Factsheet

Regnan Credit Impact Trust

(ARSN: 638 304 220)

October 2020

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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 Objectives

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.

Additionally, the Fund applies a sustainable and ethical process to all issuers.

The Fund will not invest in issuers with material business involvement in the following activities:

- production of tobacco or alcohol,
- manufacture or provision of gaming facilities,
- manufacture of weapons or armaments,
- manufacture or distribution of pornography,
- directly mine uranium for the purpose of weapons manufacturing,
- extraction of thermal coal and oil sands production.

We consider that an issuer has a material business involvement in an activity if 10% or more of its total revenue is derived from that activity.

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.

Investment Team

Pendal's Bond, Income & Defensive team includes fifteen 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 Information Memorandum for full details of fees and other costs you may be charged.

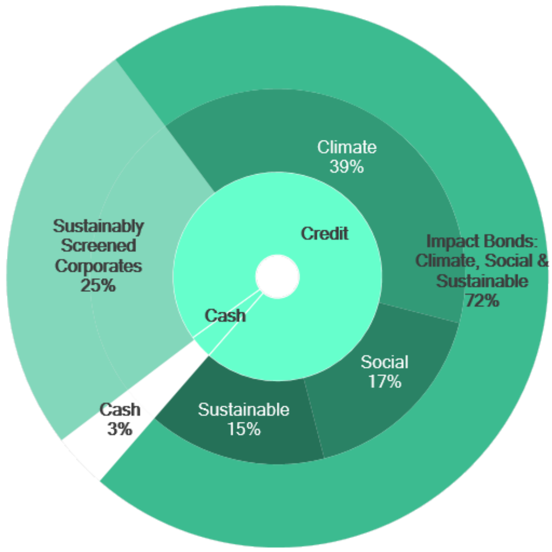
[2] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.54	0.58	0.02
3 months	0.85	0.98	0.06
6 months	1.98	2.23	0.13
1 Year	-	-	-
Since Inception	2.39	2.77	0.25

Sector Allocation (as at 31 October 2020)

Money Market	3.3%
Financials	25.4%
Industrials	15.2%
Supranational, Sovereign & Agencies	28.9%
Infrastructure & Utilities	9.5%
Real Estate	7.6%
Semis	10.1%



Portfolio Statistics (as at 31 October 2020)

Yield to Maturity#	1.27%

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.

Other Information

Fund size (as at 31 Oct 2020)	$40 million
Date of inception	January 2020
Minimum investment	$500,000
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.

Market review

The Reserve Bank of Australia (RBA) left the cash rate unchanged at their meeting in early October. They did however indicate that further monetary policy easing might be imminent when they stated that they were considering how additional monetary easing could support jobs as the economy opens up further.

A speech on the 15th October by Governor Lowe, endorsed by the Board, revealed more of the RBA's thinking. The RBA will now be putting a greater weight on actual, not forecast, inflation in their decision-making. In terms of unemployment, the RBA wants to see more than just progress towards full employment. Lowe stated also that the RBA would not increasing the cash rate until actual inflation is sustainably within the target range (2-3%) and that they do not expect to be increasing the cash rate for at least three years.

Third quarter inflation data was released after the speech, showing annual headline, trimmed mean and weighted median inflation rising by 0.7%, 1.2% and 1.3% respectively. Governor Lowe also referenced the additional yield that Australia's 10 year Government bonds trade at relative to other Western countries and whether there would be a benefit in the RBA buying bonds to reduce the yield on those bonds as they try to support Australian jobs. This has paved the way for quantitative easing at the RBA's meeting in early November.

Offshore events were dominated by the upcoming US election and the lack of progress on a fiscal stimulus package. Also weighing on risk markets were increasing COVID19 cases and resultant lockdowns in Europe, Brexit negotiations, US earnings and the trials and tribulations as companies race to find a vaccine. Positive developments occurred with Moderna stating that their vaccine could be available for emergency use in December and AstraZeneca resuming its phase 3 trials in the US.

In the US risk sentiment waxed and waned during the month on fiscal stimulus talks, with no agreement able to be reached prior to the election. The election occurs in early November with Joe Biden favoured to take office from Donald Trump according to the polls. The close Senate race will also be watched as it will impact on the next President's ability to push through fiscal stimulus.

Key economic data out of the US included third quarter GDP, which rose by a better than expected annualised rate of 33.1%. The unemployment rate fell from 8.4% to 7.9%, largely due to the participation rate.

The ECB was more dovish than expected and has signalled that further monetary policy stimulus with occur at their December meeting. ECB President Christine Lagarde outlined a regional economy that was losing momentum and is now facing deeper downside risks, with the ECB to 'recalibrate its instruments' at its next meeting following the release of the ECB's economic projections.

The Bank of England continues to weigh up the case for negative rates. MPC member Vlieghe warned that the banks' ability to stimulate growth was beginning to wane and that negative rates need to be included in the BoE's armoury once technical issues were overcome. BoE Deputy Governor Ramsden stated that whilst there might be an appropriate time to use negative rates, now is not the time.

Risk sentiment, particularly in Europe, suffered as the number of COVID cases rose sharply and led to restrictions in Spain, Italy, Germany, France and the UK amongst others. German equities were down by almost 10% over the month, with software maker SAP falling 22% in one session on a disappointing outlook for the company. In the United States the S&P 500 fell by 2.8%, China's Shanghai Composite was little changed and in Australia, the S&P/ASX 200 ended 1.9% higher.

Australian yields ended marginally lower on the month as US yields drifted higher and markets became largely priced for the potential RBA moves in November. US treasury yields sold off late in the month despite the sharp fall in US equity markets with the 10 year bond yield ending 19 basis points higher at 0.87%. However, German 10 year yields fell by 11 basis points to -0.63%.

Credit markets had a strong month in October. We saw a firm start to the month on an expectation of an uncontested Biden win in the US elections with control of the Senate which would allow a large fiscal stimulus package to be passed.

In local news, a landmark change announced in a speech by the RBA's Governor Lowe, talking to the RBA shifting its focus from forecast to actual inflation with a focus on keeping the Australian dollar in check and supporting financial stability and economic growth. This suggests that future rate hikes would be pushed out further than before. This is very supportive for credit markets in Australia as lower rates for longer will see investors continue to allocate to yielding credit securities.

However, risk markets lost momentum in the second half of the month on the back of rising Coronavirus cases, lack of US stimulus talks and increasing concern over the risk of a tighter US election outcome. The increase in new covid-19 cases in European and US pressured risk markets; this saw lockdown announcements from France, Germany and England to try to reduce the spread of the virus thereby stalling their economic recovery. In addition, the lack of breakthrough on US stimulus talks and a potential contested US election result drove whippy markets late in the month.

The Australian iTraxx index (Series 34 contract) traded in at 12p range finishing the month 5bps tighter to +71bps. Physical credit spreads had a strong month narrowing 7bps on average. The best performing sectors were industrials and domestic banks tightening 10 and 9bps respectively, whilst the worst performing sector was offshore banks that only narrowed 5bps. Semi-government bonds performed well narrowing 4bps to commonwealth government bonds.

Fund performance and activity

The Fund had a strong month in October outperforming the benchmark by 0.56% (pre-fee). Financials, real estate, supranationals and utilities drove the performance.

Activity during the month included adding exposure to real estate and semi government green bonds. These were funded out of financials and industrials.

Our focus on sustainable investments continues as strongly as ever. This month, we invested in the New South Wales TCorp Green Bond. The new bond is funding low carbon transport and water infrastructure. This includes the Quakers Hill and St Marys Water Recycling Plants Process and Reliability Renewal. This will enable 60 million litres of recycled water to be highly treated each day, servicing half a million people.

We also invested in another newly issued Green Bond by Lendlease, an Australian property and construction company that has pledged to be net zero carbon by 2025. The use of proceeds is focused on improved sustainable water management, upgrading the energy efficiency of current buildings and to ensure newly constructed buildings are 'green' meaning they are very energy efficient as determined by external assessments.

Outlook

The Reserve Bank of Australia (RBA) eased monetary policy further in early November, cutting the cash rate, term funding facility and yield curve control by 0.15% to 0.10%. In addition, the RBA announced quantitative easing, purchasing $100bn of government and semi government bonds over the next 6 months.

The RBA governor Philip Lowe held a press conference following their decision. In the Q&A session, he mentioned that 0.10% is the effective lower bound and there is little appetite to go into negative territory. He also stated that if major central banks went into negative territory, then it is something that the RBA would have to consider. The Reserve Bank of New Zealand and Bank of England are preparing for a move into negative rates. Those central banks moving will not be enough to see the RBA join the negative interest rate policy club. The actions of the Federal Reserve in the US will be the more likely catalyst for the RBA to cut the rate further. The RBA are clearly concerned about financial stability risks associated with an elevated unemployment rate. They have stated that they will not be increasing the cash rate until full employment is reached and actual inflation is sustainably within their 2-3% target band. That is something that won't be happening anytime soon.

We maintain our positive view on investment grade credit on the back of the exceptional support measures by global central banks and governments. Companies across the globe are supporting their balance sheets and improving their credit quality through raising equity, which is positive from a fundamental credit perspective.

The excess liquidity in the Australian banking system and wide credit spreads against a very low cash rate will continue to attract buyers to the sector supporting credit markets.

We still have concerns around Covid-19 and the uncertainty related to the flow on effects to the global economy and company earnings. However, we believe a more educated/experienced global community will better manage mortality rates, which will ultimately support markets. We will continue to closely scrutinise developments and assess the potential ramifications as they occur.

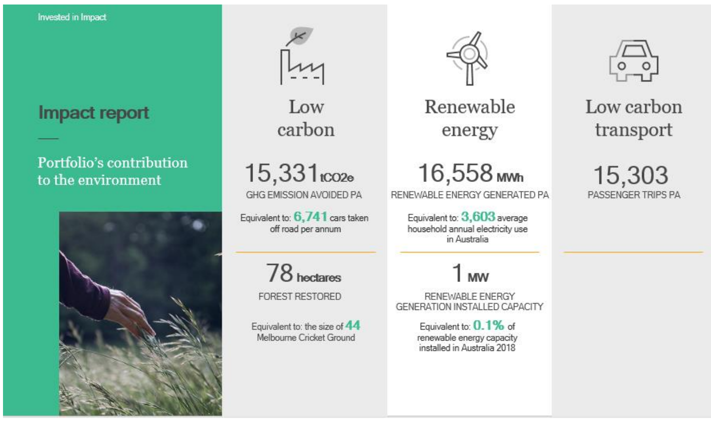
We are also focused on the US elections and the potential impact on markets as well as US-China tensions and the follow on effect of global trade. However, over the medium to longer term, policy measures should be supportive for risk assets which leaves us with a constructive stance on credit markets.

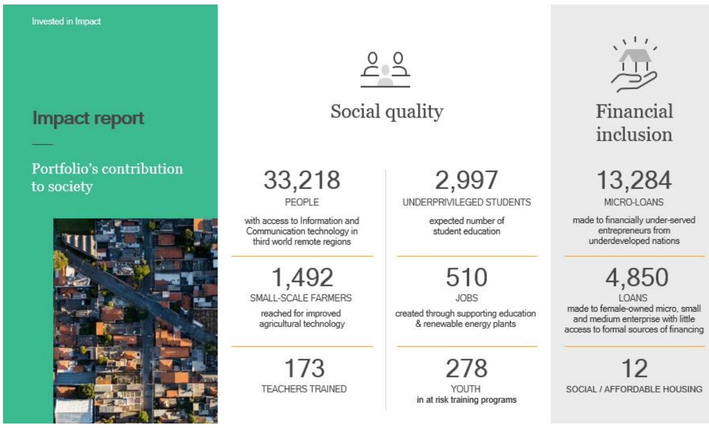
Risks

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.

Please read the Fund's Information Memorandum (**IM**) for a detailed explanation of each of these risks.





For more information please call **1800 813 886**,
contact your key account manager or visit **pendalgroup.com**