Factsheet

Regnan Credit Impact Trust

(ARSN: 638 304 220)

Brought to you by PENDAL

February 2021

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 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.

Investment Team

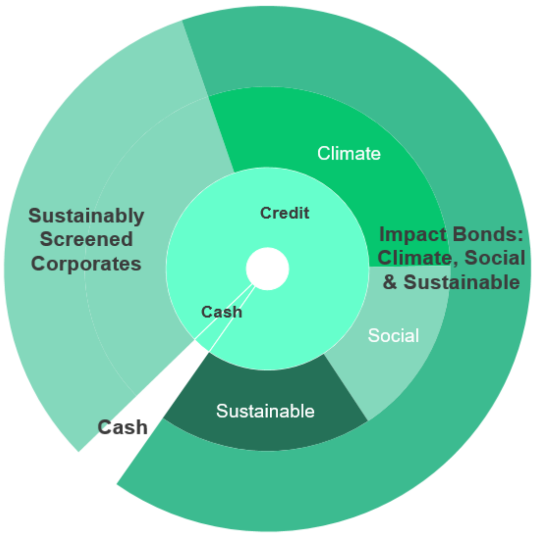
Pendal's Bond, Income & Defensive team includes fifteen dedicated investment professionals. The team also draws on a wide range of knowledge resources including Pendal's other specialist investment teams: Equity and Multi-Asset. The portfolio manager of the Fund is George Bishay, who has more than 26 years industry experience.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.46	0.49	0.01
3 months	1.41	1.53	0.02
6 months	2.72	2.97	0.08
1 year (pa)	4.57	5.09	0.22
Since Inception (pa)	4.22	4.74	0.26

Sector Allocation (as at 28 February 2021)

Money Market	2.5%
Financials	35.8%
Industrials	21.4%
Supranational, Sovereign & Agencies	24.9%
Infrastructure & Utilities	7.5%
Real Estate	6.9%
Semis	1.0%



Portfolio Statistics (as at 28 February 2021)

Yield to Maturity#	1.17%

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.

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.

Other Information

Fund size (as at 28 Feb 2021)	$46 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.
- **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 Information Memorandum (**IM**) for a detailed explanation of each of these risks.

Market review

Bond yields rose aggressively in February as inflation fears from fiscal stimulus and a paring back on monetary policy expectations weighed on the market. In the US, Fed officials did not weigh against the move higher, seeing the rise in bond yields as a signal of growing optimism in the economic recovery. On the vaccine front, the US CDC reported that 20.6m Americans are now fully vaccinated with a further 45.2m having received one vaccine dose. Risk markets started the month strongly with the ASX 200 gaining 4.73% and the S&P500 rising by 6.35% before falling into month end as higher bond yields weighed on risk appetite. The ASX200 ended 1% higher for the month and the S&P500 rose 2.6%.

The Reserve Bank of Australia (RBA) surprised the market at its February meeting when announcing that Quantitative Easing would be extended once the initial $100bn program has been used up by mid-April. The RBA will buy a further $100bn at a rate of $5bn per week, taking Quantitative Easing through until early September. The RBA also released their Statement on Monetary Policy (SoMP), with underlying inflation not forecast to reach the bottom end of their target band over the forecast horizon. Inflation for the year ended June 2023 forecast to be 1.75%. Economic growth forecast to expand by 3.5% over 2021 and 2022 and has resulted in the unemployment rate forecasts being revised down to 6% and 5.5%. Employment data released during the month was better than expected with the unemployment rate falling from 6.6% to 6.4%. The wage price index showed wages in the 4th quarter rising by a better than expected 0.6% and resulted in an annual increase of 1.4%.

Economic data out of the United States was mixed. The unemployment and underemployment rate both declined to 6.3% and 11.1% from 6.7% and 11.7% respectively, driven by a reduction in the participation rate. Non-farm payrolls recorded a weaker than expected gain of 49,000 jobs in January whilst the prior 2 months data had net downward revisions of 159,000 jobs. Inflation data was also weaker than expected with core inflation flat in January resulting in an annual gain of 1.4% (economist expectation was for +0.2% for the month, 1.5% for the year). Inflation was weighed down by subdued rents, falls in new and used cars, airfares and household furniture.

In his semi-annual monetary statement, Fed Chair Powell noted that Quantitative Easing would continue at its current pace "until substantial further progress has been made toward our goals" and that "the economy is a long way from our employment and inflation goals". On inflation Powell noted that "for some of the sectors that have been most adversely affected by the pandemic, prices remain particularly soft" and that it "could take more than three years to hit the 2% average inflation target". During the month, Powell reiterated however that monetary policy alone won't be enough, repeating his call for more fiscal stimulus. Treasury Secretary Janet Yellen urged G7 countries to also go big on fiscal support.

It was a volatile month for bond yields, with Australia amongst one of the worst performing markets. Australian 10 year bond yields traded in an 82 basis point range, selling off aggressively late in the month on inflation concerns globally and position liquidation. Australian 10 year bonds ended the month 78 basis points higher at 1.92%. 3-month implied rates for 2024 and 2025 peaked at 1.36% and 2.04% (from 0.66% and 1.02% in January), implying a cash rate that is closer to 1% and 1.75%. US 10-year bonds traded in a 48 basis point range, ending the month 34 basis points higher at 1.41%.

Credit spreads performed well in February. Risk markets continued to rally on positive sentiment on Covid-19 vaccine rollouts, fall in new global covid cases and hospitalisations, expectation of an increased size of US stimulus, and central banks remaining determined not to suggest any tightening of monetary policy in the near term.

However, bond markets felt the pinch with yields increasing during the month on positive growth and inflation outlooks, as well as commodity prices rising. This saw some weakness in equity markets and credit spreads late in the month due to the pace of the increase in yields driving market uncertainty.

On company earnings front, in the US the S&P500 entities reported their Q4 2020 earnings were 78% beat expectations with a 5% increase in earnings compared to the prior corresponding period (pcp). In Europe, 64% of companies beat expectations, however earnings fell 23% on a pcp basis. Australian companies reported second half earnings with 51% beating and 13% meeting expectations. The strongest earnings growth numbers in Australia came from healthcare, materials and industrials, whilst the worst performing sector was oil & gas.

The Australian iTraxx index (Series 34 contract) traded in a 7bp range finishing the month unchanged at +63bps. Whereas physical credit spreads outperformed tightening 3bp on average. The best performing sectors were infrastructure, real estate and resources tightening 17, 12 & 7bps respectively. The worst performing sectors were domestic banks that widened 2bps and supranationals that were unchanged. Semi-government bonds underperformed widening 2bps to commonwealth government bonds.

Fund performance and activity

The Fund had a strong month in February outperforming the benchmark by 0.49% (pre-fee). Financials, infrastructure, real estate, utilities and industrials drove the performance.

Activity during the month including increasing exposure to financials funded out of supranationals and semi government sectors.

This month we added exposure to two impact bonds, one a green bond and one a sustainable bond. There are three main categories of impact bonds: green bonds, which fund projects that have environmental benefits; social bonds that fund projects with social benefits; and sustainability bonds, which fund a combination of green and social bonds.

The first of the bonds we bought this month is the National Australia Bank Climate Bond, which funds renewable energy projects including solar, and wind farms across Australia. The Climate Bonds Initiative certifies the bond, which is an international standard to assist investors through standardising this category of bonds.

The other bond we invested in is the Australia and New Zealand Bank Sustainable Development Goal (ANZ SDG) Bond. This bond funds projects that directly contribute to a range of SDG targets. This includes funding green buildings, schools, hospitals, water access, public transport and renewable power. The SDGs are a series of 17 goals that all countries have signed up to achieving by 2030 to promote prosperity and protect the planet. Banks in particular have an important contribution to these goals through providing financing for businesses and governments to work towards specific goals.

Outlook

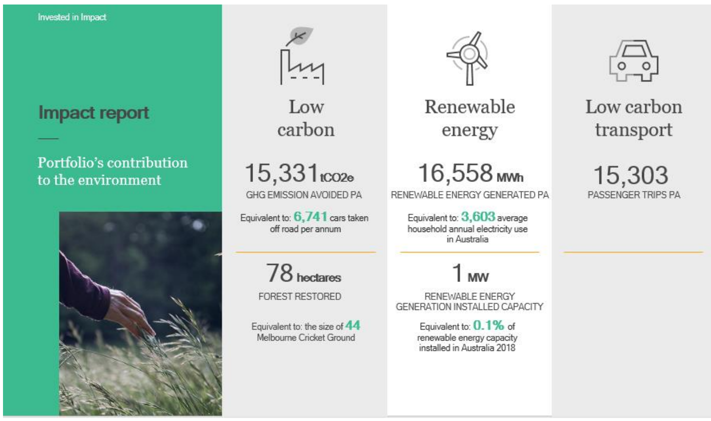
The Reserve Bank of Australia left the cash rate unchanged at its meeting in early March and reiterated that they will not raise the cash rate until actual inflation is sustainably within the 2 to 3% target band. The RBA does not expect this to occur until 2024 at the earliest. Market pricing in February does not marry up with the RBA's view, with pricing indicating that the cash rate could be increased as early as late 2022. We view this as being premature. Economic data in Australia has been better than expected with the labour market showing some encouraging signs. Significant slack however remains and wage inflation is not something that will be occurring any time soon. The rise in household savings is supportive for nearer term consumption and in turn economic growth. There are sectors of the economy that will continue to struggle for an extended period, particularly the education sector and some parts of the tourism industry. We expect the RBA to remain on hold for an extended period.

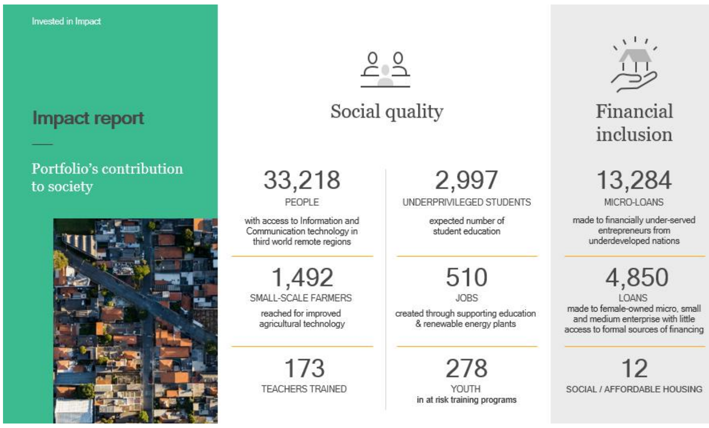
We maintain our constructive view on credit markets on the back of global central bank and government stimulus measures, pent up demand with the vaccine rollouts and ultimately stronger company earnings. We view the recent market volatility and higher bond yields as overdone, although the stronger economy did justify pricing in a modest rises in rates. Once rates stabilise, credit markets will focus more on the stronger economic growth and return of modest pricing power for business, both tailwinds for credit, as opposed to recent dislocation.

As covid continues to impact global economic growth, we expect policy makers to continue to support economies from both fiscal and monetary stimulus perspectives. This support will be a driving force for markets going forward.

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. A risk to markets lies with the level of efficacy of vaccines going forward.

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





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

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