Regnan Credit Impact Trust

Factsheet | As at 30 June 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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.20	0.24	0.01
3 months	0.71	0.84	0.02
6 months	1.70	1.95	0.05
1 year (pa)	4.34	4.86	0.15
Since Inception (pa)	3.83	4.35	0.22

Source: Pendal as at 30 June 2021

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.

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 30 Jun 2021)	$79 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 30 June 2021)

Running Yield*	1.01%
Yield to Maturity#	1.01%
Modified duration	0.05 years
Credit spread duration	4.09 years
WAM	2.89 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 30 June 2021)

Money Market	1.8%
Financials	36.2%
Industrials	27.2%
Supranational, Sovereign & Agencies	19.2%
Infrastructure & Utilities	8.3%
Real Estate	6.7%
Semis	0.6%

Market review

The Reserve Bank of Australia (RBA) left monetary policy unchanged at their June meeting. There were however some tweaks to accompanying statement. In its May statement the RBA stated that the "Board is prepared to undertake further bond purchases to assist with progress towards the goals of full employment and inflation". This was omitted from the June statement and suggests that some tapering of the bond purchase program may occur.

First quarter economic growth was released following the RBA and reflected Australia's impressive recovery since the depths of the pandemic induced recession. Growth expanded by a better than expected 1.8% in the quarter, taking the annual rate to 1.1%. The economy is now 0.8% above its pre-pandemic level.

The labour market continues to exceed expectations. Employment rose by 115k jobs in May, allaying concerns about a potential dip in employment growth following the end of the jobkeeper stimulus package. The impressive employment growth saw the unemployment rate fall to 5.1% - a level much lower than the RBA would have been forecasting. Other labour indicators also reflect a tightening environment, with ANZ job ads indicating ongoing employment growth and the NAB business survey also remaining elevated.

To offshore events and in the United States the Federal Reserve left monetary policy unchanged at their June meeting. The summary of economic projections (or 'dot plots') reflected higher economic growth with an upward revision of 0.5% to 7% for 2021 and +0.2% to 2.4% for 2023. Reflecting the transitory nature of the near term price pressures, PCE inflation is expected to be 3.4% for 2021 before slowing to 2.1% and 2.2% for 2022 and 2023. Bond yields moved higher however on the projections for the Fed Funds rate, with 7 of the 18 participants now expecting a rate hike by the end of 2022 (up from 4) and 13 of the 18 expecting a hike by the end of 2023. Chair Jerome Powell stated that the Committee had begun talking about when tapering will begin although remain a fair way from the economic conditions necessary before tapering will start. The discussion about tapering and the increased forecasts for rate hikes in 2022 saw bond yields sell off, with 10 year bond yields moving 11 basis points higher in yield on the day to 1.59%.

Labour market data remains strong in the US, despite non-farm payrolls again disappointing during the month. This is more a supply issue however with other data reflecting ongoing strength in the labour market. The Conference Board Consumer Confidence survey as an example reflected the difference between jobs plentiful and jobs hard to get at a 21 year high, and indicating strong employment growth. The ISM surveys also show employment growth in the expansionary territory.

Inflation exceeded expectations with core inflation rising 0.7% in May, taking the annual rate to 3.8%. Usually this would be cause for much concern but given rebasing effects and the near term transitory effects driving inflation outcomes it was largely dismissed by the market.

In Europe, the European Central Bank (ECB) left its monetary policy settings unchanged and upgraded their economic growth forecasts, with the economy now forecast to expand by 4.6% in 2021, up from 4% previously. The Bank of England also left monetary policy unchanged, although expectations for rate hikes were pushed back slightly after it stated that policy should "ensure that the recovery was not undermined by a premature tightening in monetary conditions". US 10-year bond yields traded in a 28 basis point range, peaking at 1.63% early in the month and reaching a low of 1.35% on the 21st June. 10-year bonds ended the month 13 basis points lower at 1.47%. The shorter part of the curve reflected the nearer rate hike expectations in the US with 2 and 5-year bond yields ending 11 and 9 basis points higher in yield at 0.25% and 0.89%.

Australian yields mirrored offshore moves with 10-year bonds trading in a 26 basis point range before ending the month 16 basis points lower at 1.50%. The short end of the curve underperformed, with the market casting some doubt on the timing around the RBA's lift off in terms of rate hikes. The June 2023 bank bill future (just for something different) sold off 15 basis points over the month and ended at an implied 3 month yield of 0.73% - not the level that you would expect should the RBA maintain the cash rate at 0.10% until 2024.

Credit spreads performed well given the equity and bond market volatility in June. Supporting sentiment was lower bond yields, lower global death rates linked to Covid-19 as vaccinations numbers rise, and finally the US $1.2 trillion bipartisan deal between the White House and US Senate on infrastructure spending.

Yield curves flattened with short end bond yields rising whilst mid and long end yields fell as the FOMC was more hawkish than market expected. The US Federal Reserve moved its dot plots indicating rate hikes have been brought forward which should see them get ahead of future inflation risks. Inflation fears have been a major concern for markets so this stance from the FOMC was viewed positively by markets. Also supporting lower bond yields was the US employment data which was weaker than expected, whilst with unemployment fell 0.3% to 5.8% as participation fell. There is a view that lower participation rates are due to the on-going federal unemployment benefits as well as the excess savings driving a reduce rate of return to work.

Finally, a concern for markets is the rise in new variants of covid.

The Australian iTraxx index (Series 35 contract) traded in a tight 3bp range finishing the month 1bp narrower to +58. Physical credit spreads in Australia were 2bps tighter on average. The best performing sectors were infrastructure, real estate and offshore banks that all narrowed 3bps, whilst the worst performing sectors were resources, domestic banks and telcos that only tightened 1bp each. Semi-government bonds underperformed, widening 6bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed its benchmark by 0.23% (pre-fee) in June.

Financials, industrials, infrastructure and real estate contributed positively to performance, whilst utilities detracted

Activity during the month included investing in a number of new primary market deals across industrials and supranationals sectors. We also added to our financials and real estate exposures. These were funded out of cash.

This month we invested in four new primary market deals.

The African Development Bank, a supranational finance institution that funds projects relating to the Sustainable Development Goals across Africa, issued a new social bond. Projects include electricity distribution especially in rural areas, ensuring water supply and sanitation, improving agriculture and food security, social housing and vocational training. This added to our investments in bonds of Australian dollar supranationals which increases the exposure of the fund to positive impacts internationally. Another new bond we invested in this month was an AUD Green Bond from the Canadian Pension Plan Investment Board, which manages pension investments for 20 million Canadians. The Green Bond program invests in projects and companies around the world focused on renewable energy, sustainable water and wastewater management and green buildings.

Closer to home, we also invested in another National Housing Finance and Investment Corporation Social Bond which goes towards increasing access to low income and vulnerable Australian access affordable housing. The other new issue bond invested in this month was the Sustainability-Linked Bond by Wesfarmers. This bond will seek to ensure that retail stores across Wesfarmers, including Bunnings, Kmart and Officeworks, operate exclusively with renewable energy. It also focuses on reducing the CO_2e emissions intensity of ammonium nitrate production in another business in Western Australia and Queensland owned by Wesfarmers.

Outlook

There are a number of key events ahead that will drive Australian bond markets near term. Firstly, the RBA meeting in early July will set a path out for the beginning of the COVID unwind. The first steps are likely to be not extending Yield Curve Control beyond April 2024 bond and moving Quantitative Easing to a more flexible framework.

The next key event will be the June Quarter CPI in late July. Given the RBA has been vocal in now focusing on actual not forecast CPI markets will be looking for signs of emerging inflation. Given lags between growth and inflation and government impacted deflation unwinding this is the first underlying quarterly number that has a chance of pushing up to 0.6 or 0.7%, away from the 0.3 to 0.5% range of the last five years. Such a result could see the RBA then move to the next phase of their unwind by tapering QE and potentially reducing Yield Curve Control back to the April 2023 bond. If inflation remains range bound then current measures will remain in place.

As always US markets will have an impact as well. The main narrative there is whether recent strong inflation numbers are transitory or end up spreading more broadly into services. No one, including the Fed, is sure but with fiscal stimulus still strong and supply chain constraints slow to unwind inflation may persist longer than many suspect.

Full Vaccination rates in the US and UK have now reached 50% of the population. In developed Europe most countries are around one third fully vaccinated. The conversation is now turning to living with COVID rather than avoiding it and economic momentum is strengthening as economies continue opening up. The key question for bond markets remains how long extraordinary monetary and fiscal stimulus will be in place.

Central banks and governments are generally happy to be cautious around any stimulus withdrawls. In the US the Fed in June acknowledged stronger data and inflation and markets took the sign of potential action next year as actually bond friendly – the narrative is that a medium term inflation breakout is now less likely.

However, for now QE remains in place globally and any signs of tapering as more words than action. Bond markets will continue to try and balance the costs and benefits or action or no action. Yield curves will probably be the main source of volatility as early or late tightening is seen as friendly or unfriendly to long-term bond rates. This is seen by the very strong US 30yr bond in early June when the Fed moved their dot plot forward. A seemingly hawkish move was taken as very long-term bond positive.

Risk markets continue to price in a healthy balance of stimulus but contained inflation. However, with the path out of COVD being unchartered territory perhaps there is more uncertainty than markets are pricing. This may take longer to play out but the first post COVID risk gains from strong tailwinds are now entering a more nuanced phase.

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

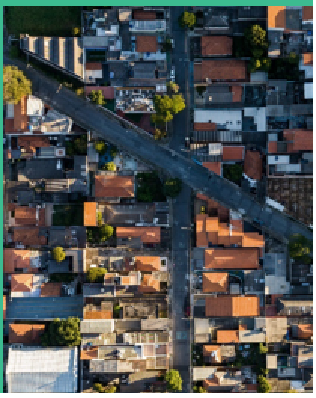
Low carbon transport

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

2,997
UNDERPRIVILEGED STUDENTS
expected number of student education

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

510
JOBS
created through supporting education & renewable energy plants

173
TEACHERS TRAINED

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.

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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. You should obtain and consider the PDS 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.