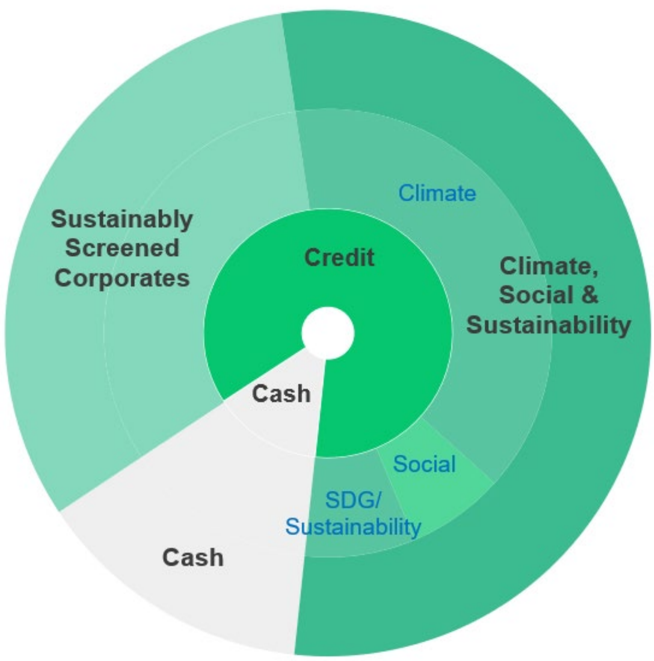
* The portfolio running yield is calculated as the weighted average coupon rate of the physical portfolio assuming all securities are held at par or face value. Carry/interest income from synthetic positions are excluded from this calculation. Running yield does not reflect the actual income return of the portfolio.

Credit Quality (as at 31 August 2022)

AAA	31.5%
AA	21.6%
A	23.4%
BBB	23.6%

Sector Allocation (as at 31 August 2022)

Money Market	15.4%
Financials	37.5%
Industrials	23.3%
Supranational, Sovereign & Agencies	12.4%
Infrastructure & Utilities	2.7%
Real Estate	3.3%
Semis	0.2%
ABS	5.2%



Market review

August saw bond markets resume the trend of 2022 towards higher rates. The rally in equity and bond markets in July, and the subsequent easing of economic conditions,had clearly made central banks determined to ramp up the hawkish rhetoric. They kept at it all month and markets were left in no doubt that higher rates were coming and risk markets needed to reflect the associated risks to growth.

The Reserve Bank of Australia (RBA) continued on its path of policy normalisation, raising the cash rate by a further 0.50% to 1.85% at its August meeting. The path to neutral (somewhere between 2.5% and 3%) will be complete in the months ahead. The RBA will then have time to see what impact the large cumulative hikes since May have had.

Data both in the US and in Australia was mixed on the month. The employment data in Australia showed a steep fall in employment of 41,000 but also a fall in the unemployment rate to 3.4% as the participation rate fell. Activity data is softening but slower perhaps than 2% of hikes would suggest. Savings buffers are holding up the retail side for now.

The difference between confident businesses and pessimistic consumers widened further in August. NAB Business Confidence climbed above neutral but Westpac Comsumer Confidence fell back almost to the COVID lows. Wages as measured by the Wage Price Index remain contained at 2.6% but forward indicators suggest a pace nearer 3.5% in the year ahead.

The RBA released its Statement of Monetary Policy in early August. There were further revisions up to the inflation outlook, with inflation forecast at 7.8% at the end of this year before falling to 4.3% by the end of 2023. This saw short end rates once again move towards a terminal cash rate nearer 4% than 3%. This was also pushed on by the US markets looking towards 4% Fed Funds rates in 2023.

Three year bonds (the November 2025 bond) ended the month 0.55% higher, at 3.28% from 2.73%. Ten year bonds (the November 2032 bond) ended the month 0.53% higher at 3.61% from 3.08%. However both are still over 0.5% below the mid-June highs.

Credit review

August was a constructive month for credit spreads after 7 months of underperformance. There were two distinct paths for risk assets during the month with markets initially rallying on the back of US inflation data and company earnings announcements, however later in the month we saw a sell off on the back of hawkish Fed rhetoric.

Earlier in the month we had some positive information that included:

Lower US inflation data: US inflation (CPI and producer prices) releases came in lower than market expectations and also lower than the previous month. This inflation data as well as the fall in oil prices are encouraging signs that inflation may have peaked. These signs of slowing price pressures drove positive sentiment and hopes that the Federal Reserve will be less aggressive on rate hikes which would reduce the risk of a deeper recession and instead lead to a more manageable slowdown in the global economy.

Positive earnings season: The other driver was a better than expected US corporate earnings quarter, with roughly 75% of US companies surprising on the upside with earnings growth of 7% on a pcp basis. Australian companies also saw a good earnings season, with ⅔ reporting flat or higher earnings. Overall, companies seem to have been able to pass on cost inflation. Furthermore, company management commentary noted they are not seeing evidence of a sharply deteriorating economy.

In the later half on the month, the Federal Reserve responded to the strong market moves by trying to temper expectations. Believing the market was overly optimistic about inflation easing quickly, Federal Reserve officials issued a number of hawkish statements, emphasising their commitment to fighting inflation. The market took heed, and risk assets weakened.

Credit spreads performed well over the month. The Australian iTraxx index (series 37) traded in a 24bp range finishing 4bps tighter to 107bps. Australian physical credit spreads narrowed 6bps on average. The best performing sectors were infrastructure and real estate that tightened 12 and 11bps respectively, whilst the worst performing sector was resources that widened 5bps. Semi-government bonds underperformed pushing out 3bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed its benchmark by 0.37% (pre-fee) in August.

Financials, industrials, utilities and real estate sectors added to performance.

Activity during the month included adding exposure to financials whilst reducing exposure to industrials.

Market Outlook

Australian bonds remain under pressure into the end of August from continued strong hawkish Fed rhetoric. We expect other banks, including the RBA, to continue this in the months ahead.

However a key difference ahead, when compared to 2022 so far, will be a likely falling US CPI rate. Goods price inflation will ease as supply chains improve and business margins contract with higher inventories. Central banks will look through the first few weaker numbers but a case will build towards hikes slowing or even stopping which will be quickly factored in by markets.

This makes us more comfortable with duration in the US and Australia. Whilst Australian inflation will remain buoyant into the end of 2022 the global signals will drive the outlook. Ultimately slower inflation will still remain well above central bank targets, making rate cuts unlikely. However the fact there are signs of hope will see markets factor in a better chance of a softer landing than many are predicting.

Credit Outlook

We still remain somewhat cautious on credit spreads as we expected continued short-term volatility in markets until we get some clarity around global inflation and the withdrawal of money supply. This defensive positioning has assisted in reducing downside performance given the widening in credit spreads since the start of the year.

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 have been looking for US headline inflation to slow before lengthening up credit risk in the portfolio. Given we saw a first US CPI print that was lower than the previous month, we started to dip our toe back into the market by investing in shorter dated bank securities which offer appealing levels on a break even basis. We will continue to focus on US inflation data to guide our positioning.

Over the medium term we are constructive on the outlook for credit spreads. Credit and broader risk assets will continue to benefit from sustained global fiscal stimulus and solid fundamentals. Given the tight labour markets globally, consumer consumption will continue 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*

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.

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.