Regnan Credit Impact Trust

Factsheet | As at 30 November 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	-0.11	-0.06	0.01
3 months	-0.12	0.01	0.02
6 months	0.30	0.56	0.05
1 year (pa)	2.37	2.89	0.10
Since Inception (pa)	3.01	3.52	0.19

Source: Pendal as at 30 November 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 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 Nov 2021)	$148 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 November 2021)

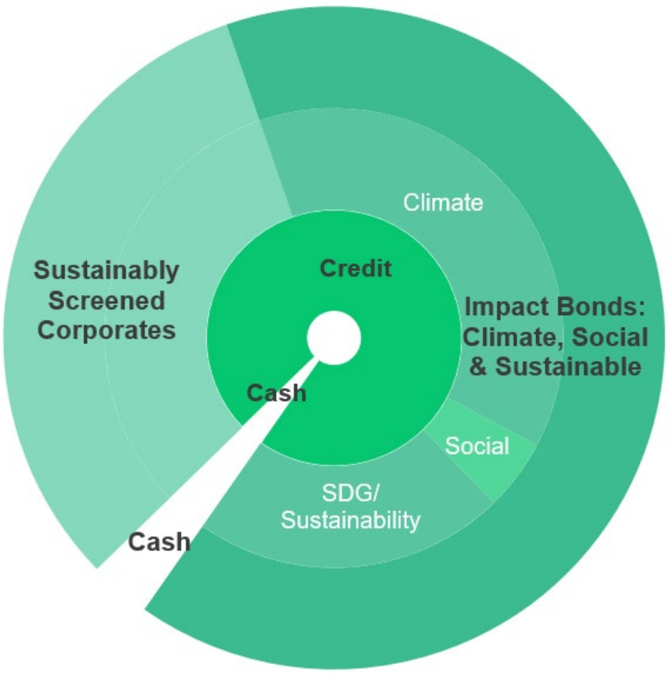
Running Yield*	1.07%
Yield to Maturity#	1.07%
Modified duration	0.07 years
Credit spread duration	3.65 years
Weighted Average Maturity	4.07 years

* 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 November 2021)

Money Market	6.4%
Financials	40.2%
Industrials	30.8%
Supranational, Sovereign & Agencies	10.7%
Infrastructure & Utilities	6.8%
Real Estate	4.8%
Semis	0.3%



Market review

Market moves in offshore bonds were mixed during the month and risk sentiment late in the month waned due to the emergence of the omicron COVID strain. It was a case of inflation versus infection concerns that drove the respective markets.

The Reserve Bank did abandon Yield Curve Control in its November meeting but reiterated the very slow path to tightening. Markets have put a full hike in by mid 2022 and almost three by the end of 2022. However Governor Lowe still thinks 2024 is most likely for liftoff but concedes 2023 is now a chance. This difference in views is due to the market extrapolating Fed policy outlooks onto Australia, thinking the RBA will simply follow the Fed. Again the RBA says they are happy to ignore the Fed, as they did during the entire Fed hiking cycle in 2017/18.

Australian data was heavily impacted by lockdowns and their lifting in October. Overall though the economy did weather the lockdowns better than previously, due largely to the fact they were only in NSW and Victoria. We look forward to data early next year to get a better read on underlying activity.

In the United States the Federal Reserve, as widely anticipated, announced that they would start tapering their Quantitative Easing purchases. Tapering was to occur at a pace of $15bn per month which would result in Treasuries and Agency purchases being reduced to zero by mid 2022. The Fed did leave open the option of altering the pace of tapering subject to the economic outlook. The Fed remain confident that the current elevated levels of inflation are transitory although one subtle change in the statement reflected some concern that inflation may prove to be more embedded than previously thought. Previously elevated inflation was seen as “largely reflecting transitory factors”. The Fed watered this down to “expected to be” transitory factors.

The release of the October inflation data would have raised further concerns. Headline inflation rose 0.9% for the month (expectation 0.6%) resulting in an annual increase of 6.2%. Core inflation also exceeded at 0.6% (expectation 0.4%) seeing an annual gain of 4.6%. These are the highest annual increases this century.

Subsequent Fed speak had a noticeably more hawkish tilt to it. Comments from Fed officials included a faster pace of tapering and potential rate hikes occurring earlier than expected saw yields rise in the front end of the curve. Yields further out the curve fell however with US ten year bond yields ending the month 11 basis points lower at 1.45%

The Bank of England astounded the market when it decided to leave rates unchanged at their meeting in early November. Governor Bailey and Chief Economist Pil gave the impression that rate hikes were imminent in various communications during October. It wasn’t even close with the 9 member panel voting 7-2 for no change – the Governor and Chief Economic were amongst the 7. Short end rates rallied by almost 30 basis points following the unchanged announcement. The Governor added further salt into the wounds mid month when he stated that he was “very uneasy about the inflation situation”. Further information on the labour market will be required first before the Governor decides on whether changing rates is appropriate. They won’t be listening to him as closely the next time he pushes the rate hike talk barrow.

The inflation non-achievers in Europe don’t however seem concerned about rising inflationary risk. Along with Japan you can understand why. European Central Bank (ECB) President Lagarde reiterated the ECB’s view that inflationary pressures should ease over the medium term while the risks of rising wages and second round effects are limited. Tightening monetary policy now was seen as doing more harm than good. Rising COVID cases in Europe has dented near term growth with Austria announcing a 20 day lockdown and Germany, Slovakia and the Czech Republic imposing lockdown restrictions on the unvaccinated. German 10year rates rallied 25 basis points during the month to close at -0.35%

Across ditch the Reserve Bank of New Zealand raised their cash rate by a further 0.25% to 0.75% and plenty more is expected from Governor Orr.

Credit review

November was a weaker month for credit spreads and equity markets with various factors driving this.

Firstly, the slowing growth in the Chinese economy. This is caused by the impact of weak housing sentiment, deterioration of debt, power constraints mixed in with the negative effects of the zero Covid approach.

Strong inflation prints in Eurozone, UK and US also caused a few jitters as markets reacted to the threat of inflationary pressures suppressing growth.

However mid-month, the fears were short-lived. Despite strong CPI numbers, especially in the US, the Fed, RBA, and BoE remained patient. The central banks were in lockstep and calmed the waters by re-affirming their guidance. This reined in rate hike expectations and supported risk assets during November.

Also supporting markets was a strong earnings Q3 season out of the US as aggregate earnings surprised to the upside by more than 9% boosted by sales growth of more than 17% (PCP) and earnings growth of more than 40% (PCP).

Covid cases are rising again globally even amongst highly vaccinated populations. That dampened risk sentiment as countries headed into winter, facing the prospect of lockdowns restarting the cycle of economic hibernation. Late in the month, news broke of a new variant called Omicron which added to the weakness in risk sentiment due to expectation of further Covid restrictions ahead.

Also late in the month, risk markets came under pressure as Fed Chair Powell’s comments indicated that the US Fed no longer view inflation as transitory. It is now likely that the FOMC will accelerate the pace of tapering. However, he did add that he does not expect the tapering to be a "disruptive event".

Overall, credit spreads underperformed. The Australian iTraxx index (Series 36 contract) traded in a 10bp range finishing the month 7bps wider to 73bps. Australian physical credit spreads were also wider on average. The best performing sector was infrastructure which narrowed 1bp, whilst the worst performing sectors were telcos, offshore banks and real estate which all moved out 1bp. Semi-government bonds underperformed, widening 3bps to commonwealth government bonds.

Fund performance and activity

The Fund underperformed its benchmark by 0.06% (pre fee) in November.

Financials and industrials detracted from performance whilst utilities contributed positively.

Activity during the month included participating in three primary issuances from real estate, industrials and utilities sectors funded out of cash and the utilities sector.

This month we invested in an Australian Dollar new Green bond issue for a New Zealand renewable utility business. The electricity grid in New Zealand is 80% renewables, so this business has a lot of relevant projects to finance. Projects include wind energy, hydroelectricity, geothermal energy and solar energy. We look to invest in bonds that are funding real change, and the transition to renewable and sustainable energy sources is essential for ensuring climate stability.

Outlook

The Reserve Bank are likely to remain on hold until early 2023. Their most recent economic forecasts included 2023 forecasts for inflation of 2.5%, the unemployment rate at 4% and wage inflation at 3%. 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 - it will be one of the last dominoes to fall. 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 continue to be constructive on credit spreads. Credit and much of the broader risk assets will continue to enjoy the benefits from the sustained stimulus – ample liquidity and the cash on the sidelines hunting yield.

We anticipate that there will be a few bumps in the road. Our two main concerns – a rise in medium-term inflation that potentially drives a disorderly rise in yields, and the prospect of spillover effects from the Chinese high yield property sector.

There are two sides to the inflation coin – goods inflation and services inflation. Lockdowns from COVID-19 led to supply constraints which pushed up goods prices. We view goods inflation to be largely transitory. However, services inflation could emerge in 2022 as pent-up consumer consumption drive up prices retail services and travel-related expenditure. An orderly rise in bond yields due to demand-led inflation is not bad news as businesses will also reap the rewards from the consumer demand. However, there's still the risk of it being disorderly for short periods. We view this risk as low, as the central banks are watching the inflation measures closely and are determined to avoid any market surprise.

Additionally, we continue to keep a watchful eye on the Chinese high yield property development market. The risk of default remains and it could spill over to global markets, triggering a risk-off events. But for now, it appears contained.

These concerns, however, should be contained by the key support pillars of credit. Firstly, macro environment continues to be supportive. Although central banks are keeping watch on inflationary pressures, it is also being patient as the primary goals continue to be jobs and growth. Furthermore, governments continue to stimulate with expansionary fiscal policies driving large infrastructure spend that will lift the overall economies. Economic growth will also be supported by improving vaccine rollouts, with developed nations onto the booster shot regime.

Last but not least, company earnings continue to provides optimism for the future. Improving corporate fundamentals, the easing on bank lending standards and the outlook on consumer demand was a common theme in earnings call and will provide the tailwind for credit.

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.

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.