



Gryphon Capital Investments Pty Ltd

ACN: 167 850 535

ESG Integration and Stewardship Policy

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Version	Revision Date	Description of Changes
1	11 September 2020	Final version approved by the GCI Board as 'Environmental, Social and Governance Policy'.
2	27 September 2022	Renamed to 'Responsible Investment Policy', clearer definition of RI philosophy, incorporation of new originator ESG assessment in RI approach, expansion of exclusions, addition of 'Advocacy and Collaboration' section, and general restructuring and rewording.
3	21 June 2024	Renamed to 'ESG Integration & Stewardship Policy', updated references to UN PRI reflecting new status as a subsidiary of Barings, clarified specifics of ESG integration approach

1. Introduction

This policy defines Gryphon Capital Investment's responsible investment philosophy and approach. This is to ensure that ESG risks and opportunities are appropriately considered and managed throughout all stages of the investment process.

This policy should be read in conjunction with the Desk Rules Policy and applies to all mandates and accounts managed by Gryphon.

Gryphon's Investment Committee are responsible for the incorporation of ESG considerations into the investment process, including evaluating ESG factors when selecting, monitoring, and retaining investments. The Investment Committee is responsible for supervising the implementation of this Policy, including training.

The policy has been approved by Gryphon's Board and Investment Committee. This Policy will be reviewed annually, or more frequently as required, to ensure that it remains current. Any suggested changes to the Policy are provided to the Investment Committee for review and approval.

2. Definitions

ABS means Asset Backed Security

Barings means Barings, LLC

ESG means Environmental, Social and Governance

Gryphon means Gryphon Capital Investments

Investment Committee means the Gryphon Investment Committee

Policy means this ESG Integration and Stewardship Policy

PRI means Principles for Responsible Investment

RMBS means Residential Mortgage-Backed Security

SPV means Special Purpose Vehicle

3. Responsible Investment Philosophy

Gryphon's responsible investment approach is shaped by our belief that we have a fiduciary duty to integrate environmental, social and governance factors into our investment process.

ESG factors can constitute additional sources of risk and opportunities for return. Incorporation of ESG considerations may lead to more complete analysis and better-informed investment decisions, resulting in stronger risk-adjusted returns and preservation of capital for our clients.

Robust governance and sustainable practices can help organisations achieve better long-term outcomes. Effective stewardship, including active engagement, can help enhance these practices and result in better risk-return profiles.

Responsible investment also reinforces the stability and sustainability of global economic and financial systems, which is vital for long-term investors.

As active investors and stewards of our client's capital, we are committed to advocating for more sustainable practices from the asset originators we invest with. We believe that our greatest potential for positive impact comes from encouraging the companies we invest with to do better on ESG issues and contributing to the development of industry standards.

3.1 Principles for Responsible Investment

The United Nation's Principles for Responsible Investment (UN PRI) serves as a global framework for institutional investors to integrate ESG considerations into their investment decision-making processes. The PRI is underpinned by a set of six commitments:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Gryphon became a UN PRI signatory in October 2020. In March 2023, Gryphon was acquired by Barings, a global investment manager who has been a PRI signatory since January 2014. As of June 2023, Gryphon no longer operates as a direct signatory, but rather engages with the UN PRI as a subsidiary of Barings.

The principals continue to guide our responsible investment approach and implementation under the ownership of Barings.

4. Responsible Investment Approach

4.1 Integration

Gryphon has adopted an integration approach to responsible investment, systematically incorporating ESG considerations into its investment analysis and decision-making processes. This approach ensures that ESG risks and opportunities are identified and evaluated as part of the risk-return assessment for investments.

Given the complexity of securitised products, a holistic approach is required to effectively assess the sustainability of RMBS and ABS. Accordingly, we are continuing to build out a framework that assesses ESG factors across three key components of a securitised transaction: the originator, assets, and deal structure.

ESG assessment results are included in the presentation of all potential investments to the Investment Committee. ESG factors are considered by the Investment Committee when making investment decisions to the extent that they are deemed relevant to the current or future value of the investment. Gryphon does not have a predetermined methodology for determining what constitutes a relevant ESG factor or the extent to which such factors are to be considered.

Originator

The sustainability of an originator's activities is monitored and assessed through our extensive due diligence process and our proprietary ESG questionnaire and scoring system.

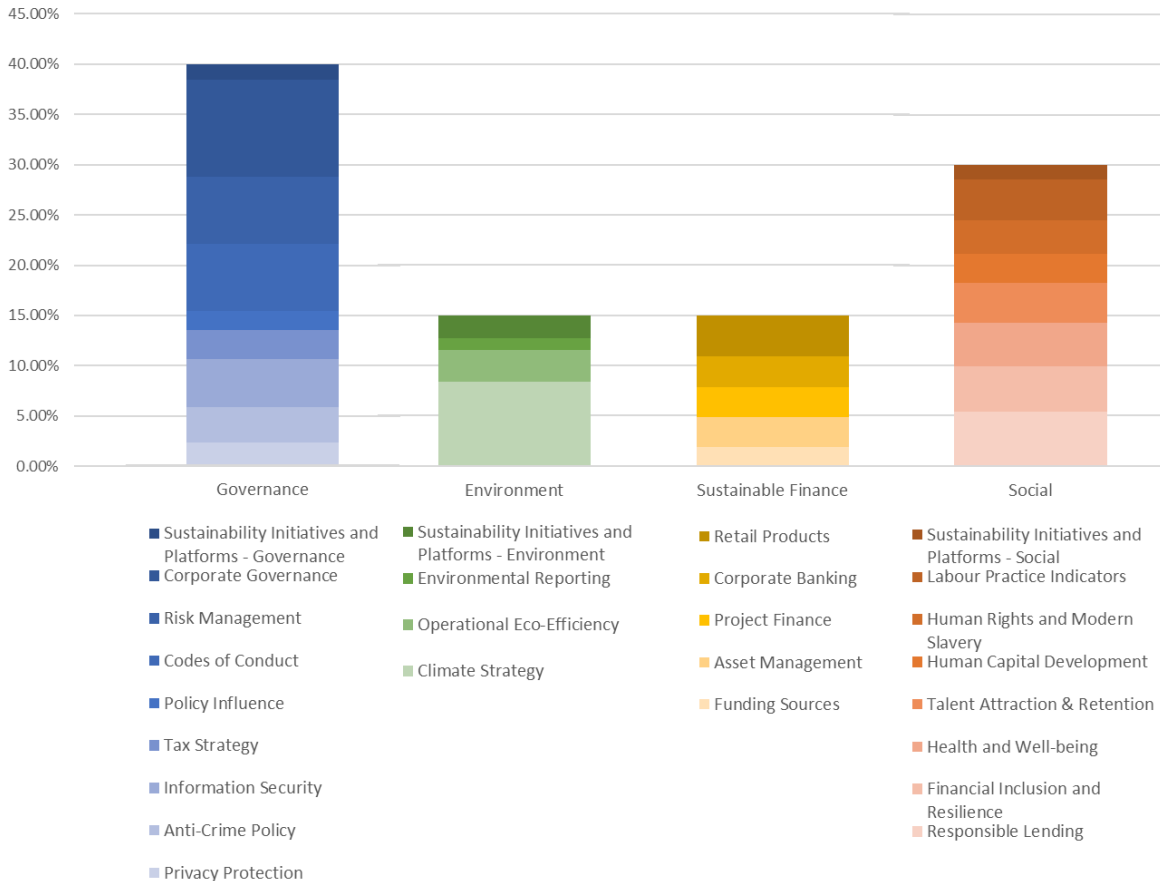
Our originator ESG assessment covers 26 different sections across the dimensions of governance, environment, sustainable finance and social:

Governance	Environment	Sustainable Finance	Social
<ul style="list-style-type: none"> • Corporate Governance • Risk Management • Codes of Conduct • Policy Influence • Tax Strategy • Information Security • Anti-Crime Policy • Privacy Protection • Sustainability Initiatives & Platforms - Governance 	<ul style="list-style-type: none"> • Environmental Reporting • Operational Eco-Efficiency • Climate Strategy • Sustainability Initiatives & Platforms - Environment 	<ul style="list-style-type: none"> • Retail Products • Corporate Banking • Project Finance • Asset Management • Funding Sources 	<ul style="list-style-type: none"> • Labour Practice Indicators • Human Rights & Modern Slavery • Human Capital Development • Talent Attraction & Retention • Health & Well-being • Financial Inclusion & Resilience • Responsible Lending • Sustainability Initiatives & Platforms - Social

An in-depth ESG questionnaire, which consists of over 100 questions capturing up to 400 data points for each originator, is used to assess these areas within the context of the Australian regulatory environment and securitisation industry.

Our proprietary scoring system translates the responses into a score out of 100 for each question, with weightings applied to derive section, dimension, and overall scores. This system facilitates comparisons between originators and the creation of benchmarks based on originator subgroups. The tiered scoring system enables us to obtain a quick overview of an originator's position and delve into specific areas when assessing specific risks or understanding the contributing factors to a high or low score.

The base section and dimension weights used to aggregate scores are:



The base weights are adjusted where certain sections are identified as not relevant for a specific company (e.g., the weighting to 'Sustainable Finance' is reduced if a company does not provide corporate banking, project finance or asset management services).

Scoring considerations hinge on the data and disclosures provided by the originator, recognising that such information may be incomplete, inaccurate or unavailable at the time of the assessment. Adjustments are made in the scoring process for incomplete or unavailable data and reasonable efforts are made to ensure the accuracy of responses.

Gryphon's Investment Committee closely examine the results of the assessment, gaining a thorough understanding of each originator's ESG profile and how they are placed relative to their peers. The scoring results are incorporated into investment tools, allowing portfolio managers to easily refer to them when making investment decisions. Feedback is provided to all originators and results are used to inform engagement.

The questionnaire and scoring process is intended to be repeated periodically to ensure the information we use is relevant and current. The assessment will be updated with each iteration to reflect our current investment requirements, industry advancements, and regulatory changes.

In addition to our specific ESG originator assessment, some ESG issues are covered in more depth by other aspects of our due diligence processes. This includes corporate governance, risk management, information technology and security, and loan origination and servicing practices. Gryphon will not transact with an originator if we are not satisfied with the robustness of their compliance and governance systems.

Assets

We conduct thorough loan-level analysis to assess the quality of both the loans and the supporting collateral in every RMBS and ABS transaction considered for investment. Currently, there is limited reporting of ESG-related data at the loan level in Australian securitisation transactions. Much of our engagement, advocacy, and collaboration work currently is dedicated to enhancing data availability and improving reporting standards. As data availability and reporting improves, we are committed to expanding our current loan-level analysis to include assessing the ESG qualities of the underlying collateral.

For any green or social labelled issuance, the ESG qualities of the assets are assessed (refer to 4.3 Thematic Investing for details).

Deal Structure

When evaluating a transaction, we closely scrutinise the deal structure and the roles and responsibilities of key transaction parties, constituting vital governance considerations. This includes evaluating representations and warranties, the governance of the special purpose vehicle, the structure and cashflow waterfall of the transaction, and any unique structural features.

A cashflow model is configured for every transaction based on the deal structure and capital stack. Structural elements including credit enhancement, liquidity and loss supports, cashflow waterfalls, and triggers are embedded within this model.

At times, Gryphon will engage with issuers to strengthen a deal structure and incorporate additional bondholder protections.

4.2 Exclusions

Gryphon excludes any bond issuers deriving revenue directly from business activities within the following industries:

- Weapons, including civilian firearms and controversial weapons (nuclear weapons, biological weapons, chemical weapons, cluster munitions, etc.)
- Thermal coal mining and power generation
- Nuclear energy
- Unconventional fossil fuels, including arctic drilling, oil sands, and shale energy extraction
- Gambling
- Alcohol, tobacco, and recreational cannabis
- Adult entertainment
- Fur, animal testing
- Palm oil

Gryphon does not exclude issuers providing financing to other companies involved in these business activities.

Additionally, Gryphon excludes bond issuers that we have reason to believe are engaging in:

- Predatory lending
- Aggressive tax avoidance schemes

We note that most of the above exclusions do not currently narrow our investible universe. However, a thorough negative screening policy simplifies processes for any clients with their own negative screens.

4.3 Thematic Investing

Thematic investing within an ESG context involves investing in assets or companies specifically aimed at addressing social or environmental issues. This includes investing in labelled bonds, which are bonds that have specific environmental, social, or sustainability objectives and are marketed as such. In the context of securitisation, a structured product may be labelled as green or social when the underlying collateral is classified as green or social and/or where the proceeds from the deal are earmarked to invest in green or social assets. Types of green and social structured products observed in the market so far include:

- Green RMBS where the underlying mortgages are secured by energy efficient residential properties.
- Social RMBS where the underlying mortgages are made to underserved borrowers.
- Green Solar ABS where the underlying personal loans are used to finance the installation of solar energy systems or batteries.
- Green Auto ABS where the underlying car loans are used for the purchase of electric vehicles or low emissions vehicles (including hybrid vehicles).

Discussions around what qualifies as a labelled RMBS or ABS are ongoing, and standards continue to evolve.

Thus far, there has been limited labelled securitisation issuance in Australia. However, we are committed to considering all green and social RMBS that come to market. If a green or social RMBS is flagged for potential investment, we perform our own assessment of the green or social credentials to ensure that it effectively contributes to the green or social issues it claims to address. This may include evaluating the standards used for labelling, the specific criteria used to define an asset as green or social, and the green or social characteristics of the underlying collateral. Additionally, labelled bonds undergo the same bottom-up credit research as all other bonds we evaluate. Gryphon will only consider investing in a green or social bond offering only if the security complies with each mandate's investment guidelines.

4.4 Engagement

Gryphon believes that effective dialogue is a key element of effective responsible investment which provides many benefits, including:

- Providing us with a more comprehensive and nuanced understanding of the ESG positions of the companies we engage with
- Communicating our expectations and priorities to company management
- Improving ESG disclosures
- Assisting in the management and mitigation of financial risks
- Contributing to increased positive sustainability outcomes

As a fixed income investor, we do not have the same ownership rights as equity investors (including voting rights). However, we do have a direct line of access and communication to company management. Most issuers rely on capital markets for regular funding, which incentivises them to engage with fixed income investors on an ongoing basis. This enables us to effectively engage with issuers both pre-issuance and post-issuance.

We engage in both proactive and reactive engagement. Proactive engagement is used to manage medium and long-term issues. Reactive engagement involves managing short term issues when we believe counterparties or assets are exposed to immediate ESG risks, including emerging ESG controversies and external situations (for example, the impacts of the COVID-19 pandemic).

Examples of our engagement activities include:

- Meetings with senior management and/or sustainability teams to discuss ESG issues
- Providing written feedback and recommendations to originators following our originator ESG assessment
- Negotiating the terms of a deal pre-issuance
- Specific information and data requests related to ESG issues

Given finite resources, we must inevitably prioritise when and how we engage on ESG issues. We consider the following factors when prioritising engagements:

- Risk – issues which pose a financial risk are prioritised.
- Exposure – consistent with our fiduciary duties, we focus on companies that we have higher exposures to, as our investors are more likely to benefit from improvements in ESG behaviours and characteristics by these companies.
- Potential impact – we focus on changes which are more likely to have large impacts.
- Likelihood of change – we consider how likely it is that the company will make a change based on various factors including the level of influence we might have.
- Specific issues – we may choose to focus our engagement on particular ESG themes, external developments, or connections to other initiatives.

4.5 Advocacy and Collaboration

We believe that we can have a bigger impact by working together with other market participants to promote a shift towards a sustainable financial system for the benefit of investors

Gryphon collaborates with a range of stakeholders and market participants to undertake advocacy and contribute to improved management of systemic ESG risks. We are an active participant in the Australian Securitisation Forum's ESG working group. The objectives of the working group are to:

1. Assist the securitisation industry in advancing its ESG considerations, with the goal of increasing Australian securitisation ESG labelled issuance and investment over time.
2. Provide information and education to the industry on relevant ESG global developments.
3. Assist the ASF in establishing set ESG protocols and considerations.

The working group has issued a market guideline which includes issuer-level and asset-level ESG disclosure frameworks. The goal of these frameworks is to enhance transparency and comparability around ESG in the Australian securitisation market.

5. Reporting and Disclosure

Gryphon is committed to being transparent and open about our responsible investment approach and the work we do on ESG. Our ESG Integration & Stewardship Policy is shared publicly on our website and reviewed periodically to ensure that it is reflective of our current approach.

We share updates on our ESG activities, including developments in our Responsible Investment approach, results of ESG assessments or analysis, and engagement activities, with our clients and other key stakeholders periodically and at their request.

We report on our responsible investment activities and progress towards implementing the UN principles for responsible investment under the PRI reporting framework. Until June 2023, we were a direct UN PRI signatory and reported to the UN PRI directly. Going forward, we will report as a subsidiary of Barings.