Regnan Credit Impact Trust

Factsheet | As at 31 October 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.02	0.06	0.01
3 months	0.08	0.20	0.03
6 months	0.64	0.89	0.05
1 year (pa)	3.24	3.75	0.10
Since Inception (pa)	3.21	3.73	0.20

Source: Pendal as at 31 October 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 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 31 Oct 2021)	$145 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 October 2021)

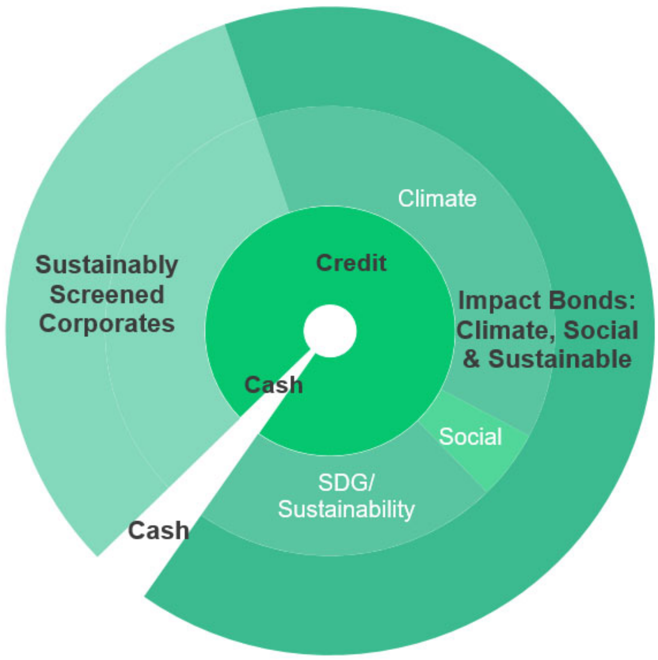
Running Yield*	0.92%
Yield to Maturity#	0.92%
Modified duration	-0.06 years
Credit spread duration	3.38 years
Weighted Average Maturity	3.76 years

* 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 October 2021)

Money Market	8.1%
Financials	40.9%
Industrials	29.6%
Supranational, Sovereign & Agencies	10.8%
Infrastructure & Utilities	6.8%
Real Estate	3.5%
Semis	0.3%



Market review

October was a massive month for bond markets globally, as central banks accelerated moves to unwind extraordinary monetary policy, and in some cases raising cash rates.

Australia was caught up in this global move, initially following those moves but by the end of the month outpacing them. This was due to the higher than expected Q3 CPI underlying inflation numbers, printing 0.7%. The annual rate of both the trimmed mean and weighted median came out at 2.1%, above the bottom end of the Reserve Bank of Australia's (RBA) 2-3% target range for inflation. It has been a long time since the annual inflation print for both these series exceeded 2%.

The RBA had been expecting underlying inflation at 1.75% for most of 2022. These forecasts looked low in the backdrop of higher inflation globally and it seems the RBA is now acknowledging their mistake. Yield Curve Control, anchoring the April 2024 bond at 0.1%, is likely to be abandoned in early November, seeing that rate trade 0.7% higher at 0.75% by month end.

In offshore events and starting closest to home, New Zealand began their rate hikes in early October and will get another rate hike at the central banks next meeting in November. Kiwi inflation data all but confirmed that the Reserve Bank of New Zealand will raise their cash rate from 0.50%. September quarter inflation rose by 2.2%, taking the annual rate to 4.9% (expectation of 4.2%). Within a year market pricing indicates the Kiwis will be in an environment with a cash rate exceeding 2%.

Continuing with commodity based countries and Canada's inflation also exceeded expectations. The Bank of Canada (BoC) sees the upside risks to inflation being of greater concern and surprised the market when announced they would be tapering their asset purchase to zero. The BoC sees the first rate hike now occurring around the middle of 2022. The intra day moves were large – the implied yield on the December 2022 bank bill future traded in a 60 basis point range on the day.

In Europe skyrocketing energy prices fueled inflationary concerns, with the implied gas price at one stage almost doubling since the end of September. Comments from Russian President Putin about Russia supplying the market assuaged some concern and saw the gas price fall.

Annual Eurozone core inflation exceeded 2% for the first time in almost 20 years (2.1%). The European Central Bank (ECB) President Christine Lagarde acknowledged in her press conference that the rise in price pressures will last longer than originally thought before fading. She did not push back against market pricing that is looking for the ECB to raise their deposit rate.

Comments from new Bank of England (BoE) Chief Economist Huw Pill stating that the 'balance of risks is currently shifting towards great concerns about the inflation outlook' and that high inflation was set to last longer than originally thought and that inflation is likely to hit 5%. The comments were followed up by BoE Governor Andrew Bailey writing a weekend article that the BoE will "have to act and must do so if we see a risk, particularly to medium-term inflation and to medium term inflation expectations" and that the energy story means that inflation will last longer.

In non-inflation related data, the labour market in the United States continues to provide mixed signals. Non-farm payrolls were weaker than expected – 194k v forecast gain of 500k – but prior month upward revisions offset the poor result. The unemployment rate fell from 5.2% to 4.8% and average hourly earnings continue their march higher, rising by 4.6% over the past year.

The Federal Reserve meeting minutes pointed to an announcement on tapering at their next meeting in early November, with actual tapering to start occurring shortly thereafter. The Fed sees tapering occurring to the point that by the middle of next year no further asset purchases will be taking place.

The last day of the month explained almost half the moves higher in yield on the month. Markets were extremely thin and the moves became exaggerated. Ten year bonds finished the month at 2.08% or 0.6% higher. Three year bonds finished at 1.2%, or 0.9% higher on the month. The only markets to move more were Australia, New Zealand and peripheral Europe. This was due to the perceived impact the removal of QE may have.

Credit review

October was a month of mixed messaging as the markets grappled with improving macroeconomic data and signs that inflation is more than just transitory. Credit spreads held firm even against the backdrop of the savage interest rate moves in the month as inflation fears bite.

Risk sentiment was buoyed by the re-opening story as NSW came out of lockdown in mid-October. Business confidence and consumer confidence surged into the end of lockdown with strong hiring as the retail sectors prepare to re-open. Elsewhere, global markets contended with the prospect of tapering in the US to end in mid-2022 even as US Non-Farm payrolls missed on the downside, twice in a row. The Chinese markets found a little stability as Evergrande finally paid $83.5m of bond interest into the end of October, albeit one month late. There is still much to unfold as the full impact of payment and construction delays have yet to realise.

The bright spot through the final week of October was that credit markets held its ground through the massive sell-off in government bonds as the market reacted strongly to the positive AU CPI print. With growing supply-side pressures and strong domestic demand, inflation pressures will remain significant. However, October has demonstrated that the overall credit markets will remain supported as supply chain pressures ease and household savings accrued during lockdown is re-directed into the broader economy.

October closed off with the first of the major banks announcing its full year results. ANZ's full year results showed strong growth in deposit and a stabilisation of its Net Income Margin (NIM). ANZ's funding highlight, was the progress it has made in its Tier 2 TLAC ramp up. With the 5% buffer within sight, the era of large Tier 2 issuances appears to be winding down, which will be supportive of Tier 2 bank paper, going forward.

The Australian iTraxx index (Series 35 contract) traded in a 10bp range finishing the month 1bp tighter to 66bps. Australian physical credit spreads widened 1bp on average. The best performing sectors were infrastructure and industrials that narrowed 4 & 2bps respectively, whilst the worst performing sectors were resources and domestic banks that widened 4 & 2bps respectively. Semi-government bonds moved out 1bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed its benchmark by 0.05% (pre-fee) in October.

Industrials and infrastructure sectors contributed positively to performance, whilst financials and utilities detracted.

Activity during the month included increasing exposure to financials funded out of cash.

Outlook

The Reserve Bank left the cash rate unchanged at their November meeting. Their statement included updated economic forecasts including 2023 forecasts for inflation of 2.5%, the unemployment rate at 4% and wage inflation at 3%. The RBA abandoned further purchasing of the April 2024 Government bond under their yield curve control. In a Q&A session that followed Governor Lowe indicated that inflation needs to be sustainably around 2.5% - an outcome consistently in the low 2's won't be enough to warrant a tightening of policy. For this to occur wage inflation needs to pick up to levels not seen for over a decade. This is not going to occur quickly. With the set of conditions the RBA require it his highly likely they end up being one of the last central banks that ends up raising their cash rate. We view monetary policy as most likely being tightened in early 2023.

We remain constructive on the outlook for credit spreads. The macro environment continues to remain positive for risk assets with significant global fiscal stimulus and still 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.

We have two main concerns, the first is medium term 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 gradually taper their bond purchases and would unlikely impact credit spreads. The second risk is around the Chinese high yield property developers and potential defaults that could trigger a risk-off event.

Finally, with ample liquidity from sustained stimulus and a continued chase for yield will be a tail wind for credit markets.

Regnan

Brought to you by PENDAL

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*

635
SMALL-SCALE FARMERS
reached for improved agricultural technology*

173
TEACHERS TRAINED
in developing nations*

2,924
UNDERPRIVILEGED STUDENTS
expected number of student education*

510
JOBS
created through supporting education & renewable energy plants 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

Brought to you by PENDAL

For more information

Jeremy Dean

Head of Regnan and Responsible Investment Distribution

Tel: 0419 460 551

Jeremy.dean@regnan.com

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.

This factsheet has been prepared by Pendal Fund Services Limited (**PFSL**) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

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. The Target Market Determination (**TMD**) for the Fund is available at www.pendalgroup.com/ddo. You should obtain and consider the PDS and TMD 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.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pendal group accepts any responsibility or liability for the accuracy or completeness of this information.

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.