

# Fixed Interest

## Adding portfolio diversification

All Investors understand the importance and benefit of portfolio diversification. Whether it is simply ensuring your equity portfolio is sufficiently spread across sectors or having sufficient cash and lower volatility fixed interest securities in your portfolio; the benefits are undeniable.

Investors focused on income diversify because they have a need for lower capital volatility as well as different streams of income. In fact, it is capital preservation that often ranks high on the list of factors that drive investment decisions.

While many income investors have focused on bank issued hybrids as a source of regular income, the ability to diversify beyond this sector while maintaining higher levels of income, has been a challenge. In an ideal world, portfolios should be diversified so that no one sector or security type has a disproportionately large impact on the portfolio. With limited options available this has often been difficult. Recently, we have seen bank hybrid prices come under pressure as investors consider the implications of the Labor Party's proposals around franking cash refunds. While there is still much uncertainty and no doubt considerable debate to come (it may not even happen), the market is unquestionably concerned and this has been reflected in secondary market trading.

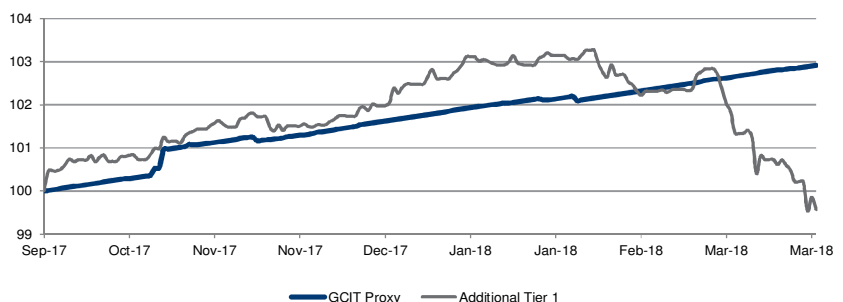
What we do know, is that in times of market volatility debt securities will be less volatile than hybrids and indeed secured debt will generally be less volatile than unsecured debt. A new Listed Investment Trust soon to be launched on ASX, will invest only in secured debt securities. Morgans has been working with Gryphon Capital Investments (Gryphon) and is Joint Lead Manager to the upcoming IPO of the **Gryphon Capital Income Trust (ASX: CGI)** (Trust). The Trust will allow retail investors for the first time to access an investment class that has generally only been available to institutional investors. Additionally, it will bring the same disciplines, processes and strategies that have been successfully employed by Gryphon for its institutional clients.

The chart below highlights the performance of a sample of longer dated ASX listed hybrids (Additional Tier 1) against the performance of 2 of Gryphon's institutional strategies. To illustrate the point, the performance below demonstrates how a 50% allocation to each strategy (GCI proxy) has performed against the hybrid market recently. What is immediately obvious is the much lower level of volatility exhibited by Gryphon's strategies versus what we have seen in hybrids. This clearly shows the potential diversification benefits of including GCI strategies in an income focused portfolio.

Gryphon's strategy for the Trust will focus on capital preservation and the delivery of a target cash return of 3.50% above the RBA cash rate i.e. 5.00% p.a. Cash distributions will be paid monthly and because the underlying securities are all floating rate, as interest rates rise so too will the Trust's distributions.

For further detail contact your Morgans adviser. An investment in the Trust can only be made by completing the application form attached to the PDS.

**Figure 1: Sample hybrid performance vs GCIT proxy (SOF/Inv. Grade strategies)**



SOURCES: BLOOMBERG, GRYPHON CAPITAL INVESTMENTS, MORGANS

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