Regnan Credit Impact Trust

Factsheet | As at 31 December 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	0.19	0.01
3 months	0.06	0.18	0.03
6 months	0.25	0.51	0.05
1 year (pa)	1.95	2.47	0.10
Since Inception (pa)	2.95	3.47	0.19

Source: Pendal as at 31 December 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 31 Dec 2021)	$157 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 December 2021)

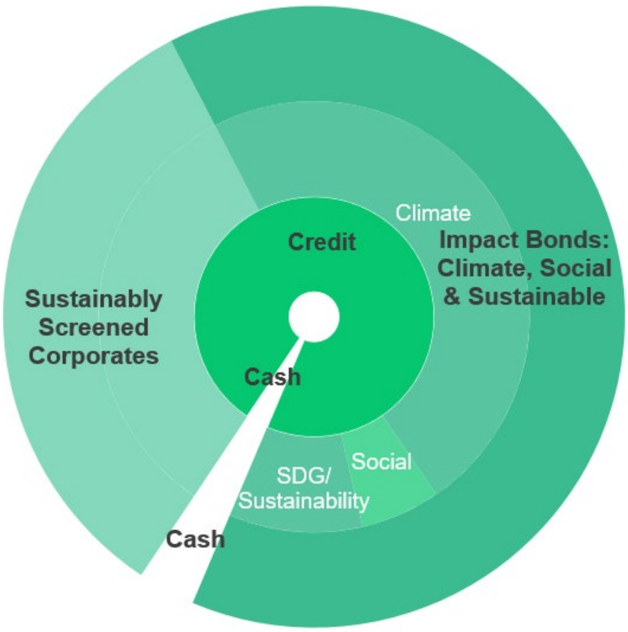
Running Yield*	1.04%
Yield to Maturity#	1.04%
Modified duration	0.10 years
Credit spread duration	3.61 years
Weighted Average Maturity	3.95 years

* 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 December 2021)

Money Market	8.4%
Financials	40.1%
Industrials	28.5%
Supranational, Sovereign & Agencies	11.8%
Infrastructure & Utilities	6.3%
Real Estate	4.5%
Semis	0.3%



Market review

Risk markets performed strongly and Central banks continued their more hawkish tilt during the month despite the emergence of the omicron variant.

The Reserve Bank of Australia (RBA) left policy settings unchanged at their December meeting. In their statement the RBA acknowledge the uncertainty posed by the Omicron strain but do not expect it to derail the recovery. There was a slight tweak in regards to the underlying inflation forecast. Underlying inflation is forecast to 2.5% over 2023 whereas in their November statement underlying inflation was forecast to be no higher than 2.5% at the end of 2023. So inflation may be higher at the end of 2023 than what the RBA previously forecast, potentially bringing forward the timing of when they expect to hike next.

The other key part of their statement was in relation to their bond purchase program and whether it is extended when the current program ends in February. The RBA pointed out the three considerations to guide its decision: the actions of other central banks, how the Australian market is functioning and progress towards the goals of full employment and inflation consistent with the target.

The actions of other central banks would warrant a cessation of the program, and the Australian market has been functioning in an orderly manner, albeit thin at times. The release of the employment data subsequent to the RBA's meeting would have given further weight to the program not being extended further. Employment rose by 366k jobs in November, a record monthly increase. The unemployment rate fell by 0.6% to 4.6% despite the participation rate rising from 64.7% to 66.1%. The ANZ Job Ads data also reflected ongoing strength, with ads rising by 7.4% in November.

In the United States the more hawkish rhetoric from Fed officials in November was backed up at the Fed meeting during the month. The Fed announced that it would accelerate the pace of tapering from \$15bn to \$30bn which would in turn see Quantitative Easing end by March 2022. In its statement the Fed noted that inflation has exceeded 2% for some time and that given the improvement in the labour market that it was appropriate to reduce the pace of its net asset purchases. The Fed's dot plot also reflected 3 rate hikes as the central forecast for 2022.

The inflation numbers out of the US continue to be eye watering with annual headline inflation reaching 6.8% in November and annual core inflation rising by 4.9%. Some of this is transitory with used car prices and airfares likely to fall over the coming year, although the owner equivalents rents component has shown recent strength. This is expected to continue given the strength of the US housing market.

The labour market data was a mixed bag with Non-farm payrolls for November increasing by 210k jobs, against economists expectations of a gain of 550k. The unemployment rate, which is a separate series, did fall from 4.6% to 4.2%.

In Europe the Bank of England (BoE) surprised the market when it raised the overnight rate by 15 basis points to 0.25%. The labour market has proved more resilient than expected despite concerns that the end of the Coronavirus Job Retention Scheme in September would result in job losses. The BoE now sees the unemployment rate falling to 4% by year end, from a forecast of 4.5% in November. Inflation is forecast to peak at 6% in April 2022 although is expected to remain elevated driven in large part by pay and energy costs.

The Norges Bank raised their rate for a second time in this cycle, with their 25basis points increase taking their overnight rate to 0.50%. They noted that further hike in March with further gradual increases in policy occurring over the coming years.

The European Central Bank (ECB) effectively said they expect no rate hikes to occur in 2022. Net purchases under the asset purchase program need to end prior to any increase in key interest rates occurring. Whilst they announced net asset purchases under their Pandemic emergency purchase programme will be discontinued at the end of March net purchases under their Asset purchase programme (APP) are expected to continue throughout 2022. The APP was increased from a monthly net purchase of EUR20bn to EUR40bn and EUR30bn for Q2 and Q3 next year before reverting back to 20bn from October. President Lagarde justified the increase as a step to avoid 'a brutal transition' when tapering occurs.

Equity markets had a strong end to the year despite the emergence of the omicron variant and more hawkish central bank action. The S&P 500 ended the month 4.4% higher, with the FTSE (+4.6%), DAX (+5.2%) and Nikkei (3.5%) also recording strong gains to round off an exceptional year for equity market performance. This was against a backdrop of higher yields that saw 10 year bond yields in the US rise by 6 basis points in December and by 60 basis points overall for the year. The fiscal stimulus tailwinds that have been in place are unlikely to be replicated in 2023 – at least lets hope the environment does not warrant such accommodation.

In Australia the S&P/ASX200 gained 2.6% in December to end the year 13% higher. Ten year bonds ended the month slightly lower at 1.68%, resulting in a rise of 70 basis points over the year. Three bond yields ended the month 5 basis points higher in yield at 0.98%, an increase of 70 basis points over the year.

Credit review

All's well that ends well, that summed up December for risk assets as the markets found a tailwind heading into 2022.

December started with the familiar refrain of rising COVID cases. Omicron was unveiled as a new and highly infectious variant. Uncertainty grew due to the lack of data available to assess the impact of the new upstart - Omicron. Furthermore, supply-chain issues coupled with relatively undamaged consumer and business demand can only lead to inflation. Inflation was front page news everywhere, forcing US Fed Chair Powell to finally retire the word 'transitory'. Worries around Chinese property developers' debt contagion effects added to the sense of unease. The combination of these factors led to a global sell-off in risk assets, in early December.

However, by mid-December, the winds of change brought some good news. Health outcomes for the vaccinated against Omicron appeared to be good. Moreover, pharmaceutical companies' were able to publish updated research showing that boosters were effective against severe illness and death. China's central bank (PBoC) also stepped in to provide liquidity to the markets by reducing bank reserve requirements.

On the back of the good news, markets dipped their toes back into the risk pool and a mini-rally occurred. The tug of war between the opposing sides of the risk sentiment continued for much of December as investors cautiously ease their way back into risk.

Late December finally brought consistent good cheer to the global risk markets. Seeing is believing after all. Omicron waves started tapering off in some countries, with less hospitalisations and deaths. The US Fed's dot plots calmed the waters – there is a plan to tackle inflation in an orderly manner. The Chinese Communist Party (CCP) chipped in with the announcement that its focus of 2022 is to bolster the economy. Talks of clamp downs and regulation a thing of the past. Those factors gave markets the shot in the arm with US equities reaching new highs and credit spreads gaining lost ground.

Overall, credit spreads performed well. The Australian iTraxx index traded in one direction after the initial risk sell-off early in the month. The Series 35 tightened 17bps from 72bps to 55bps. The Series 36 contract finished the month at 63bps, 10bps tighter versus the end of November. Australian physical credit spreads were a touch wider. The best performing sectors were resources and supranationals which narrowed 5bps and 1bp respectively. The worst performing sectors were real estate and infrastructure which both widening 2bps. Semi-government bonds performed well narrowing 3bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed its benchmark by 0.18% (pre-fee) in December.

Financials, industrials and utilities contributed positively to performance.

Activity during the month included increasing exposure to Sovereign agency social bonds and bank green bonds that were funded out of cash.

Market Outlook

Australian bond markets were one of the poorest performers in 2021. This is despite the RBA being one of the more dovish central banks. Markets were skeptical of the RBA's forecasts, a view that turned out to be justified as the RBA spent most of the year upgrading their forecasts. Ultimately this saw the RBA abandon yield curve control in late October. It also means that Governor Lowe's view of hikes in 2022 being highly unlikely is being ignored, with three hikes priced in.

We think there will be further upward pressure on yields in early 2022. The Q4 inflation number, released in late January, should show continuing pressure on inflation with 2.5% underlying likely by mid 2022. US rates are expected to drift higher as well. However the 2% level should hold for now, unless real rates start to rise.

This is the most interesting story for 2022. Whether businesses respond to improving conditions and begin an investment boom will be key to what happens to real rates. Inflation should moderate in late 2022 leaving real rates as the main factor for nominal bond rates.

Of course COVID will be playing its part and the speed of borders opening will also bear watching, particularly for the supply side of the economy. For now though ongoing strong fiscal stimulus should outweigh any modest tightening in monetary conditions.

Credit Outlook

We maintain our constructive view on credit spreads. Credit and broader risk assets will continue to benefit from the sustained stimulus with ample liquidity with cash searching for yield.

We anticipate that there will be a few bumps in the road. Our two main concerns – a surprise rise in inflation that potentially drives a disorderly rise in bond yields and weakness in risk markets, and secondly 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 for 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 spill over could triggering a risk-off event in global markets. But for now, it appears contained.

These concerns, however, should be suppressed 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 their goals also include 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 moving to a booster shot regime.

Also, company earnings continue to provide optimism for the future. Improving corporate fundamentals, the easing of bank lending standards and the positive outlook on consumer demand is a common theme we are hearing from corporates and will provide the tailwind for credit spreads.

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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*

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.

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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.

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.

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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.