Regnan Credit Impact Trust

Factsheet | As at 31 October 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 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	0.19	0.23	0.22
3 months	0.82	0.94	0.55
6 months	0.48	0.73	0.75
1 year (pa)	-0.21	0.28	0.80
2 years (pa)	1.50	2.00	0.45
Since Inception (pa)	1.95	2.47	0.42

Source: Pendal as at 31 October 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 Oct 2022)	$198 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 October 2022)

Yield to Maturity#	4.12%
Running Yield*	4.12%
Modified duration	0.07 years
Credit spread duration	2.29 years
Weighted Average Maturity	2.83 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 October 2022)

AAA	16.4%
AA	22.5%
A	22.6%
BBB	21.3%
Money Market	17.3%

Sector Allocation (as at 31 October 2022)

Money Market	17.3%
Financials	38.0%
Industrials	22.4%
Supranational, Sovereign & Agencies	11.5%
Infrastructure & Utilities	2.6%
Real Estate	3.1%
Semis	0.2%
ABS	4.9%

Market review

The Reserve Bank of Australia surprised the market when they raised the cash rate by 0.25% to 2.60% in early October. Governor Lowe dropped a hint in early September that the pace of tightening would slow when he commented that “the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises”. The more aggressive tightening from other central banks had however resulted in the market pricing in an increase of 0.50% going into meeting.

This set up a positive month for Australian fixed interest, despite further sell offs in US rates. The major economies in the world are all at different stages of cycles right now and the market finally realised that the dynamics in Australia are partially different to the US. Australian three year yields rallied from 3.59% to 3.29%. 10 year yields moved from 3.90% to 3.75%. Australian 10 year yields now sit 0.3% under US rates.

Q3 inflation data came out slightly higher than expected. Headline and trimmed mean inflation rose 1.8% against expectation of 1.6% and 1.5%. The result saw the market price in a 20% possibility of a 50 basis point move from the RBA at their November meeting. The main contributors to the higher result included new dwellings (+3.7%), gas (+10.9%) and furniture (+6.6%). The headline result would have been higher but for electricity subsidies from the WA, Queensland and ACT government. This also sets up for another strong number in Q4 (out late January). However moderating goods price inflation next year should see inflation move down from 8% in 2022 to nearer 4% in 2023.

Credit review

It was a mixed month for credit spreads and a strong month for equity markets during October.

Risk markets started the month on a positive footing following the release of weaker than expected US Manufacturing data (ISM), also the weaker Jolts employment data showed the number of job openings fell to 10.1m in August down from 11.2m in the prior month. The softer data releases during the month were taken positively by investors as it drove speculation the Fed will slow the speed and magnitude of future rate hikes.

There was also a Wall Street Journal article late in the month suggesting that the Fed is considering slowing its pace of rate hikes post-November which further supported sentiment.

Mid-month the Bank of England tried to calm UK markets by announcing that it would be temporarily expanding its bond buying scheme from GBP5b up to GBP10b per day and also launch a Temporary Expanded Collateral Repo Facility. Also, the UK government reversed the tax cuts it announced the previous month that had caused severe turmoil across financial markets. This was viewed very positively by markets.

Finally, US 3rd quarter reporting season surprised to the upside. By month end, 56% of companies had reported with 70% beating earnings expectations

Credit spreads were mixed over the month with synthetic credit outperforming following positive market sentiment, however physicals underperformed as new primary market deals re-priced the secondary market wider. The Australian iTraxx index (series 38) traded in a 22bp range finishing 7bps tighter 131bps. Australian physical credit spreads underperformed widening a couple of basis points on average. The best performing sector was industrials which was unchanged on the month, whilst the worst performing sector was domestic banks that widened 7bps. Semi-government bonds also underperformed moving out 12bps to commonwealth government bonds.

Fund performance and activity

The Fund (pre fee) slightly outperformed its benchmark in October.

Industrials added to performance whilst financials detracted.

Activity during the month included adding exposure to domestic banks whilst reducing exposure to financials sub debt.

Market Outlook

The RBA has now entered the second stage of its tightening cycle, with rates at or slightly above neutral. Inflation is a lagging indicator so is unlikely to moderate till mid 2023. At that time as well a large portion of fixed rates loans will be moving from 2% rates to variable rates closer to 6%, a significant tightening in the economy outside of the cash rate.

The second stage will see any hikes move to 0.25% rather than 0.5% and the hurdle move higher. Given the RBA is expecting inflation and unemployment to remain strong into early 2023 the data would need to surprise even higher. We expect one or two more small rises after what will be a strong Q4 CPI in late January.

Medium term the key in 2023 will be the interaction between tight labour markets and wages. This feeds directly into services inflation, which will remain elevated in 2023 and possibly move higher. The RBA will be hoping that the return of large scale immigration and foreign students will relieve the tight labour market enough to keep wages in check. These numbers are currently picking up but will likely remain below pre COVID levels until 2024.

Overall bond pricing means that fixed interest is once again providing fairly priced insurance against the potential for a recession in 2023. We see this are more likely in the US but given movements in Europe as well this could flow down to Australia. Currently risk has only had a rate led selloff, not an earnings led selloff. This makes risk markets further vulnerable and sees value in bonds around current levels.

Credit Outlook

We maintain our cautious view on credit spreads as markets are likely to remain volatile given high global inflation and Central Banks’ resolve to fight it.

The lockdowns and zero-COVID policy in China will continue to add to supply chain disruptions and inflationary pressures.

We will continue to focus on US inflation data to guide our credit positioning.

Over the medium term we are more sanguine on the outlook for credit spreads. 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.

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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*

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.