morgans

Fixed Income Research

Gryphon Capital Income Trust

- One Managed Investment Funds Limited as the Responsible Entity is seeking to raise up to $350 million via the ASX listing of Gryphon Capital Income Trust (Trust) and has appointed Gryphon Capital Investments Pty Ltd as the Manager (GCI).
- Cash distributions paid monthly targeting returns of RBA Cash Rate plus 3.50% p.a. net of fees (5.00% p.a. based on the current RBA Cash Rate of 1.50%).
- Key objective is capital preservation along with monthly cash income.
- Deep experience and expertise that until now has only been available to institutional investors.
- Portfolio diversification, offering stable yields, secured debt exposure and complimentary to other fixed interest investments.
- The issue price of $2.00 per unit will be equal the NAV at issue.

Not for distribution to the U.S. or to U.S Persons

Gryphon Capital Income Trust

GCI is a specialist fixed income manager with significant experience in the Australian and international Residential Mortgage Backed Securities (RMBS) & Asset Backed Securities (ABS) market. Managing in excess of $1.7 billion in segregated accounts on behalf of institutional investors, GCI's management of the Trust will provide retail investors the opportunity to gain exposure to this institutional asset class.

The Investment Strategy reflects the key tenets of the Manager's investment philosophy of capital preservation and superior investment returns. The investment selection processes, policies and risk protocols employed by the Manager in the construction of the Trust's Portfolio will be the same as those it currently employs on behalf of its institutional clients.

An investment in the Trust provides access to an important and significant sector of the fixed interest asset class (RMBS and ABS). The Trust therefore provides asset class diversification and is complementary to other fixed income securities.

In addition to the attractive target returns of RBA + 3.50%, investors can look to the multiple layers of protection afforded to them by investing in a diversified portfolio of secured bonds. The protections within the RMBS process mean that there has never been a principal loss on any bond.

Morgans Financial Limited is a Joint Lead Manager to the issue of Gryphon Capital Income Trust

Figure 1: Key terms

Issuer:	Gryphon Capital Investments Pty Ltd
ASX code:	GCI
Offer Size:	$100 to $350 million
Unit Price:	$2.00
Minimum application amount:	$5,000 (2,500 units)
Targeted Distribution Rate:	3.50% above the RBA Cash Rate
Indicative initial Distribution Rate:	5.00% (assuming a 1.50% Cash Rate)

SOURCES: MORGANS, COMPANY REPORTS

Figure 2: Key dates

Offer opens:	20 March 2018
Morgans closing date (Broker Firm):	25 April 2018
Settlement date:	11 May 2018
Commencement of trading:	18 May 2018
Dividend payment dates:	Monthly (first distribution month ending 30 June 2018)

SOURCES: MORGANS, COMPANY REPORTS

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Overview of the Trust

The Trust will seek to provide investors with the following:

Portfolio diversification
Fixed income is an important component of a balanced investment portfolio, offering stable yields and lower risk of capital loss than other asset classes.

Asset class diversification for investors by gaining exposure to a portfolio of RMBS and ABS.

Monthly cash income
Target Return of RBA Cash Rate plus 3.50% per annum (net of fees) through the economic cycle, paid monthly.

Capital preservation
The portfolio will consist of an actively managed portfolio of assets which historically have a very low risk of capital loss.

Experienced management
GCI has deep experience in RMBS and ABS and has developed robust investment processes which, until now, have only been available to institutional clients.

LIT structure which provides investors with
A closed pool of capital enabling the Manager to make long term investments without the need to source liquidity for potential investor redemptions.

Strong corporate governance - Investors will benefit from GCIs established processes for institutional investors.

Attractive fee structure and innovative fund design
Base management fees comparable to fees charged to wholesale investors for similar products.

Offer costs are not paid directly by the Trust so the NAV at listing is equal to the Subscription Price.

Investment Objective & target return

The Trust's Investment Objective is to provide monthly cash income and low risk of capital loss by investing in a portfolio of securitised fixed income bonds comprising RMBS and ABS (in accordance with the Investment Objective and the Investment Guidelines - detailed in sections 4.5 and 4.6 of the PDS).

The Target Return is RBA Cash Rate plus 3.50% per annum net of fees through the economic cycle. Based on the RBA Cash Rate as at the date of the PDS of 1.50%, the initial Target Return will be 5.00% per annum (net of fees).

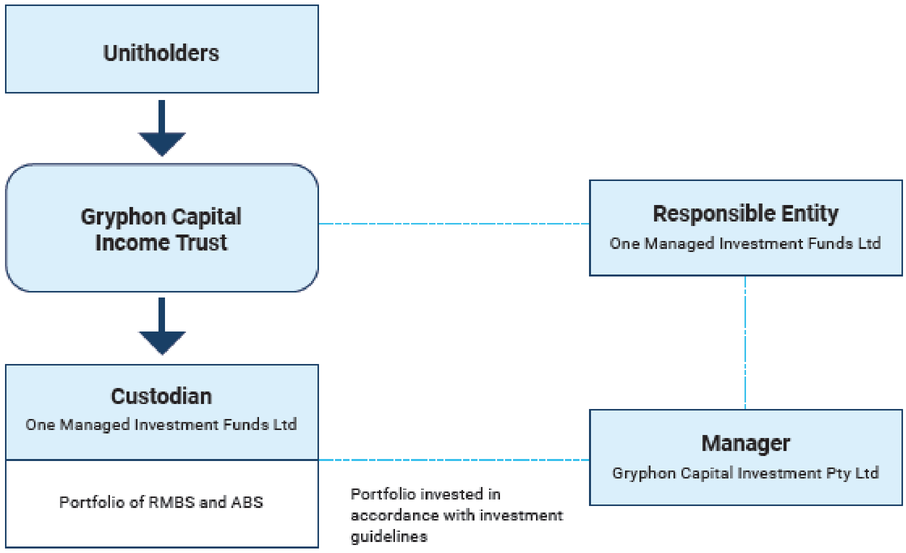
The Manager seeks to deliver the Target Return while preserving Unitholders' capital.

Trust Structure

The Trust has been formed specifically for the purposes of the Offer. The Trust is an Australian registered managed investment scheme and will be listed on ASX.

One Managed Investment Funds Limited is the responsible entity and custodian of the Trust. The Responsible Entity has appointed by GCI.

Figure 3: Trust structure



SOURCES: MORGANS, COMPANY REPORTS

Distribution payment dates and rate calculation

Distributions are payable monthly with the first distribution payable following the month ending 30 June 2018. The Target Distribution Rate is calculated as follows:

Target Distribution Rate = (Market Rate + Margin)

Where:

- Market Rate means the RBA Cash Rate on the first Business Day of the Distribution Period; and
- Target Margin is 3.50%.

Gryphon Capital Investments

GCI is the investment manager of the Trust.

GCI is a specialist fixed income manager with significant experience in the Australian and international RMBS and ABS markets. GCI manages segregated accounts on behalf of institutional investors seeking opportunities in fixed income credit markets.

The GCI Investment Team has significant experience in the fixed income markets and currently manages institutional mandates in excess of $1.7 billion (as at the date of the PDS).

The GCI Investment Committee comprises the Australian-based GCI Partners, Steven Fleming and Ashley Burtenshaw, who will hold ultimate responsibility for the implementation of the Trust's Investment Strategy. The GCI Investment Committee has diverse experience in the international securitised fixed income markets.

The GCI Investment Committee is supported by members of the GCI Investment Team; a team of investment professionals which provide analytical and portfolio risk management support.

Fixed Income Overview

A fixed income (or fixed interest) security is a commitment by a borrower to pay an agreed rate of interest on the amount borrowed (principal) over a set period of time and, when that period ends, to repay the money in full. The lender or investor knows at the outset how much interest or income it can expect to receive over the life of the agreement. The interest on the debt may be at either a floating rate or a fixed rate.

A bond is a fixed income security and comes in a number of forms (see Table below).

A bond generally provides greater certainty as to the income stream and return of capital, as compared to other investments. Generally speaking, there is a trade-off between risk and return and this is why most fixed income instruments pay lower returns than listed equities and other riskier investments.

Within the fixed income asset class, different types of bonds pay different returns. The interest rate paid on bonds will be determined by a number of factors including the following:
(a) Term: How long the capital is committed.
(b) Capital structure: The priority of the bond in the capital structure and whether the bonds are secured against assets, unsecured or subordinated to other debt instruments.
(c) Credit assessment: The credit assessment of the borrower to ensure it will have the ability to meet principal and interest repayments.

The Trust will invest in floating rate RMBS and ABS which are secured bonds created through a process known as securitisation. RMBS, ABS and the securitisation process is summarised below.

Types of Bonds

The priority in the ranking of the capital structure of a fixed income security is a key determinant of whether the expected return adequately compensates the investor for the risk involved.

Figure 4: Types of Bonds

Risk	Instrument	Bond Type
Lowest Risk	Cash	
	Government Bonds	
	Secured Bonds	RMBS and ABS
	Unsecured Bonds	
	Subordinated Bonds	
	Convertible Debt	
	Hybrid Securities	
Highest Risk	Equity	

SOURCES: MORGANS, COMPANY REPORTS

Holders of fixed income securities have preferential treatment over equity holders for income distributions and capital returns in the event of insolvency. Debt securities are generally considered lower risk than hybrid securities or equity investments, as they tend to have a less volatile return profile.

Secured debt generally has a lower risk than unsecured debt.

Secured debt is the first debt to be repaid in the event of a default and carries the highest ranking, above any other debt issued by a company. This debt is secured by specific underlying assets and in the event that a borrower defaults, the holder of a secured bond has a first claim over the assets offered as security. Senior unsecured debt has no specific collateral backing from the borrower (i.e. ranks behind secured debt), however it ranks ahead of other unsecured creditors.

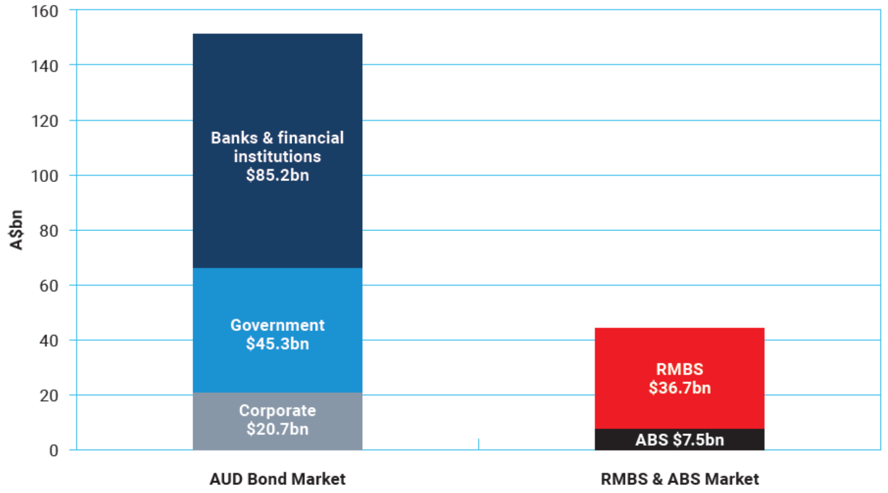
Subordinated debt holders stand behind the more senior debt holders in a default event, but ahead of convertible debt, hybrids and equity.

RMBS & ABS market

An important and growing segment of the wholesale fixed income market is RMBS & ABS issued as a result of securitisation (see below) of underlying assets such as residential mortgages or other loans. This sector forms a very important part of the funding model for banks and other lenders. All Australian major and regional banks as well as non-bank lenders use securitisation to fund their businesses.

During 2017, the Australian capital markets saw record volumes of debt funding raised for government and corporate borrowers as well as a record level issuance of RMBS and ABS. The following chart shows that during 2017 the volume of issuance for all RMBS and ABS ($43.2 billion) was in excess of twice the volume of corporate bonds issued ($20.7 billion).

Figure 5: 2017 Public Offer Fixed Income and Securitisation Issuance



SOURCES: MORGANS, COMPANY REPORTS

Gaining exposure to this very significant asset class therefore provides an opportunity for investors to further diversify their investment portfolio and gain exposure to a steady and reliable income stream.

RMBS & ABS are simply bonds issued to fund a pool of underlying loans. The interest payments and repayment of face value of the bonds are linked to and secured against the underlying pool of assets (loans). Interest payments on RMBS & ABS are serviced by the interest paid by the underlying borrowers. This process is known as securitisation. This compares to government or corporate bonds where interest payments are typically sourced from cash flows arising from tax revenues in the case of governments, and operating income in the case of companies.

RMBS is a type of ABS where the pool of assets are exclusively loans which are secured against residential property. As highlighted above, RMBS and ABS are a very large component of the Australian bond market with the main investors being domestic and international institutional investors including banks, insurance companies and fund managers.

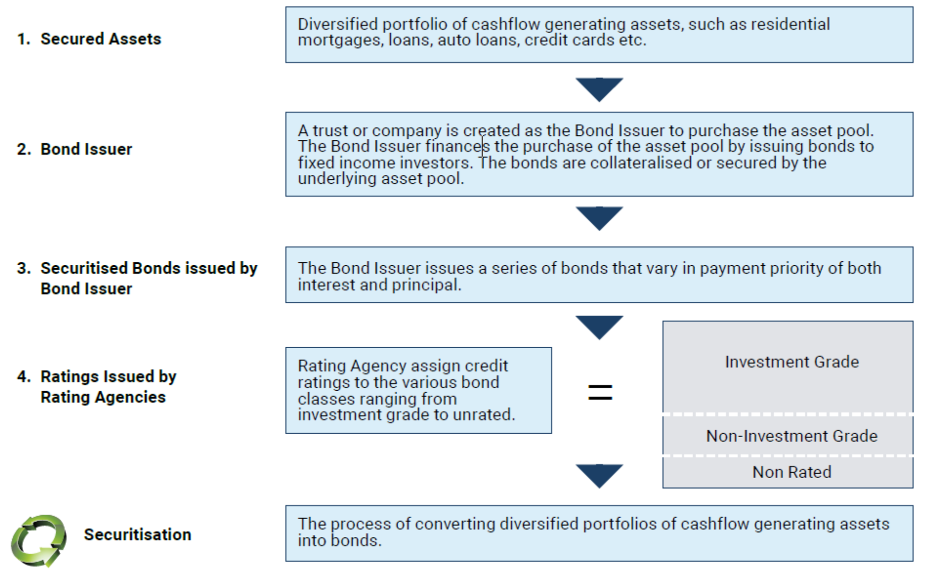
What is securitisation?

Securitisation is the process of funding the purchase of a pool of assets (loans) by issuing bonds which are secured against the value of those underlying assets. RMBS and ABS are both forms of this type of bond. Banks and other lenders (Originators) use securitisation to fund their lending activities. It is not new and has been a feature of the Australian financial landscape for over 30 years. As banking regulations have tightened, it has become a more important part of banks' funding as regulatory changes make it is less attractive for banks to retain loans on their balance sheet for their full life.

Investors are attracted to these bonds due to their diversification benefits and returns. The underlying loan pools are highly diversified and consist of thousands of loans. Institutional investors select their bond investments based on the types of loans, bond rating and term.

The chart below steps through the securitisation process. A pool of mortgages is transferred by a bank to the Bond Issuer. The Bond Issuer issues bonds to investors; the proceeds are passed back to the originating bank. The principal and interest payments made on the mortgages are used to pay interest on the bonds and the maturity (face) value of the bonds. The secured nature of the bonds means they are a lower risk investment than many other fixed income securities.

Figure 6: Securitisation process



SOURCES: MORGANS, COMPANY REPORTS

Bond ratings

Unlike corporate bonds where there is no security over specific assets of the company, the ratings agency attributes a rating to a bond based specifically on the risk of payment default of the borrower. In fixed income RMBS/ABS, all bonds issued in the securitisation process are secured against the entire underlying pool of loans they are funding. Accordingly one of the primary drivers that determines the rating of a bond in that series is the priority (or order) of payment of interest and repayment of face value attributable to each bond issued as explained below.

The table below provides an example of the series bonds that might typically be issued to fund a pool of residential mortgages by a bank.

Figure 7: Capital structure of a typical prime RMBS issue*

Credit Rating	AUD Issuance	Indicative Interest Rate	Spread Over Floating Benchmark	
AAA	960,000,000	2.65%	0.95%	
AA	20,000,000	3.55%	1.85%	Trust's Target Investments
A	9,500,000	4.05%	2.35%	
BBB	3,500,000	5.05%	3.35%	
BB	3,500,000	6.25%	4.55%	
NR	3,500,000	7.35%	5.65%	
Total	1,000,000,000			

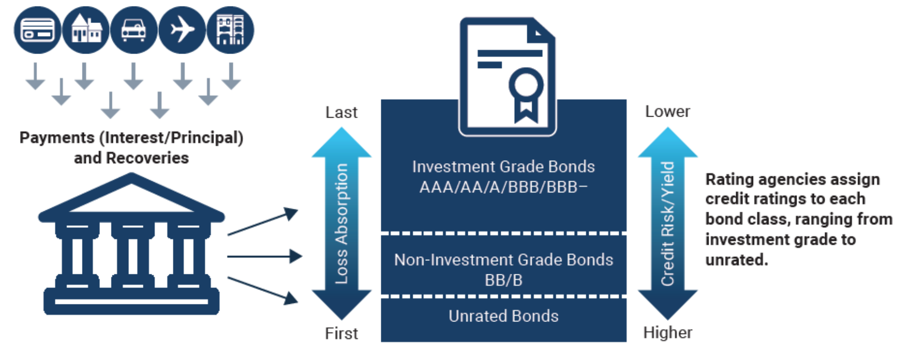
*Based on typical prime RMBS issue of $1,000,000,000.
**Each rating tranche may also include sub-sets within the rating class. For example, 'BBB' includes BBB+ and BBB- which is considered investment grade.
***The rates disclosed in this Table are not a forecast nor an indication of future interest rate returns on a typical RMBS issue. The rates provide an indication of the coupon interest rates of each tranche for a typical prime RMBS issue as at the date of the PDS.

SOURCES: MORGANS, COMPANY REPORTS

Payment process

Each month the interest received from the pooled loans is paid to investors. Interest is paid first to those holding the highest rated bonds (AAA), then interest is paid to holders of the next highest rated bonds (AA) and so on. The same thing occurs when principal payments (made by borrowers of the underlying loans) are received and passed through to bondholders. The highest rated bonds are paid principal first and so on. Hence, a higher rated bond receives a lower rate of interest whereas a lower rated bond receives a higher rate of interest even though they are secured by the same pool of loans. In the event of a shortfall, investors in the lowest ranking bond class would be exposed to losses first, with any further losses impacting more senior classes in reverse order of payment priority. However, there are a number of important features in the securitisation process that are designed to limit the likelihood of any loss to investors.

Figure 8: Payment Process of Bonds



SOURCES: MORGANS, COMPANY REPORTS

What are the Bondholder protections?

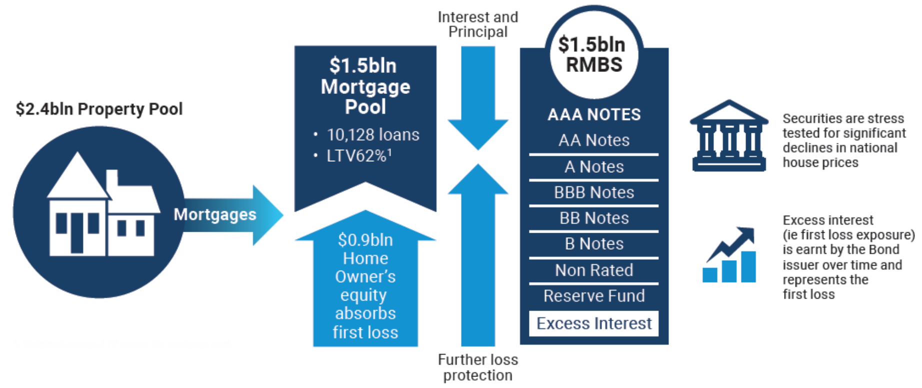
RMBS and ABS have a number of important structural protections (credit enhancements) that mitigate the risk of bondholders taking a principal loss. These credit enhancements include:

- Equity: If the underlying borrower defaults on their payment obligations, the bank repossesses the asset and sells it to recover the outstanding loan amount. Therefore, the first loss is absorbed by the borrower's equity in the underlying asset.
- Lenders Mortgage Insurance (LMI): For RMBS, LMI is often in place for mortgages with a loan to value ratio (LTV) of greater than 80%. In the event of a default and after the sale of the secured asset, if the sale of the

property was not sufficient to cover the principal amount outstanding of the loan (i.e. homeowner equity was zero), then the mortgage insurance provider will pay the loss amount to the lender (or issuer of the bond). This payment can then be used to protect bondholders if required.

- Excess Interest: The interest payments received monthly from the pool of loans less the interest paid to bond holders is referred to as excess interest. This surplus represents the Originator's (bank) profit margin. The excess interest (profit) is paid throughout the life of the loan but is only received if the borrowers continue to pay their mortgage payments (i.e. the bank collects the payments) and all bondholders are paid in full. In the event of a loan default, any losses that remain after first looking to the borrower's equity and any LMI paid, accrues against the excess spread (Originator profit) every month. This sets a clear alignment of the interests between the Originator and bondholders. The bank's profit is reduced to ensure bondholders are paid.
- Originator holds first-loss bonds: For RMBS/ABS, the most junior tranche is often required to be held by the Originator. In the event of a loan default and after the sale of the secured asset, if the sale of the asset was not sufficient to cover the principal amount outstanding, then the Originator (e.g. bank) will incur the first loss. Again, this means that the Originator is incentivised to ensure bondholders receive the principal and interest payments in full otherwise they are directly exposed to losses.

Figure 9: Payment Process of Bonds



1. Weighted average LTV across the mortgage pool.

SOURCES: MORGANS, COMPANY REPORTS

What has been the historial performance of RMBS in Australia?

Firstly, investors should keep in mind that Australian mortgages are not the same as U.S. Sub-prime mortgages made infamous in the GFC (or indeed any other U.S. mortgage). The protections outlined above and which have been a feature of the Australian market since inception, were not present in the US. In addition, Australian mortgages are full-recourse loans, i.e. the lender has the right to pursue the defaulted borrower's other assets where default and subsequent loss exists. Mortgages in the US are generally non-recourse, which means that the lender has no recourse to the borrower beyond the secured property.

Notwithstanding even in Australia, losses on underlying loans do occur. Historically though these losses have not flowed through to RMBS bondholders. The historical loss performance of the Australian securitisation market has been exceptional since its origins. While the credit enhancements provide multiple layers of protection for bondholders against losses on the underlying loan assets, the absolute level of losses (even before these protections) on loans in Australian RMBS has been extremely low compared to the large volume of loans that have been securitised.

Australian prime RMBS represents approximately 85% of the outstanding Australian securitised bond market (as at June 30, 2017). For prime RMBS, after the realisation of the home owner's equity, payouts from LMI and the originator (bank) excess spread, as at 31 July 2017 there has never been a principal loss on any bond[1].

How is the Trust portfolio constructed?

The Trust will invest the proceeds raised from the Offer in a diversified portfolio of RMBS, ABS and other Authorised Investments.

Before making an investment the Manager will often negotiate with an Originator to ensure that the terms of the bond issue meets its robust due diligence standards. This is one of the major reasons why retail Investors have difficulty accessing the RMBS and ABS markets. The Manager anticipates it will take between three and six months to construct a Portfolio consistent with the Investment Objective. To ensure the Trust will still earn income in the period the Portfolio is being constructed, immediately following the allotment of Units, the Manager will invest the Offer proceeds in more readily available RMBS and ABS in order to start earning income. The Manager will then begin to transition those investments into higher income generating Authorised Investments as opportunities arise.

The table below sets out the Authorised Investments of the Trust (investment mandate) and weightings to each component which would comprise a typical Portfolio.

Figure 10: Authorised Investments

Authorised Investments	Investment Mandate (%)	Indicative Portfolio (%)
Cash	0 - 10	2
RMBS (of different credit ratings)	70 - 100	85
ABS (of different credit ratings)	0 - 30	13

SOURCES: MORGANS, COMPANY REPORTS

The Manager currently manages over $1.7 billion held in a number of individually managed segregated accounts for institutional clients. Two of the investment strategies GCI manages for its institutional clients are the Secured Opportunities strategy (since April 2015) and the Investment Grade Securitised strategy (since September 2016).

The Manager will employ the same investment philosophies and processes used in the above funds to the management of the Trust, having regard to its specific Investment Objectives and Investment Guidelines. It is therefore instructive to consider the performance of both the Secured Opportunities strategy and the Investment Grade Securitised strategy to demonstrate GCI's skill and expertise.

Figure 11: Secured Opportunities portfolio performance (as at 31January 2018)

	Benchmark	Target	Actual
1 year return	1.75%	6.75%	7.26%
2 year return	1.89%	6.89%	7.63%
Since inception (April 2015)	1.99%	6.99%	6.93%

Note: Past performance is not a reliable indicator of future performance.

SOURCES: MORGANS, COMPANY REPORTS

[1] S & P Performance Watch 30 June 2017

Figure 12: Investment Grade Securitised portfolio performance (as at 31 January 2018)

	Benchmark	Target	Actual
1 year return	1.75%	4.45%	5.27%
2 year return	N/A	N/A	N/A
Since inception (September 2016)	1.75%	4.45%	5.31%

Note: Past performance is not a reliable indicator of future performance.

SOURCES: MORGANS, COMPANY REPORTS

Additionally, the investment universe of the Trust will include elements of the Investment Grade Securitised and the Secured Opportunities strategies. A comparison of the investment restrictions for each strategy is provided in the table below; this highlights the significant cross-over of exposure and mandate

Figure 13: Comparison of investment restrictions between existing GCI strategies and the Trust

	Secured Opportunities	Investment Grade Securitised	Trust
Authorised Investments			
RMBS	Yes	Yes	Yes
ABS	No	Yes	Yes
Investment Mandate			
(a) Credit Rating Restrictions			
Minimum Credit Rating	N/A	BBB-	N/A
At least 50% of Portfolio to be Investment Grade	N/A	Yes	Yes
(b) Portfolio Concentration			
Maximum holding in one security the time of investment	10%	10%	10%
Maximum single Originator exposure	25%	N/A	25%
(c) Portfolio Weighted Average Life			
Maximum Portfolio Weighted Average Life*	5.5 years	N/A	5.5 years

*Means the weighted average life of the bonds (by value) in the Portfolio must be less than 5.5 years.

SOURCES: MORGANS, COMPANY REPORTS

The Manager, its philoposhy and process

The Manager will make investment and divestment decisions for the Trust and implement the Investment Strategy on the terms and conditions set out in the Investment Management Agreement (Section 12.2). GCI is a low volatility fixed income specialist manager which aims to deliver superior investment returns where the return outweighs the risk involved.

GCI's investment style is a long-only, deep-credit, research-driven, macro-aware approach using top-down and bottom-up techniques to build portfolios of what it considers to be the best relative-value securities consistent with its client's individual investment parameters.

GCI's investment strategies do not rely on 'timing' the market. Therefore, when making investment decisions, GCI's investment horizon and that of the Trust assumes the investment will be held until maturity, thus making capital preservation paramount especially through periods of economic turbulence. That said, GCI may still sell the Trust's investments before maturity where it believes it can reinvest capital more effectively elsewhere.

GCI believes the safest passage to long term success comes from the benefits of being a specialist investment manager. GCI's processes require it to establish the charter for each investment strategy in consultation with its clients and then not deviate from the strategy making sure there are no surprises and performance directly mirrors their client's objectives.

GCI's investment process can be broken down into four pillars:

(a) Idea generation

The GCI Investment Committee actively evaluates and manages all client portfolios. Using a comprehensive proprietary database that accesses data fed directly from RMBS & ABS Originators, GCI analyses detailed information on 114,984 residential loans and 1,129 Australian RMBS securities (as at December 2017). The database includes up to 47 fields of information in respect of each of the 114,984 loans. The Manager believes this data gives GCI a rich source of information about the performance of the collateral supporting its investments and provides it with a competitive advantage over its peers in assessing and pricing risk in the RMBS markets in which it invests.

(b) Security selection and research

After identifying investment opportunities, the GCI Investment Committee engages the research team to conduct a thorough credit analysis for each opportunity. This process involves the research team obtaining the data file from each Originator which contains a summary term sheet for the securitisation, an information memorandum and, for RMBS, the loan by loan data.

The GCI Investment Team then completes a detailed assessment which includes:

- Credit report,
- Deal modelling, and
- Security analysis.

(c) Portfolio construction

Portfolio construction brings together the best ideas formulated by the GCI Investment Committee and then researched by the GCI Investment Team to deliver the optimal Portfolio composition for the agreed risk budget.

Not all investments that pass the security selection process will enter the Portfolio owing to the proactive management of risk. The Portfolio is constructed with consideration to the following principles:

- Diversification across the Portfolio.
- Correlation to traditional asset classes.
- Relative value between existing holdings and those available in the investible universe which may lead to rebalancing of the Portfolio
- Analysis of the credit quality of any counterparty to a securitisation such as LMI providers.
- Drivers of mortgage performance such as an analysis of historical trends in the speed of borrower repayments which can create an early sell or buy signal for the GCI Investment Team.

(d) Portfolio management

The GCI Investment Team regularly receives updated data on all loans within a RMBS collateral pool. This data provides dynamic reporting on the current status of each loan within a collateral pool. For example, the reports will identify whether an individual residential borrower is current or delinquent, the loan amount outstanding, and if the borrower has repaid or refinanced. The GCI Investment Team tracks the performance of delinquent residential loans over time which allows the Manager to determine if the collateral pool is deteriorating or borrowers are remedying any delinquency quickly. This can provide the Manager with an early buy or sell signal on an investment.

For RMBS, analysis includes projecting the likelihood of any rating upgrades or downgrades, assessing 'actual excess spread' (bondholder protection) to 'projected excess spread' which is a good indicator of the safety margin which exists before any bond holders could potentially suffer a loss.

GCIT Investment Guidelines and Authorised Investments

The Investment Guidelines for the Trust are summarised below:

(a) Jurisdiction

All Trust investments must be issued by an Australian domiciled issuer.

(b) Authorised Investments

The Trust investment may consist of the following:

i. Cash held in a bank or other ADI
ii. Short term money market securities or cash equivalent
iii. RMBS
iv. Other ABS i.e. non-RMBS which may include securitisations backed by consumer loans, loans to SMEs, auto loans among others
v. Manager Loan

(c) Investment Guidelines

All investments –

i. must be denominated or payable in Australian dollars or if denominated in another currency hedged back to Australian dollars, and
ii. must be fully secured by collateral domiciled in Australia.

(d) Investment concentrations

The Investment Guidelines require the Manager to prudently limit exposures to any individual asset class, issuers and transactions. To support this, the Manager has adopted the following investment restrictions for the Trust:

i. At least 50% of the Portfolio (calculated as a percentage of the Trust's NAV) will be invested in assets with an Investment Grade Rating.
ii. At the time of investment the maximum holding in any one security will not exceed 10% of the Trust's NAV.
iii. At the time of investment the exposure to any one Originator must not exceed 25% of the Trust's NAV.
iv. All ABS investments must be rated by one of Standard & Poor's, Moodys or Fitch Ratings.
v. Non-investment grade ABS must not exceed 5% of the Trust's NAV.

The investment concentrations may be breached from time to time if the value of securities in the Portfolio changes or the Manager sells an asset. However, in those circumstances the Manager will attempt to re-balance the Portfolio within a reasonable timeframe.

(e) Hedging and derivatives

The Manager intends to only use derivatives and other hedging techniques for risk management purposes and not for market speculative purposes in an attempt to increase returns.

Manager Loan

The Manager Loan is an unsecured loan advanced to GCM which is part of the Gryphon Group. The primary purpose of the loan is to fund the up-front costs of establishing and listing the Trust.

Fees and Other Costs

There are no performance fees. The Manager will receive a management fee of 0.72% p.a. of NAV of the Trust.

The Responsible Entity will receive a Responsible Entity fee of—

(a) 0.06% p.a. on the gross value of the Trust's assets (up to $200 million)

(b) 0.04% p.a. on the gross value of the Trust's assets (from $200 million to $300 million), and

(c) 0.02% p.a. on the gross value of the Trust's assets (from $300 million),

subject to minimum monthly fee of $5,500 and annual CPI increases.

The Responsible Entity will also receive a custody fee equal to 0.01% per annum on the gross value of the Trust's assets for performing custodial services on behalf of the Trust. This fee is subject to a minimum monthly fee of $2,750 and annual CPI increases.

The Manager will also repay the Manager loan from its management fee.

Key Risks

There are risks associated with investing in the Trust which include, but are not limited to the following:

- Manager risk – The Trust's success is reliant upon the ability of the Manager to devise and maintain a portfolio that achieves the Investment Objective and Investment Strategy.
- Availability of investments – There is no guarantee the Manager will find sufficient investments for the Trust at suitable prices to deliver the Investment Objective.
- Distribution risk – The Manager may make poor investment decisions which may result in the Trust's return being inadequate to pay distributions to Unitholders.
- Key man risk – The Responsible Entity has no right to terminate the Investment Management Agreement solely as a consequence of a change of control of the Manager or in the event of a material change to the composition of the CGI Investment Team. For example, the Responsible Entity cannot terminate the Investment Management Agreement if either Steven Fleming or Ashley Burtenshaw resigns from the Manager.
- Market risk – The investments comprising the Trust's Portfolio are subject to market risk. Market risk is risk associated with changes in market prices or rates, including interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, national and international political circumstances.
- Reinvestment risk – To achieve the Target Return over the long term the proceeds of securities held by the Trust that mature and are sold must be able to be reinvested in securities with a yield comparable to that of the Portfolio as a whole. This may not always be possible.
- Value of RMBS/ABS – There are a number of factors which can affect the price of RMBS/ABS in which the Trust invests. For example, this can include changes in market perception of the assets underlying the security, the credit quality underlying the security and the creditworthiness of the issuer of the security.
- Credit risk – There is a risk that a rating agency may assign incorrect or inappropriate credit ratings to issuers and the securities issued which may mean the underlying security is more likely to be subject to a default event than was anticipated.
- Non-investment grade investments – The Trust will invest in high yield (namely non-investment grade) securities which have a higher risk of default than investment grade securities.
- Hedging risk – The Manager intends to only use derivatives and other hedging techniques for risk management purposes. There is no perfect hedge for any investment, and a hedge may not perform its intended purpose of offsetting losses on an investment and, in certain circumstances, could increase such losses.
- Liquidity risk – If a security cannot be bought or sold quickly enough to minimise potential loss, the value of the Portfolio may be adversely affected.
- Unit trading price risk – Units may not trade on ASX at or near the stated underlying NAV per Unit.
- Volatility of Units risk – Units when listed on ASX may be thinly or heavily traded, and could be volatile, irrespective of the value of the investments held by the Trust.
- ASX liquidity risk – Units in the Trust are intended to be listed on ASX. Although liquidity is generally expected to exist in this secondary market, there are no guarantees that an active trading market with sufficient liquidity will develop.
- Manager Loan risk – The Trust assets will be used to make the Manager Loan to GCM (an entity within the Gryphon Group). The term of the loan is 10 years. GCM is required to repay the loan including interest from its own resources. If GCM fails to repay the Manager Loan for any reason, then the Trust will incur a loss.

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