Regnan Credit Impact Trust

Factsheet | As at 31 August 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	0.09	0.13	0.01
3 months	0.42	0.55	0.03
6 months	0.43	1.07	0.05
1 year (pa)	3.82	4.34	0.13
Since Inception (pa)	3.56	4.08	0.21

Source: Pendal as at 31 August 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 Aug 2021)	$116 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 August 2021)

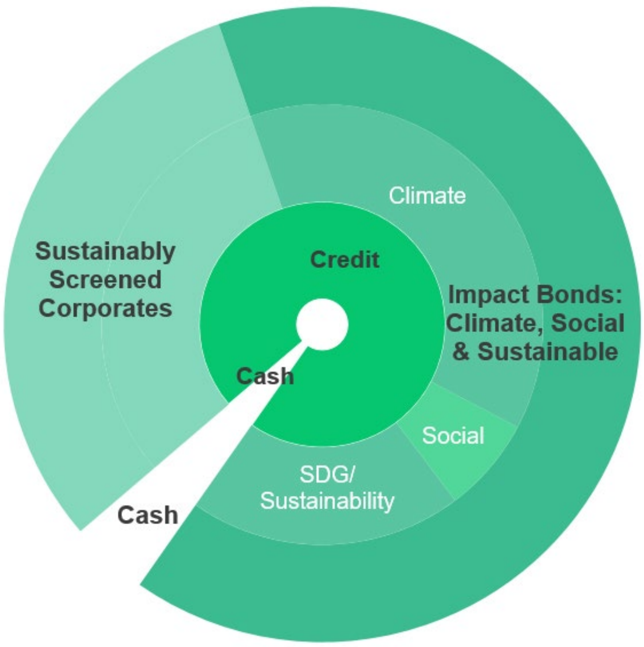
Running Yield*	0.92%
Yield to Maturity#	0.92%
Modified duration	0.16 years
Credit spread duration	3.61 years
Weighted Average Maturity	1.90 years

* 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 August 2021)

Money Market	3.9%
Financials	40.5%
Industrials	29.2%
Supranational, Sovereign & Agencies	13.5%
Infrastructure & Utilities	7.9%
Real Estate	4.6%
Semis	0.4%



Market review

Equity markets continued their march higher in August even in an environment of increasing delta variant concerns and speculation over the timing of asset purchase tapering from central banks.

Australia's path to normalisation continues to face headwinds due to the effects of the pandemic that will see 3rd quarter economic growth contract. The labour market has shown better than expected strength prior to lockdowns however, this is yet to be reflected in wage inflation outcomes, which rose by a less than expected 0.4% in the 2nd quarter and resulted in annual wage inflation of only 1.7%. For the RBA to achieve inflation sustainably within 2-3% will require much larger wage inflation outcomes than this.

Despite beating a hawkish drum, the RBNZ left its policy rate unchanged as a single positive COVID case prompted fears of a virus breakout. RBNZ Governor Orr cited the pandemic as an ongoing risk to the recovery. However, he also hinted that should containment hold firm, the tightening process could resume in early October. Kiwi swap rates ended the month higher in yield and underperformed other markets over the month.

Progressive steps in US fiscal legislation helped equities glide higher in the first half of August. The main contributor to sentiment was the Lower House endorsement of the Senate's $3.5 trillion reconciliation bill. While not a cheque for added spending, the signature does enable Upper House Democrats to approve prospective fiscal measures without needing a Republican vote, obviating the threat of a filibuster. The resolution followed passage of a separate $1.2 trillion infrastructure package into the advanced stages, which sparked a broad-based upgrade to earnings.

However, optimism turned sour mid-month as talk of a hastened tapering process drove investors out to the sidelines. With Fed Chair Powell tight-lipped on the subject, expectation grew for a tapering of Fed asset purchases, potentially to be announced over the Jackson Hole conference. These concerns were allayed late in the month as Powell dismissed talk that he would fast-track the normalisation process, emphasising that a reduction to the Fed's bond program should not be interpreted as a green light for rate hikes.

In China, a regulatory storm has combined with the country's deleveraging campaign to further undermine its industrial core. Beijing's focus on the quality of growth over quantity has brought about short-term pain for an unknown payoff in "social prosperity". Real estate, health care, education and mining have all been slapped with commercial constraints, designed to lessen the financial burden on households. Property, a crucial part of China's growth engine, has been particularly hard hit as lawmakers prioritise housing affordability. In partial recognition of the slowdown, Beijing has arranged for targeted easing of SMEs and select industries such as high-tech manufacturing.

August was a stronger month for risk markets with equities firmer and credit spreads tighter.

The where a number of factors driving the positive sentiment in markets.

Better than expected July US payrolls number of +943k, whilst consensus expectations were +870k, and the unemployment rate dropping from 5.9% to 5.4%.

We saw continued strong earnings globally. The 2nd quarter earnings results out of the US beat expectations by 16% with actual growth of 93% compared to the prior corresponding period (pcp). European Q2 pcp earnings were 26% better than expected, whilst Australian half year earnings outperformed expectations by 25%.

At the back end of the month, news broke that the full approval of the Pfizer vaccine continued to lift sentiment, as expectations are that it may lead to lower vaccine hesitancy and higher vaccination rates.

And finally, late in the month, a dovish speech by Fed Chair Powell at the virtual Jackson Hole Symposium where he said that it "could be appropriate" to taper this year, this was in contrast to many in the market who expected him to deliver a more hawkish statement around tapering earlier. He disentangle the tapering signal from hiking, he said the "timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff" given that the FED had "articulated a different and substantially more stringent test" to see rates lift which included metrics that were "consistent with maximum employment" and saw inflation reaching 2% on a sustainable basis. Powell noted that there was still "much ground to cover" in order to reach maximum employment whilst "time will tell" if 2% inflation on a "sustainable basis" has been reached.

However, there were a few headwinds for markets during the month. Firstly, there was the rising global cases of the Delta variant. Early in the month the US Federal Reserve signaling a hawkish stance on tapering with minutes noting most on the FOMC judged that tapering this year "could be appropriate" with some saying that it was prudent to prepare for a tapering of purchases "relatively soon". Finally, weaker Chinese data added to global growth concerns.

The Australian iTraxx index (Series 35 contract) traded in a 6bp range finishing the month 4bps tighter to +59. Australian physical credit spreads narrowed 3bps on average. The best performing sectors were real estate and industrials that both narrowed 4bps, whilst the worst performing sectors were resources and infrastructure that both only tightened 2bps. Semi-government bonds underperformed widening 5bps to commonwealth government bonds.

Fund performance and activity

The Fund slightly outperformed the Bloomberg AusBond Composite Bond Index by 0.04% (pre-fee) in August.

The duration component was a positive for the month. The fund believes short end rates will move higher into 2022 but is selective in timing of carrying short duration positions. The fund established a short 3yr futures position mid-month when COVID fears were at the peak and the CGL April 2025 reached 0.3%. This was covered into the late month selloff. The April 2025 bond equivalent will likely trade around 0.4% near term before moving above 0.5% medium term.

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

Activity during the month included increasing exposure to financials which were funded out of infrastructure and cash. We also completed some Commonwealth Government long end switches.

Outlook

It has been hard to be an optimist recently, particularly living in Sydney. However, there is light appearing in the distance with talk of vaccine led reopenings. These are likely to happen although they will look different to zero COVID reopenings, with rebounds in activity likely slower to take full hold.

We expect the RBA will continue to adopt a glass half-full approach to talking about the economy but tapering will be gradual and rate hikes are off the table for 2022. When looking at markets, in the short end we expect rates here until mid-2023 before moving to 1.25% in the following 12 months. If we are correct then a current 3 year bond, the November 2024, should be around 0.5%. The rate is currently 0.3% so we expect a 20 basis point selloff into year-end.

The long end as always will be more influenced by global events. Here we are less clear but do expect higher rates into next year, putting Australian 10 years closer to 1.4%. It will be interesting as to whether earlier hikes would be viewed favourably by long ends as getting on top of inflation earlier, as happened in June. Conversely overly dovish central bank talk could unnerve long ends. Medium term inflation data should remain elevated leading to higher yields.

We are positive on the outlook for credit spreads due to a number of factors which include the significant global fiscal and monetary policy stimulus, vaccine rollouts driving the reopening of economies and will see a pickup in economic growth and company earnings, improving corporate fundamentals an easing of banking lending standards.

We do see two key risks to credit markets. The first risk is around Covid and does the delta variant lead to a situation of perpetual new waves of cases, requiring on-going restrictions which will lead to weaker growth and company earnings. This risk should be contained as vaccines are rolled out.

The second risk is higher than expected inflation that is not temporary, 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.

However, 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 m²

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.

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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.