Regnan Credit Impact Trust

Factsheet | As at 30 September 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	-0.03	0.01	0.01
3 months	0.19	0.32	0.03
6 months	0.90	1.16	0.05
1 year (pa)	3.78	4.30	0.11
Since Inception (pa)	3.36	3.88	0.20

Source: Pendal as at 30 September 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.

Regnan

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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 Income & Fixed Interest team includes nine 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 Sept 2021)	$136 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 September 2021)

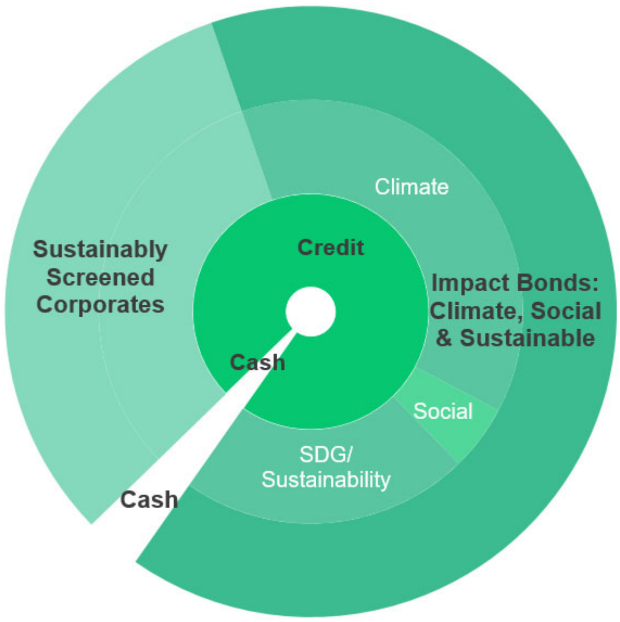
Running Yield*	0.90%
Yield to Maturity#	0.90%
Modified duration	0.00 years
Credit spread duration	3.72 years
Weighted Average Maturity	4.02 years

* 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 September 2021)

Money Market	2.2%
Financials	42.9%
Industrials	31.4%
Supranational, Sovereign & Agencies	11.8%
Infrastructure & Utilities	7.4%
Real Estate	3.9%
Semis	0.4%



Market review

Risk markets started the month strongly with the MSCI World index reaching new highs early in the month before risk sentiment waned on a myriad of concerns. Credit concerns, global supply chain issues, power and fuel shortages and more hawkish central banks all contributed to weigh on risk sentiment over the month. And it wouldn't be a month without the pandemic garnering headlines with China recording more cases during the month due to the delta variant. Domestic events took a backseat to global developments.

There were plenty of central bank meetings over the month, which were broadly interpreted as being more hawkish than what the market was expecting. The Norges Bank, in a move that was widely anticipated became the first central bank to raise their cash rate since the start of the pandemic. New Zealand is expected to follow suit at their next meeting in early October. The Bank of England stated that they did not need to reach the end of their bond asset purchase programme before they hike rates – if inflationary outcomes warrant raising the cash rate the Bank of England will do so despite continuing quantitative easing. This is at odds with the Federal Reserve and ECB, who would cease quantitative easing prior to any increase in their policy rates. The ECB sees a narrow window potentially between the end of their asset purchases and how long before it starts raising rates, whilst the Fed envisages a longer period occurring before raising policy rates.

Those looking for relations between the US and China post the Trump era were disappointed during the month. President Biden and President Xi had their first discussion since February and after initially being seen as a step forward headlines followed shortly after that the Biden administration was considering a new investigation into Chinese subsidies and their damage on the US economy.

The Federal Reserve was seen as more hawkish at their September meeting. The dot plot revealed that 9 of the 18 participants now see the first rate hike occurring in 2022 and the median forecast is for the Fed Funds rate to be at 1% by the end of 2023 (so 3.5 rate hikes from current settings). On tapering the Fed noted that 'a moderation in asset purchases may soon be warranted'. Two hawks – Dallas Fed President Kaplan and Boston Fed President Rosengren muddied the waters. Both will retire following revelations that they were active in stock trading during the height of the pandemic, creating potential conflict of interest issues.

Inflation in the US remains elevated although factors such as used car prices that had driven headline inflation higher in recent months appear to be waning. These are the transitory factors that the Fed has been referring to when assessing the inflationary environment in the US. Underlying inflation in the US rose 0.1% in August, lower than the 0.3% consensus and saw the annual inflation rate increase by 4%.

Non-farm payrolls continued their recent run of underperforming expectations. Employment grew by 235k jobs in August (expectation +733k) with the delta variant weighing down sectors such as leisure and hospitality, which recorded no employment growth in August. Average hourly earnings however continue to exceed consensus, with the 0.6% rise in August taking the annual rate to 4.3% (expectation was 3.9%).

Economic data in China mostly disappointed over the month. The Caixin PMI printed sub 50, retail sales were much weaker than expected and the change in focus towards common prosperity over wealth creation is weighing on confidence. Default concerns over China's second largest property developer Evergrande escalated further with their USD 11/2024 bond, having started the year priced at $91.57 trading as low $23.17 in September. It appears that some form of debt restructuring is all but inevitable. Widespread power cuts clouded the outlook for economic growth in the world's second largest economy.

Domestically the Australian Prudential Regulatory Authority (APRA) advised all authorised deposit taking institutions that the size of the Committed Liquidity Facility (CLF) will be reduced in progressive steps and will be at zero by the end of 2022. The need for the CLF has diminished due to the increasing size of Commonwealth and State Government bonds being issued that can be used for banks to meet their High Quality Liquid Assets.

2nd quarter growth rose by 0.7%, taking the annual rate to 9.6% - a stellar number but largely due to base effects from the contraction witnessed in the economy in the 1st quarter of 2020. 3rd quarter economic growth will bear the brunt of lockdowns and will see the economy contract. The unemployment rate fell by 0.1% to 4.5% in August, due to the reduction in the participation rate rather than actual employment growth, which fell by 146,300 jobs in the month. Business surveys indicate a willingness by employers to retain workers due to a tightening labour market and potential difficulty in attracting employees when the economy fully re-opens.

Australian rates sold off over the month, with 10 year bonds ending the month 34 basis points higher at 1.48%. In the United States 10 year bonds were off 18 basis points to 1.49% whilst the S&P500, NASDAQ and S&P/ASX 200 fell by 4.8%, 5.3% and 2.7% respectively.

September was a weaker month for credit spreads and equity markets with a number of factors driving this.

We had a soft August US payroll print, coming out at +235k vs 733k expected.

There was a large fall in Iron Ore prices due to a dramatic slowdown in Chinese steel production as Chinese government policy is maintaining controls on property, a key driver of steel demand. Also the expectation environmental restrictions will limit steel production.

We also saw a bout of risk-off sentiment triggered by concerns over Evergrande, China's most indebted property developer. Concerns over whether it will default or some form of debt restructure and whether this will have a cascading effect on other developers and the Chinese economy. The systemic risk indicators in the funding market were not apparent as the Chinese central bank added liquidity into the financial system to ensure that funding rates are well anchored. The Chinese authorities signaled a reluctance to bail out Evergrande, however the regulators instructed the property developer to avoid a near-term default. The jury is out in relation to the outcome of this issue.

Late in the month the Federal Reserve noted that the US economy and labour market have continued to strengthen, though the pandemic has slowed the recovery. At the same time, as expected, they indicated that they will likely start tapering their bond purchases in December with the conclusion of purchases around the middle of next year. However, they raised their expected cash rate (dot plot) for 2023 from 0.625% to 1.0%, which was a moderate surprise to the market.

Also late in the month there was mounting concern over the US debt-ceiling impasse in Washington. Republicans blocked a Democratic move in the Senate to raise the debt limit, escalating tensions just weeks before the Treasury potentially runs out of money. However soon after the House passed a nine-week funding bill. The Senate approved the legislation which temporarily funds the government with the measure passing after Democrats dropped an attempt to attach a debt ceiling suspension. The legislation means that the government will be kept open through the 3rd of December.

Domestically, during the month we saw pressure on the credit spreads of the banks. APRA announced it has asked banks to reduce their reliance on the Committed Liquidity Facility (CLF) to zero by the end of 2022. APRA and the RBA expect there to be sufficient high quality liquid assets for banks to meet their Liquidity Cover requirements without the need to utilise the CLF. This ultimately means that banks will have to hold more Commonwealth and Semi-government bonds whilst reducing their bank bond and FRN holdings.

In a positive development, new cases of Covid-19 and related hospitalisations fell over the month which will assist the global economy re-accelerate from the delta driven slowdown.

The Australian iTraxx index (Series 35 contract) traded in a 5bp range finishing the month 2bps wider to +61bps. The new Series 36 contract ended the month at +67bps. Australian physical credit spreads pushed out 1bp on average. The best performing sector was resources that narrowed 4bps, whilst the worst performing sectors were utilities and domestic banks that both widened 3bps. Semi-government bonds outperformed tightening 2ps to commonwealth government bonds.

Fund performance and activity

The Fund performed broadly in line with its benchmark in September.

Industrials and real estate sectors contributed positively to performance, whilst utilities and offshore financials detracted.

Activity during the month included increasing exposure to financials, utilities, supranationals, and industrials sectors that were all funded out of cash.

This month we invested in three newly issued bonds from a range or different issuers: a development agency, a bank and a retail business. All three issuers have shown a commitment to sustainability and these bonds have been issued to reduce carbon emissions.

Rentenbank, Germany's development agency for agribusiness and rural areas, issued an AUD green bond that is focused on countering climate change through reducing greenhouse gas emissions. This bond will fund projects in the production, storage and distribution of renewable energy and will include wind and solar energy.

The new green bond from the Commonwealth Bank of Australia also addresses reducing greenhouse emissions. It does this through funding solar farms, wind farms and clean transportation, as well as green buildings.

The third new issue bond we invested in this month was the sustainability-linked bond by Woolworths. These are a newer class of bonds, with Woolworths being the second to issue in Australia. Woolworths has already set a target to be net zero by 2050. This bond furthers this ambition by setting a shorter term target that has financial implications if not met. This bond sets the target of reducing scope 1 and 2 emissions (i.e. the emissions that Woolworths is directly responsible for) from their 2015 levels by 63% by 2030. This will be done through reducing emissions from refrigerant gases, transportation and electricity usage. If this target is not achieved, there is a step-up in coupon payable, which can be thought of as a penalty. We have previously invested in a green bond by Woolworths and are pleased to have ongoing dialogue, including providing feedback of our expectations prior to the issuing of this bond. As active managers, we seek to nudge the entire market with the types of green, social and sustainable bonds to use the influence we have to increase our impact.

Outlook

Australian yields underperformed the US in September. Part of this is the unwind iin the positioning of the leverage longs but also likely playing a part is the change in structure of the RBA conduct of monetary policy.

The RBA changed course through COVID to only tightening when actual not forecast inflation pushed through its target. For decades the long and variable lags in inflation meant monetary policy was more preemptive, worried about action being too late. The new stance increases the chance of a policy mistake and curves should be steeper over the longer term because of it.

Surprisingly the markets forecast for inflation, as expressed in the difference between nominal and real yields, hardly moved during Spetember. We think it should move higher into year end and prefer inflation bonds to nominal bonds.

We expect the RBA to be tightening in early 2023, a year before the RBA themselves think there is a chance. This is largely due to the higher inflation expectations we have for 2022.

We remain positive on the outlook for credit spreads. The macro environment continues to remain constructive for risk assets with significant global fiscal stimulus and accommodative monetary policy together with vaccine rollouts will drive the reopening of economies. This will continue to drive a pickup in economic growth and company earnings. We have also seen improving corporate fundamentals and an easing of banking lending standards.

Apart from left field COVID risks, the main concern medium term is inflation. Higher than expected inflation that is not temporary could drive a disorderly rise in bond yields. We view the supply constraints due to covid-19 lockdowns leading to cost push inflation as largely transitory in goods markets but service inflation could emerge in 2022. 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 that central banks are trying to avoid market surprises which will see them gradual taper their bond purchases and would unlikely impact credit spreads.

Finally, as global short end interest rates remain near zero and ample liquidity from sustained stimulus, a continued chase for yield will be a tail wind for credit markets. Overall we continue to like credit, even if the cheap levels of 2020 are a distant memory.

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.