Regnan Credit Impact Trust

Factsheet | As at 28 February 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	-0.13	-0.09	0.01
3 months	-0.06	0.06	0.02
6 months	-0.17	0.07	0.05
1 year (pa)	0.89	1.40	0.10
Since Inception (pa)	2.61	3.13	0.18

Source: Pendal as at 28 February 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 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 28 Feb 2022)	$171 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 28 February 2022)

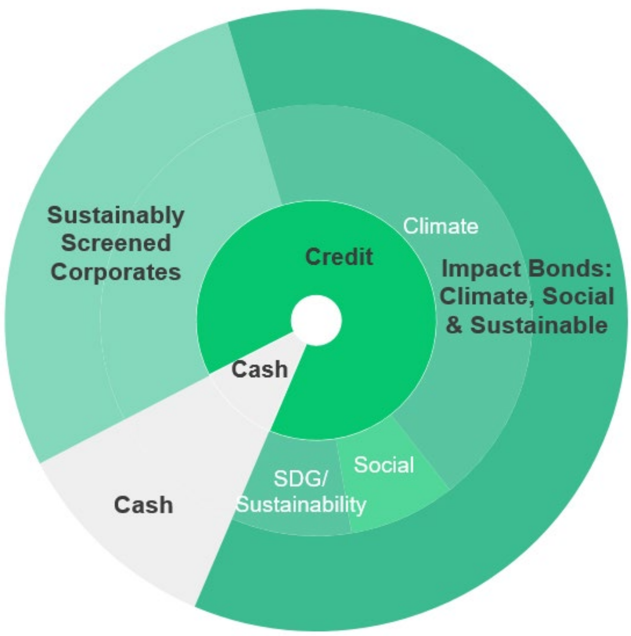
Running Yield*	0.99%
Yield to Maturity#	0.99%
Modified duration	0.06 years
Credit spread duration	2.96 years
Weighted Average Maturity	3.19 years

* 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 28 February 2022)

Money Market	16.3%
Financials	28.3%
Industrials	25.7%
Supranational, Sovereign & Agencies	12.9%
Infrastructure & Utilities	5.6%
Real Estate	4.0%
Semis	0.3%
Asset Backed Securities	6.9%



Market review

Australian yields continued to climb in February after large selloffs in January. Late February did see yields retrace some of the sell off as developments in the Ukraine hit risk markets. Ten year bonds finished the month 0.25% higher at 2.16% having briefly touched above 2.3%. Three year bonds were 0.22% higher, with the April 2025 going from 1.32% to 1.54% having peaked at 1.7%.

In Australia market moves largely followed offshore events over the month. The Reserve Bank (RBA) did release their latest set of forecasts in their Statement on Monetary Policy (SOMP). They left us scratching our heads. For the RBA to tighten monetary policy they need to see actual inflation sustainably around 2.5%. In their forecasts the RBA see trimmed mean peaking at 3.25% for the year ending June 2022. After that the RBA sees annual inflation at 2.75% until mid 2024. Yet somehow, despite their own forecasts having inflation at 2.75% or above for the next 2.5 years the RBA says they need more evidence that inflation is sustainable within their 2-3% band. The unemployment rate is forecast to reach 3.75% by the end of 2022 and remain there over the forecast horizon.

The RBA is citing wage inflation as only reaching 3% by mid 2023 for their caution. They have been scarred from the lack of wage inflation over the past decade despite strong employment growth. Wage price index data for the fourth quarter was released during the month, showing wages rose by 0.65% and taking the annual increase to 2.3%. This isn't the only indicator that the RBA will be looking at when it comes to wage inflation pressure. The increase, however, won't be enough to shake the RBA from their belief that the cash rate will remain unchanged for an extended period.

Credit review

Credit spreads and equity markets sold off in February on the back of geopolitical and inflation concerns.

The month started off poorly as the European Central Bank took the market by surprise with a hawkish tilt in their rhetoric. In a press conference ECB President Lagarde revealed concerns regarding rising inflation and acknowledged the possibility of rate hikes this year. Critically for European credit markets, the ECB also mentioned they are reassessing their QE program. This is particularly important for credit markets, given that the QE program has included corporate bond purchases since 2016, which has led to the significant resilience of EUR spreads since. This announcement was a big factor in the weakness in European credit spreads this month given the upcoming winding down of the corporate bond purchases by the Bank.

The main driver of the weakness in risk markets this month was the escalating tensions between Russia and the Ukraine. Mid-month we saw Moscow build up its military presence near Ukraine and a few days later Putin signed a decree recognising the independence of two breakaway regions in Eastern Ukraine, this then allowed Putin to begin sending weapons in order to support the separatists. Late in the month we saw the full-scale invasion of Ukraine by Russia. There was worrying headlines that Putin had placed its deterrence forces, including nuclear arms, on high alert. Western sanctions were increased on Russian banks and limited the Kremlin's ability to do business in foreign currencies, certain Russian banks were removed from the SWIFT global payments system, EU banned transactions with the Russian Central Bank, whilst Germany suspended the Nord Stream 2 Baltic natural gas pipeline project. Importantly for markets, there have been no sanctions so far on key commodities. The markets are grappling between geopolitical impacts of Russia's invasion of Ukraine against the inflation impacts due to the potential disruptions in commodity markets and whether sanctions will be placed on Russia's commodities.

One positive update during the month was company earnings that came out better than expected. As at the end of the month, US Q4 earnings beat expectations by 6%, with sales growth of 17% and earnings growth of 30% on a pcp basis. European Q4 earnings beat by 5%, whilst Australian half year earnings were strong across most sectors.

Credit spreads underperformed over the month. The Australian iTraxx index (series 36) traded in a large 20bp range finishing 18bps wider to 93bps. Australian physical credit spreads were 5bps wider on average. The best performing sector was banks which moved out 3bps whilst the worst performing sector was infrastructure that widened 11bps. Semi-government bonds also underperformed moving out 7bps to commonwealth government bonds.

Fund performance and activity

The portfolio underperformed its benchmark by 0.10% (pre-fee) in February.

Financials, industrials and utilities were a drag on performance.

Activity during the month included increasing exposure to senior RMBS whilst reducing exposure to insurance sub debt.

Market Outlook

The RBA is showing great patience on monetary policy but are slowly heading down the tightening path. It is likely having been so wrong about inflation in late 2021 they are trying to show a gradual narrative but recent events in the Ukraine will not help.

The next inflation print, due in late April, is likely to be 1.5% for the quarter and the annual rate will be around 4.5% by mid year. Even the moderation we expected in Q2 is now not likely. This will put the RBA in a very awkward position and they will need to be seen as reacting. Whether they hold out till August (another 2 CPIs and well past the federal election) is debatable but it is likely we finish the year with cash rates at 1%.

Trading this is difficult though as markets are actually looking for above 1%. Therefore short ends are difficult but ongoing inflation pressures should see longer yields push up through 2.5% in the months ahead. Of course if the already terrible developments in the Ukraine were to significantly widen then the narrative would change. This cannot be dismissed but it is also difficult to position for.

Credit Outlook

February brought geopolitical concerns into sharp focus, as the market grapples with the impact of the Russian-Ukraine war. As the market grapples with geopolitical risks, inflation and upcoming withdrawal of money supply we maintain our more neutral stance on credit spreads in the short term.

In longer-term, however, we remain constructive on credit. This is because 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 continue to drive demand for goods and services. Demand led growth is positive for company earnings and beneficial for credit fundamentals.

Whilst we remain constructive on credit longer term, we anticipate a few bumps in the road.

Impact of Central Banks' efforts to tackle inflation. A disorderly rise in bond yields may result in weakness in risk markets. However, with Central Banks keeping a keen eye on inflation, a disorderly unwind is not the high probability scenario. It is likely that from Q2, the rate hike cycle will coincide with the easing of supply constraints caused by COVID-disruptions, as well as the growth driven by demand for retail services and travel-related expenditure. Continued economic growth will be a tailwind for credit markets.

Contagion effect of Chinese high yield sector. We continue to keep a watchful eye on the Chinese high yield property development market, as defaults may trigger risk-off sentiments in global markets. For now, it appears that the Chinese government is committed to supporting the sector in an orderly unwind of bad debts.

Geopolitical Risks. We will see headlines continue in relation to the Russian-Ukraine war. Nevertheless, it is highly unlikely that the uncertainty will halt the march of growth in global economies.

Our view is that the overarching macro environment credit fundamentals will be the dominant theme going forward, despite the occasional bumps in the road. Therefore, we remain constructive on credit in the longer-term, even as we have shifted to neutral stance in the short-term.

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.

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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.