



Gryphon Capital Investments Pty Ltd

ACN: 167 850 535

Responsible Investment Policy

www.gcapinvest.com

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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.

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 investment and ownership.

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 all ESG considerations. 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

ESG means Environmental, Social and Governance

Gryphon means Gryphon Capital Investments

Policy means this Responsible Investment 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 and a social responsibility 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.

We also believe that we have a social responsibility to support the stable transition towards long-term goals that contribute to a sustainable future for all. These long-term objectives include the Sustainable Development Goals and global net-zero emissions targets in alignment with the Paris Agreement.

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

Gryphon is a signatory to the United Nation's Principles for Responsible Investment (PRI). These principles establish a collective international framework for institutional investors to integrated ESG considerations into their investment decision-making. The PRI is 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.

These principles guide our responsible investment approach and implementation.

4. Responsible Investment Approach

4.1 Integration

Gryphon has adopted an integration approach to responsible investment, explicitly and systematically including ESG considerations into financial analysis and decision making. 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 utilise a framework that assesses ESG factors across three key components of a securitised transaction: the originator, assets, and deal structure.

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 areas 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, which are then weighted to give section, dimension, and overall scores. This facilitates comparisons between originators and the creation of benchmarks based on originator subgroups. The tiered scoring system enables us to both quickly get an overview of how an originator is placed as well as drill down into relevant areas when assessing specific risks or seeking to understand the contributing factors to a high or low score.

Gryphon's Investment Committee analyse the results in depth, 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 direct ongoing engagement.

The questionnaire and scoring process is repeated periodically to ensure the information we use is relevant and current. The assessment is 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. For instance, corporate governance, underwriting, and servicing practices are closely examined, as they provide an important indication of the robustness of the underlying assets.

Assets

We perform extensive loan-level analysis on the quality of both the loans and the collateral supporting the loans in any RMBS and ABS transaction. This analysis includes a number of ESG considerations. For instance, when assessing the credit quality of the loans we examine if there are any indications of predatory lending.

We also perform analysis on exposures to physical climate risk (e.g., properties that have elevated risk of impact from natural hazards such as floods or fires) and monitor exposures to geographical areas.

As more data becomes available and transaction reporting is expanded to cover additional ESG measures, we will continue to expand our approach to assessing the ESG qualities of the underlying collateral and incorporating the results into our investment decisions. For example, we might expect to find over time that mortgages written on more energy efficient properties have a lower default rate due to some combination of personal borrower characteristics, operational efficiencies reducing borrower's other costs, and increases in dwelling value.

Deal Structure

When evaluating a transaction, we carefully assess the capital stack and structural features to evaluate whether the governance of the SPV is robust and if there are adequate bondholder protections in place. This includes closely scrutinising the transaction documents to understand the key aspects of the deal and ensure they are watertight.

A bespoke cashflow model is then created for every transaction based on the deal structure and capital stack. Stress testing is performed by pushing collateral losses, which are tailored based on the assets of each deal, through the structure to assess the robustness of the deal. Structural elements including credit enhancement, liquidity supports, waterfalls, and triggers are embedded within these stress tests. This process is discussed further in Gryphon's detailed investment process writeup.

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

4.2 Exclusions

Gryphon excludes any bond issuers who earn revenue directly from business activities and any ABS that finance 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

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

- Predatory lending
- Aggressive tax avoidance schemes

We note that many of the above exclusions do not currently narrow our investible universe. However, having a thorough negative screening policy provides assurance that Gryphon will never invest in assets exposed to these areas and simplifies processes for any clients with their own negative screens.

Additional specific exclusions may be documented in the investment guidelines for each mandate.

4.3 Thematic Investing

Thematic investing within an ESG context involves investing in assets or companies specifically aimed at addressing social or environmental issues.

Gryphon believes green, social, and sustainable bonds, whose proceeds fund environmental and social projects, are an effective tool to invest in sustainable solutions. Fixed income provides a valuable source of funding for these solutions which is still being tapped into.

It is Gryphon's desire to increase our exposure to investments that make positive social or environmental impacts in addition to their financial objectives. We evaluate all green, social, and sustainable RMBS offered in the Australian market. While the issuance of thematic RMBS continues to lag other forms of sustainable asset issuance, it is beginning to increase in the Australian market.

Discussions around what qualifies as a thematic bond are ongoing and standards are continuing to evolve. Australian green RMBS are generally backed by residential mortgages which meet the Climate Bond's Initiative (CBI) Australian Low Buildings Criteria under the Climate Bonds Standard. Social RMBS have so far been aligned with the ICMA Social Bond Principles, which do not include specific criteria for what constitutes a social mortgage but provide broad principles. We will continue to monitor the evolution of standards and ongoing market developments regarding commonly accepted definitions and frameworks.

We perform our own evaluation of the green or social credentials of any thematic issuance to ensure that they are robust and effectively contribute to the green or social issues they claim to address. Additionally, bonds that are labelled as thematic (green, social, or sustainable) undergo the same bottom-up credit research as all other bonds we evaluate. Gryphon will consider investing in a green, social, or sustainable bond offering only if the security complies with each mandate's investment guidelines.

4.4 Engagement

Gryphon believes that effective engagement 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
- Increasing positive sustainability outcomes

Engagement is an intrinsic component of our responsible investment approach. Our engagement, approach to assessing the ESG profile of an investment, and incorporation of ESG factors into investment decisions all inform and feed into each other.

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 and build our long-term strategy. Reactive engagement involves managing short term issues when we believe counterparties or assets are exposed to immediate ESG risks, including escalating 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 periodic 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 our beliefs about how likely a company is to make a change based on the challenges involved, if we can provide targeted insights and support on the issue, the level of influence we might have (for instance, whether we represent a major source of funding), etc.
- Specific issues – we may choose to focus our engagement on certain ESG themes based on issues we believe are important, external situations or developments, connections to other work, etc.

4.5 Advocacy and Collaboration

We believe that we can have a bigger impact by working together with other market participants. Contributing to societal sustainability objectives and promoting a shift towards a sustainable financial system is beneficial for everyone.

Gryphon collaborates with a range of stakeholders and market participants to undertake advocacy and contribute to improved management of systemic ESG risks. We participate in various collaborative initiatives and networks with like-minded peers and organisations, including the UN Principles of Responsible Investment and the Australian Securitisation Forum ESG Working Group.

5. Reporting and Disclosure

Gryphon is committed to being transparent and open about our Responsible Investment approach and the work we do on ESG.

We keep a record of our ESG activities, including engagements. We share updates on these activities, developments in our Responsible Investment approach, and results of ESG assessments or analysis with our clients periodically and at their request. Some updates are also shared publicly via articles published on our website.

As a PRI signatory, we report on our responsible investment activities and progress towards implementing the principles on an annual basis. The PRI reporting framework measures an organisation's maturity against the six principles and offer signatories a benchmark with which to evaluate their comparative progress. We publish our PRI Assessment and Transparency Reports publicly on our website following each reporting cycle.