Factsheet

Regnan Credit Impact Trust

(ARSN: 638 304 220)

In partnership with PENDAL

November 2020

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

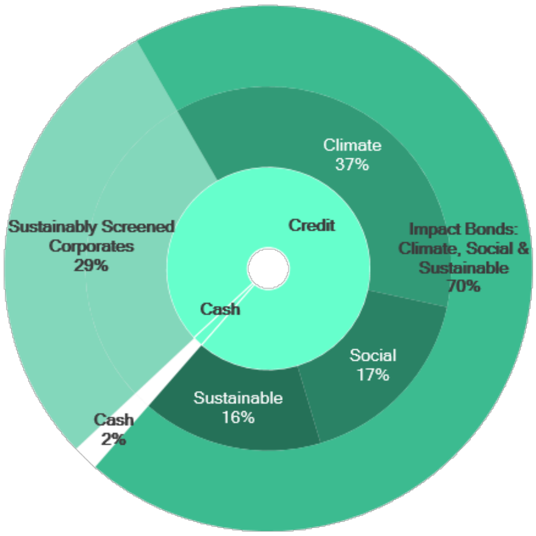
[1] You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.74	0.78	0.01
3 months	1.29	1.42	0.05
6 months	2.43	2.69	0.11
1 year	-	-	-
Since Inception	3.14	3.58	0.26

Sector Allocation (as at 30 November 2020)

Money Market	5.2%
Financials	29.2%
Industrials	14.7%
Supranational, Sovereign & Agencies	29.3%
Infrastructure & Utilities	9.3%
Real Estate	7.5%
Semis	4.8%



Portfolio Statistics (as at 30 November 2020)

Yield to Maturity#	1.18%

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 30 Nov 2020)	$42 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.

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.

Market review

Equity markets performed strongly in November with the ASX up 10% mirroring moves in international equity indices. The main catalyst was positive developments on the vaccine front with Pfizer, Moderna and Oxford/AstraZeneca all reporting encouraging results from their most recent trials conducted. These results are welcome news, particularly with the US and Europe recording increasing coronavirus cases as the Northern Hemisphere moves into their winter.

Domestically the Reserve Bank of Australia eased monetary policy further at their November meeting, cutting the cash rate, term funding facility and yield curve control to 0.10% and the rate paid on exchange settlement balances to zero. Additionally they announced quantitative easing in the form of $100bn of bond purchases to be undertaken over the next 6 months, split 80/20 between Government bond purchases and Semi-Government purchases. The RBA stated that they would not increase the cash rate until actual (rather than forecast) inflation is sustainably within the 2 to 3% target range.

Governor Lowe conducted a Q&A session following the unprecedented decision. In the session, he stated that there is little or no appetite to cut the cash rate further although it is something that would have to be considered if other major central banks (ie, the Federal Reserve) went into negative territory. Any further monetary policy easing from the RBA is likely to occur via asset purchases.

In the United States, Joe Biden was elected as the 46th President with his inauguration due to take place on the 20th January 2021. The focus will now move onto the 2 Georgia senate runoff elections to be held in early January. The Democrats will need to win both elections for the Democrats and Republicans to have 50 seats each. Vice President elect Kamala Harris would then serve as a tie-breaker. If the Republicans can retain one seat, they will retain control of the senate.

The Federal Reserve reiterated its forward guidance from September, stating that the fed funds rate will be held at 0 - 0.25% until the economy is back to maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time, reflecting their move to average inflation targeting. Later in the month it was announced that eight emergency lending programs due to end at the end of the year would not be extended.

ECB President Christine Lagarde all but ruled out lowering rates any further (the ECB deposit rate is at -0.50%). Further monetary policy easing is more likely to be via bond buying and long-term loans to banks being the preferred tools to support the economy. Market expectations that the ECB would announce something on this at their next meeting on the 10th December rose following the comments.

The Reserve Bank of New Zealand wrote their own chapter on what not to do at their MPS meeting. Over the past 6 months the RBNZ had prepared the market for negative interest rates in early 2021. They now see their Funding for Lending Program (similar to the RBA's term funding facility) as now being the best way to provide additional monetary stimulus although remain prepared to lower the cash rate further if necessary. Stepping back from moving into negative interest rate territory, along with the NZ Finance Minister asking for house prices to be considered in monetary policy decisions, resulted in New Zealand yields selling off aggressively during the month. The 5-year swap rate ended the month 35 basis points higher in yield – not exactly what you want when trying to provide accommodative financial conditions.

Risk sentiment from the vaccine announcement was positive and saw equity markets rally and credit spreads contract. The Australian dollar and the trade-weighted index were up 4.8% and 3.4% respectively. Bond yields, as would be expected, moved higher in this environment. Australian 10 year bond yields ended the month 8 basis points higher in yield at 0.90%. US 10-year yields outperformed their global peers, ending the month 4 basis points lower at 0.84%.

It was a strong month for credit and equity markets in November. The main drivers behind this strength was positive Covid-19 vaccine results announced by a number of leading pharmaceutical companies (Pfizer/BioNTech, Moderna & AstraZeneca) with very high efficacy rates. Also importantly the AstraZeneca vaccine is significantly easier to store and transport.

The strong Vaccine results outweighing the continued deterioration in US covid cases. However of the flip side new cases in Europe have been improving.

Also, the Biden win in the US election was viewed positively by markets. A Democrat house with a Republican senate will see limited increases in taxes however should still see fiscal stimulus passed.

Locally, the RBA cut the cash rate and reduced the yield curve control on 3 year bonds both to 0.10%, whilst also announcing commonwealth and semi-government bond purchases. This saw semi-government yields fall, and drove increased demand for yielding credit securities.

The Australian iTraxx index (Series 34 contract) traded in an 14p range finishing the month 11bps tighter to +60bps. Physical credit spreads had the strongest month in over 6 years with the average credit spread narrowing 13bps. The best performing sectors were real estate, infrastructure and industrials, tightening 44, 43 & 26bps respectively on the back of the positive vaccine news. The worst performing sectors were domestic banks and supranationals both only narrowing 6bps. Semi-government bonds tightened 2bps to commonwealth government bonds.

Fund performance and activity

The Fund had a very strong month in November outperforming the benchmark by 0.77% (pre-fee). Real estate, supranationals, infrastructure and utilities drove the performance.

Activity during the month included adding exposure to financials and supranationals funded out of semi-governments.

This month we invested in the World Bank's Sustainable Development bond. This bond supports the World Bank's goal of ending extreme poverty and promoting shared prosperity through a range of projects that align with the United Nations' Sustainable Development Goals. One of the projects that we fund through this bond addresses small-scale farmers and indigenous communities in Paraguay, a country where one in five people live in extreme poverty. Strengthening access to markets and increasing the capacity for community organisation and self-governance will assist 256,000 poor farmers to sell produce at a better price and improve their family's socio-economic conditions. Other projects include improving education opportunities in Armenia, funding sustainable hydropower in Pakistan, fostering business development to empower women in Gabon and connecting health services in Peru. We consider it a terrific opportunity to be investing in such impactful initiatives.

Outlook

The Reserve Bank of Australia (RBA) is likely to be on hold for new policies for the next six months after their actions in early November. The only speculation will be around May, when the current QE program ends. We expect a similar program will be extended for the next six months as unemployment targets will still not be met. This will continue to provide support for bond markets that will remain rangebound.

Economic data will be robust in the coming quarters but we are still in rebound mode. The RBA expects the size of the economy to have fully recovered to pre COVID levels by the end of 2021, although if current health outcomes continue it may be earlier. However the road to growth from there will be hard as some of the structural damage done, particularly in employment, will take longer to fix. The RBA have stated 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.

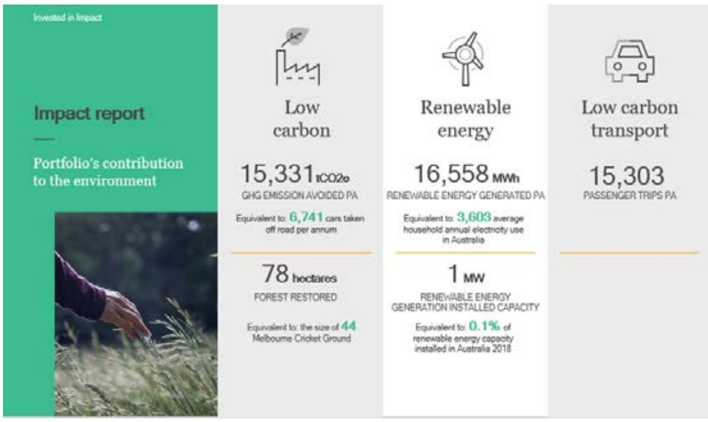
We maintain our bullish view on credit markets on the back of significant global central bank and government support measures, positive vaccine news and a more conciliatory new US government.

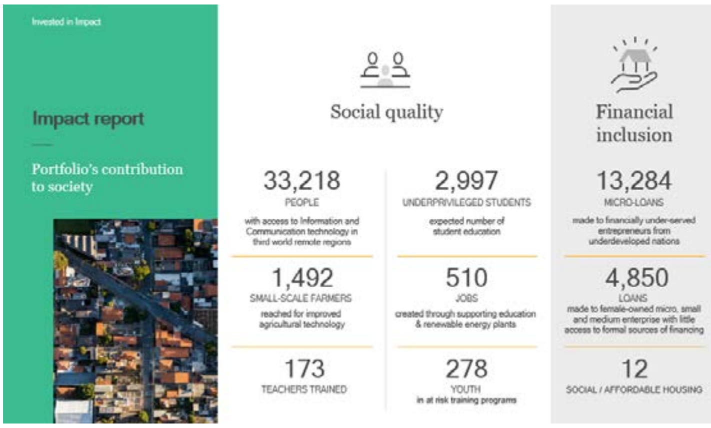
The news of effective Covid vaccines with high efficacy is incredibly important for the improvement of global economic growth. Once the vaccines are distributed, the world will hopefully be able get back to normal, which will see a sharp recovery in economic growth supporting risk markets.

The Biden victory in the US elections is also positive for markets as a democratic house with no senate control should see no major tax increases or regulatory changes. In addition, the Biden government should see an improvement in global trade talks moving away from the more aggressive Trump US-China trade wars.

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

Over the medium to longer term, policy measures should be supportive for risk assets which leaves us with a constructive stance on credit markets.





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contact your key account manager or visit **pendalgroup.com**

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