Regnan Credit Impact Trust

Factsheet | As at 31 July 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	0.14	0.18	0.01
3 months	0.56	0.69	0.03
6 months	1.44	1.70	0.05
1 year (pa)	4.03	4.56	0.14
Since Inception (pa)	3.70	4.23	0.21

Source: Pendal as at 31 July 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.

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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 Jul 2021)	$89 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 July 2021)

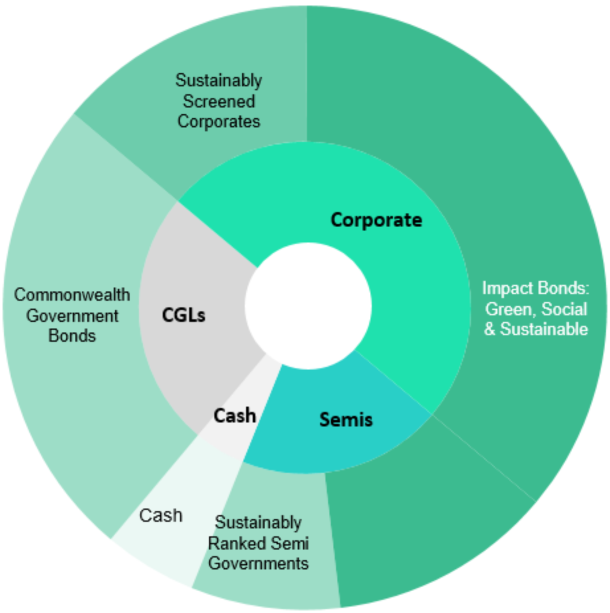
Running Yield*	0.98%
Yield to Maturity#	0.98%
Modified duration	0.06 years
Credit spread duration	4.14 years
Weighted Average Maturity	2.77 years

* 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 31 July 2021)

Money Market	4.1%
Financials	33.0%
Industrials	31.0%
Supranational, Sovereign & Agencies	17.6%
Infrastructure & Utilities	7.6%
Real Estate	6.1%
Semis	0.6%



Market review

Economic data took a backseat to rising concerns over the delta variant of the coronavirus in July. Domestically this resulted in lockdowns being imposed that now make it likely that the domestic economy will now contract in the 3rd quarter of the year. Risk sentiment was also negative effected by a series of events out of China. Bond yields rallied with the Australian 10 year bond trading in a 35 basis point range and ending the month at 1.18%

The month started on a positive note domestically. The improving state of the Australian economy saw the Reserve Bank announce that it would begin tapering their Government bond purchases at the end of their current program in September from $5bn per week to $4bn per week until at least mid-November. As expected Yield Curve Control was not extended from the 4/2024 to 11/2024 bond. The wording in the statement also contained a tweak that opened up the possibility that a rate hike could occur before 2024. The market interpreted the change as more hawkish and saw the bank bill futures strip sell off by up to 10 basis points.

The key economic data released domestically during the month was the 2nd quarter inflation data. Headline inflation rose by a slightly higher than expected 0.8% for the quarter, taking the annual inflation rate to 3.8%. The trimmed mean and weighted median were in line with market expectation, with gains of 0.5% resulting in annual increases of 1.6% and 1.7% respectively. The higher annual headline rate will subside in the coming quarters as the effect from previous subsidies and grants washes through the number.

Inflation data released elsewhere was generally higher than expected. In New Zealand 2nd quarter inflation rose by 1.3% (against expectation of 0.7%), taking the annual rate to 3.3%. This followed on from a more hawkish Reserve Bank of New Zealand (RBNZ) statement early in the month whereby they announced they would halt additional asset purchases under their Large Scale Asset Purchase (LSAP) programme by late July. At its peak, the market had implied at least 2 rate hikes by the RBNZ prior to year-end.

Inflation data in the US also exceeded expectations. Headline and core inflation rose by 0.9% in June (against expectations of +0.5% and 0.4%), taking the annual rate to an astonishing 5.4% and 4.5% respectively. Used vehicle prices drove price index higher, contributing 0.4% to the monthly results. This follows on from large gains in April and May and is expected to reverse in the coming months. It is these types of transitory factors that the Federal Reserve is looking through when assessing the data. This was confirmed in Chair Powell when he testified before Congress, stating that inflation is likely to remain high in the coming months before moderating given temporary factors were mainly to blame. He did add that if the Fed thought that inflationary pressures were more persistent that they ‘would absolutely change our place as appropriate’.

The FOMC meeting late in the month produced no real surprises with the Fed continuing quantitative easing at the rate of $120bn per month ($80bn in Treasuries, $40bn in Agency mortgage backed securities. In the press conference post the meeting Powell stated that ‘we’re some ways away from substantial progress on jobs’ and ‘the Fed is nowhere near considering raising rates’ even though progress had been made on its employment and inflation goals.

Inflation data however took a back seat to pandemic developments and events in China that weighed on risk sentiment. In China, the State Council announced that companies that teach school subjects could no longer accept overseas investment and those companies in violation must take steps to rectify the situation. In addition, companies in the education sector were banned from making profits and listing on the stock exchange. Further dampening sentiment in China were credit concerns over property giant Evergrande, whose bond prices plummeted during the month. Their March 2022 bond fell from ~$87 to $54 by the end of the month, trading at a yield of 133%.

July was volatile month for markets with a mid-month sell off in risk assets, which later recovered in the back end of the month. Equities ended the month stronger, whilst credit spreads were mixed.

The mid-month weakness was due to concerns around the rising covid delta variant infections, which would hamper global economic recovery. However, by the end of July, even as new global covid cases had increased, new death cases had not increased and had remained at similar levels as vaccination rates continue to increase. The UK will be a great test case for re-opening of economies given their high levels of vaccinations, they continue to see a disconnect between new covid cases and hospitalisations.

Another factor weighing on markets was the softer than expected US and Chinese economic data that can be seen in the drop in economic surprise indices.

Central bank rhetoric did supported sentiment. A dovish ECB said interest rates will remain at their present or lower levels until it sees inflation reaching two per cent well ahead of the end of its projection horizon. Given forecasts are expecting inflation at 1.4% to 1.5% in 2023 it seems like rates will not be moving in Europe for a long time. In addition, the US Federal Reserve commented that the US economy has made progress, but not sufficient progress to change policy with the overall message that the path of interest rates remains near term dovish.

Strong 2nd quarter company earnings results out of the US supported markets. As at the end of July, 60% of companies had reported, US earnings were higher than expected by 18% with actual growth at 100% compared to the prior corresponding period (pcp). This was driven by revenues beating expectations by 5% with actual growth of 27% on a pcp basis.

Finally, a seasonally weak month of new primary issuance underpinned credit spreads in Australia.

The Australian iTraxx index (Series 35 contract) traded in a 7bp range finishing the month 5bp wider to +63. Physical credit spreads in Australia were unchanged on average. The best performing sectors were domestic banks and real estate that narrowed 3 & 2bps respectively, whilst the worst performing sectors were infrastructure and utilities that both widened 1bp. Semi-government bonds tightened 1bp to commonwealth government bonds.

Fund performance and activity

The Fund outperformed the Bloomberg AusBond Composite Bond index in July by 0.17% (pre-fee).

The duration component was a small positive for the month. The fund established a small duration long after the RBA announced some light tapering early in the month. This was squared up into the bond rally mid-month as markets began to reduce the chances of rate hikes. We expect the four-year part of the government curve (using the ACG April 2025) to trade between 0.5% and 0.3% near term before moving higher into year-end.

The physical portfolio outperformed the benchmark. The government sector positioning underperformed whilst the non-government portion of the portfolio outperformed. Financials and industrial sector positioning contributed positively to performance.

Activity during the month included investing in National Housing Finance Investment Corp social bond and a new South Australian Government bond, both funded out of cash. We also completed some Commonwealth government bond switches.

Outlook

Australia remains in partial lockdown, with no change for at least Sydney until September. Fiscal support is helping but not to the same extent as in 2020. This means the RBA will continue to point towards no changes in monetary policy for at least the new few years. This positive backdrop for bonds has helped long ends rally almost 50 basis points since May and have now retraced two thirds of the February selloff.

However, signs continue to emerge of inflationary pressures in 2022, once government policies currently dampening it are removed. This of course assumes the economy is fully open in 2022, which hopefully vaccines bring about. The RBA will remain cautious until then and major selloffs are unlikely near term. As 10 year bonds nudge back to 1% they are likely being too pessimistic around outcomes, a pessimism not shared by risk markets.

It seems massive fiscal and monetary stimulus has crushed real yields and pushed all asset markets valuations higher. Until there is clear evidence inflation is heading higher, it is unlikely the RBA or Government will remove these settings. For now, that seems a 2022 issue.

We remain constructive on credit spreads on the back of a number of supportive factors which include expansionary fiscal and monetary policy stimulus from global governments and central banks, vaccine rollouts which will drive the reopening of economies and lead to stronger economic growth and company earnings, improving corporate fundamentals an easing of banking lending standards.

The global covid-19 vaccine rollout should see economies get back to normal and drive a sharp recovery in economic growth and company earnings supporting risk markets. However, a risk to markets lies with the level of efficacy of covid-19 vaccines going forward. If efficacy rates turn out to be much worse than the clinical trial results, this will have a negative impact on the global economy as lockdowns will become the norm, which will slow economic growth and company earnings.

Another risk for markets is higher than expected inflation that is not transitory, which would drive a disorderly rise in bond yields. We view the supply constraints due to covid-19 lockdowns leading to cost push inflation as transitory, nevertheless a longer transitory timeframe could become problematic for markets. Our view is inflation will move higher and central banks will tap the brakes. An orderly rise in bond yields due to inflation driven by strong growth is not generally bad for risk markets, but there is always a risk of it becoming disorderly for short periods. We think it is unlikely central banks will 'overtighten' but again markets may question this.

As global short end interest rates remain near zero and with ample liquidity from sustained stimulus, a continued chase for yield will be a tail wind for credit markets.

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The Fund's contribution to the environment

Low carbon

12,357 tCO_2e

GHG EMISSION AVOIDED PA

Equivalent to: **5,434** cars taken off the road p.a.

78 hectares

OF FOREST RESTORED

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

Renewable energy

12,553 MWh/year

RENEWABLE ENERGY GENERATED

Equivalent to: **2,731** average ousehold annual electricity use in Australia

3 MW

RENEWABLE ENERGY GENERATION INSTALLED CAPACITY

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

Water management

348,212 L

WATER CLEANED, RECYCLED OR TREATED P.A.

3,478,528 L

WATER USAGE SAVED P.A.

21,428,571 L

WATER CAPACITY SECURED

Equivalent to: **362** Melbourne population water usage secured

Green buildings

925 m^2

FLOOR SPACE

Sustainable agriculture

8 hectares

LAND CONSERVED

Low carbon transport

43,542

PASSENGER TRIPS PA

The Fund's contribution to the society

Financial inclusion

4,333

MICRO-LOANS

made to financially under-served entrepreneurs from developing nations*

1,525

LOANS

made to female-owned micro, small and medium enterprises with little access to formal sources of financing*

10

SOCIAL/AFFORDABLE HOUSING*

Social quality

10,367

PEOPLE

with access to Information and Communication technology in third world remote regions*

2,924

UNDERPRIVILEGED STUDENTS

expected number of student education*

635

SMALL-SCALE FARMERS

reached for improved agricultural technology*

510

JOBS

created through supporting education & renewable energy plants in developing nations*

173

TEACHERS TRAINED

in developing nations*

278

YOUTH

in at risk training programs

*These outcomes are based on projections provided by issuers of bond securities. The projections may be inaccurate or may not take into account risks and uncertainties.

Regnan

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.