Regnan Credit Impact Trust

Factsheet | As at 31 May 2021

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	0.23	0.27	0.01
3 months	0.65	0.78	0.03
6 months	2.06	2.32	0.05
1 year (pa)	4.55	5.08	0.16
Since Inception (pa)	3.92	4.44	0.23

Source: Pendal as at 31 May 2021

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.

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 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 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 31 May 2021)	$68 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.

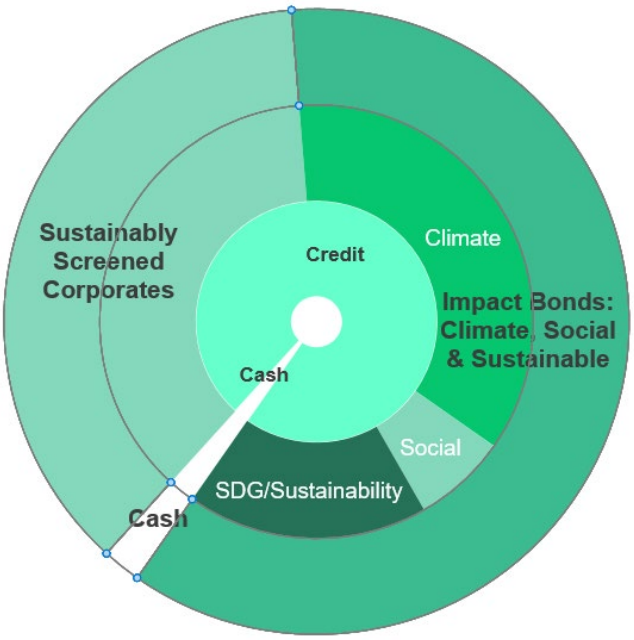
Portfolio Statistics (as at 31 May 2021)

Yield to Maturity#	1.12%

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 31 May 2021)

Money Market	2.7%
Financials	40.2%
Industrials	22.8%
Supranational, Sovereign & Agencies	17.7%
Infrastructure & Utilities	10.0%
Real Estate	5.9%
Semis	0.7%



Market review

May saw the Reserve Bank of Australia provide their updated forecasts in their Statement on Monetary Policy. Economic growth was revised higher from 3.5% to 4.75% for 2021, with 2022 unchanged at a healthy 3.5%. Reflecting the better than expected growth the unemployment rate was revised to 5% from 6% by the end of 2021 and is now forecast to be at 4.5% by the end of 2022. Despite these stronger forecasts trimmed mean inflation was only revised up slightly. A forecast of only 2% by mid 2023, and Reserve Bank indicating it will not increase the cash rate until actual inflation is sustainably within their 2-3% target range, indicates the cash rate will remain where it is for at least 2 years. We view the inflation forecast as too conservative. In the same way they spent most of the last decade overestimating inflation we view current RBA forecasts as risking underestimating inflation for some time forward.

The NAB Business Survey continues to paint a rosy picture. Business confidence reached an all-time high and business conditions improved even further from the record high set in the preceding month. The forward looking indicators suggest that conditions will remain strong in the coming months with both forward orders and capacity utilisation showing a growing pipeline of work. The employment sub component also showed continuing strength, a pleasing result given the end of JobKeeper.

The Federal Budget was also released during the month, and in line with the improved outlook for economic growth reflected budget deficits that were lower than those forecast at the end of 2020. The budget deficit for 2020/21 is now forecast to be 161bn, down from their December forecast of 197.7bn. The deficits are expected to decline in the coming years, with a deficit of $57bn forecast for 2024/25 and resulting in net debt of 40.9% of GDP. Fiscal policy remains extremely supportive for the Australian economy, something it rarely was since the GFC.

The wage price index for the first quarter reflected a rise of 0.6%, taking the annual rate to 1.5%. The unemployment rate fell to 5.5%, although this was driven by a fall in the participation rate to 66% (from 66.3%). Employment fell by 30,600 jobs, weaker than expected but in the context of JobKeeper expiring at the end of March and other forward looking indicators showing labour market strength it was not a data release that caused any concern.

Bond yields ended the month slightly lower in Australia with 10-year physical bonds rallying by 4 bps to 1.71%. The RBA's yield curve control and large amounts of cash in the system also saw short end yields also rally by 4 bps, with the 3-year bond now below the yield curve target.

Credit spreads and equity markets ended the month firmer.

The fall in bond yields with dovish comments from Federal Reserve continues to support risk assets.

We saw a significant decrease in the new cases of Covid-19 globally over the month of May, this combined with the large ramp up in vaccine rollouts was also positive for market sentiment.

May was a seasonally light month of new issuance in Australian credit markets which helped the supply/demand technicals supporting secondary market pricing.

The US Federal Reserve continues to talk to rises in inflation is seen as being transitory. However in a statement that impacted markets was the comment in FOMC minutes that if the economy continued to make rapid progress to their goals, it may be appropriate at some point to begin discussing a plan for adjusting the pace of asset purchases. A negative reaction by the market was short lived as the market ultimately knows that stronger growth will require a normalisation of quantitative easing at some point.

There were concerns around inflation rising as the strength in commodity prices may see cost push inflation. Supply constraints due to covid restrictions as well as expectations that China will tighten environmental rules fueled speculation that steelmakers may front-load iron ore purchases before new curbs kick in, also added to the bull case for copper which is vital to the green energy transition. The higher than expected US core CPI data (0.9% vs 0.3% expected month on month) also was a concern for markets, however the very softer April US payrolls print (266k vs 1m expected) shows how volatile and unpredictable current economic data is.

The Australian iTraxx index (Series 35 contract) traded in a tight 3bp range finishing the month 2bps narrower to +59. Physical credit spreads in Australia were 2bps tighter on average. The best performing sectors were resources and real estate that narrowed 13 & 9bps respectively, however the worst performing sectors were domestic banks and supranationals which only tightened 2bps each. Semi-government bonds underperformed, widening 3bps to commonwealth government bonds.

Fund performance and activity

The portfolio outperformed the benchmark in May by 0.26% (pre-fee).

Financials, utilities, industrials and real estate contributed positively to performance.

Activity during the month included investing in a new primary market deal by a social housing issuer. We also increased our exposure to financials, infrastructure, utilities, supranationals and university sectors. These were funded out of cash.

This month we invested in a new bond issued by the National Housing Finance and Investment Corporation (NHFIC), a Commonwealth entity that provides cheaper and longer financing to Community Housing Providers to increase the amount of affordable and social housing in Australia. We already own a NHFIC Social Bonds, but this new bond is slightly different as a sustainability bond. A sustainability bond combines social and environmental outcomes. This new bond will fund initiatives such as providing social initiatives for disadvantaged youths, community spaces and support for social enterprises for Aboriginal businesses and disabled enterprises. It will also include environmental initiatives such as ensuring newly built social housing will be environmental efficient, have renewable energy supply through solar panels, rainwater harvesting, car share options and electric vehicle charging stations. These types of bonds bring about concrete impact to our community and help us achieve one of the main objectives of this fund: contributing to positive environmental outcomes and benefiting the less privileged in society.

Adding to this, we invested in a new Sustainable Development Goal (SDG) bond from the Asian Infrastructure Investment Bank (AIIB), a multinational development bank. This funds low-carbon and climate-resilient infrastructure to promote economic development and provide inclusive access to infrastructure services across developing countries. All projects are tied to the United Nations SDG's. Examples of projects funded by the AIIB include a solar power system in the Maldives, water and sewage improvement in Pakistan and financing affordable housing in India.

We also added to our exposure for the Macquarie University Sustainability Bond. This funds projects including green buildings, pollution prevention, alternative energy and increasing access to services such as programs focused on disability-sensitive learning.

Outlook

It is hard to believe a central bank forecasting full employment and above potential GDP is also forecasting little change in inflation. However, the RBA seems to be aware of lessons learnt over the last decade, where they were too optimistic on inflation. They revised their models which now risk being too low. Also having predicted in the darkest days of COVID cash rates near zero till at least 2024 they seem reluctant to walk this back.

The next significant RBA decision for bond markets comes in early July, where they announce if they are extending Yield Curve Control to the November 2024 bond from the April 2024 bond. We think it unlikely they will and are cautious duration here. They will also indicate on QE3, as QE2 finishes in September. There is little doubt they will do a QE3, but some volume tapering may be done to reflect the much stronger economy.

We remain positive on credit markets on the back of a number of tail winds, which include expansionary fiscal and monetary stimulus from global governments and central banks, and vaccine rollouts, which will drive the reopening of economies and lead to stronger company earnings.

Effective covid vaccines with high efficacy is critical for the reopening of economies and global economic growth. The vaccine rollout should see economies get back to normal, which will see a sharp recovery in economic growth and company earnings supporting risk markets. However, a risk to markets lies with the level of efficacy of vaccines going forward.

Another risk for markets is higher than expected inflation that is not transitory. We view the supply constraints due to covid lockdowns leading to cost push inflation as transitory, nevertheless a longer transitory timeframe could become problematic for markets.

However, as global short end interest rates remain very low and ample liquidity from sustained stimulus, a continued chase for yield will be a tail wind for credit markets.

Regnan

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Invested in Impact

Impact report

Portfolio's contribution to the environment

Low carbon

15,331 tCO2e
GHG EMISSION AVOIDED PA

Equivalent to: **6,741** cars taken off road per annum

78 hectares
FOREST RESTORED

Equivalent to: the size of **44** Melbourne Cricket Ground

Renewable energy

16,558 MWh
RENEWABLE ENERGY GENERATED PA

Equivalent to: **3,603** average household annual electricity use in Australia

1 MW
RENEWABLE ENERGY GENERATION INSTALLED CAPACITY

Equivalent to: **0.1%** of renewable energy capacity installed in Australia 2018

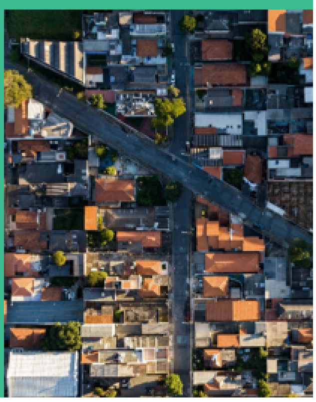
Low carbon transport

15,303
PASSENGER TRIPS PA

Invested in Impact

Impact report

Portfolio's contribution to society



Social quality

33,218
PEOPLE
with access to Information and Communication technology in third world remote regions

1,492
SMALL-SCALE FARMERS
reached for improved agricultural technology

173
TEACHERS TRAINED

2,997
UNDERPRIVILEGED STUDENTS
expected number of student education

510
JOBS
created through supporting education & renewable energy plants

278
YOUTH
in at risk training programs

Financial inclusion

13,284
MICRO-LOANS
made to financially under-served entrepreneurs from underdeveloped nations

4,850
LOANS
made to female-owned micro, small and medium enterprise with little access to formal sources of financing

12
SOCIAL / AFFORDABLE HOUSING

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.