



### Investment Objective and Strategy

The Gryphon Capital Income Trust (ASX Code: GCI) is designed for investors seeking sustainable, monthly income through exposure to an actively managed portfolio of securitised, floating rate bonds held in a Listed Investment Trust structure. The Target Return is equal to RBA Cash Rate + 3.50% pa. The Australian securitised market comprises floating rate, Residential Mortgage-Backed Securities (RMBS) and Asset Backed Securities (ABS) and is a key pillar of the Australian fixed income market.



### Fund Performance

	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr (Ann)	Incep (Ann) <sup>1</sup>
Net Return <sup>2</sup> (%)	0.60	0.89	1.78	3.74	4.59	4.75
RBA Cash Rate (%)	0.15	0.32	0.37	0.42	0.36	0.67
Net Excess Return (%)	0.44	0.57	1.41	3.31	4.21	4.05
Distribution <sup>3</sup> (%)	0.53	1.57	2.76	5.06	4.68	4.67
Distribution (¢/unit)	1.06	3.13	5.48	9.95	9.21	9.19

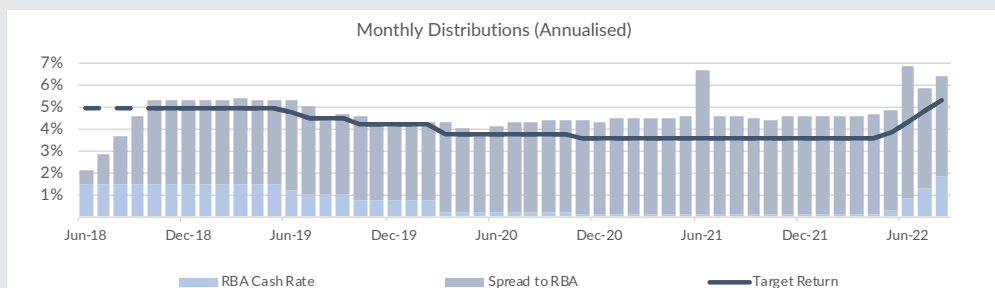
<sup>1</sup> Inception date – 21 May 2018. <sup>2</sup> Fund return reflects compounded movements in the NTA.

<sup>3</sup> Actual distribution as % of NTA, assuming distribution reinvestment.

**Disclaimer: Past performance is not a reliable indicator of future performance.** All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. The comparison to the RBA Cash Rate is not intended to compare an investment in GCI to a cash holding. The RBA Cash Rate is displayed as a reference to the target return for GCI. The GCI investment portfolio is of higher risk than an investment in cash. To understand the Trust's risks better, please refer to the most recent PDS [here](#) or at [gcapinvest.com/our-lit](http://gcapinvest.com/our-lit).

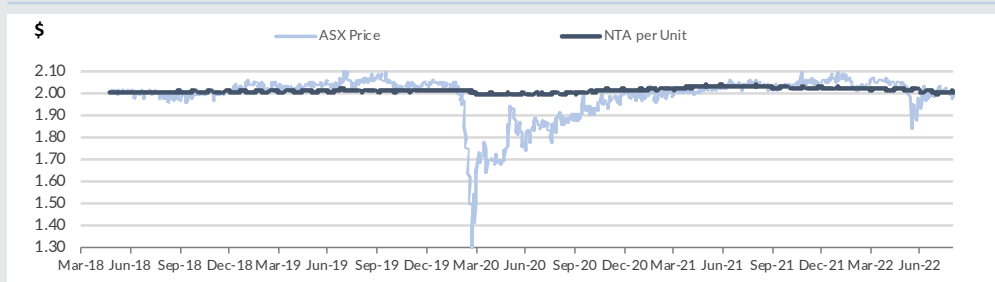
### Distribution

GCI announced a 1.06 cents per unit distribution for the month, representing an annualised yield of 6.42% (net)<sup>4</sup>.



<sup>4</sup> Actual distribution for the month as % of NTA, annualised.

### Net Tangible Asset (NTA) / Unit and ASX Price Performance



continued overleaf...

### ABOUT THE MANAGER

Gryphon Capital Investments Pty Ltd ("Gryphon") is a specialist fixed income manager with significant experience in the Australian and International fixed income markets. Gryphon manages individual segregated accounts on behalf of institutional investors and GCI on behalf of wholesale and retail investors seeking opportunities in fixed income credit markets including RMBS and ABS. Gryphon currently manages funds in excess of \$3.0 billion.

### SNAPSHOT

ASX Code	GCI
IPO Date	25 May 2018
Asset	Fixed Income, floating rate
Market Cap/Unit	\$483.9m/\$1.99
NTA/Unit	\$486.1m/\$2.00
Investment Management Fee <sup>3</sup>	0.72%
Performance Fee	None
Distributions	Monthly
Unit Pricing	Daily

<sup>3</sup> Includes GST, net of reduced input tax credits

### CHARACTERISTICS

Current Yield <sup>5</sup>	6.45%
Distributions (12m) <sup>6</sup>	5.06%
RBA Cash Rate	1.85% pa.
Interest Rate Duration	0.04 years
Credit Spread Duration	1.23 years
Number of Bond Holdings	105
Number of Underlying Mortgage Loans	91,502

<sup>5</sup> August 2022 distribution (excl. realised gains) as % of unit price, annualised.

<sup>6</sup> Actual distribution for the 12 months to 31 August, as a % of NTA, assuming distribution reinvestment.

### RESEARCH

**BondAdviser**

**INDEPENDENT INVESTMENT RESEARCH**

**Zenith**  
RECOMMENDED

**Lonsec**

### WEBSITE

[www.gcapinvest.com/our-lit](http://www.gcapinvest.com/our-lit)



### Commentary

Since May, in the fastest tightening pace in its history, the RBA has increased the cash rate to 2.35% and has flagged more ahead. While these rate rises are being passed on to borrowers on variable rate mortgages with the average interest rate for a prime borrower in the GCI portfolio at circa 4.50%, we are not witnessing stress in the borrower's payment habits. In fact, quite the opposite – 90+ Days arrears have fallen from 37bps at the start of the year to a very low 23bps. The strong arrears performance of the GCI portfolio is consistent with S&P's findings in their June SPIN reports (these detail RMBS arrears performance), which state that the arrears of Australian borrowers has made "new post GFC lows". The historically low arrears are not surprising for several reasons but is mainly due to the very low unemployment rates.

The borrower's capacity to pay their mortgage is underpinned by the lowest unemployment rate for nearly 50 years, coupled with continued high savings rates. Many borrowers are also well ahead of their mortgage payments, providing another margin of safety against rising interest rates – in the GCI portfolio the average borrower is an astonishing 20 months ahead. We usually see a lag, typically between 1-2 calendar quarters, for higher interest rates to take effect on borrowers' payment habits.

Finally, rising interest rates do not impact a borrower who has fixed their interest rate on their mortgage until the end of the fixed rate term at which time the mortgage will convert to the standard variable rate. During COVID, the RBA's Term Funding Facility (TFF) provided cheap 3-year fixed rate funding to the banks who lent up to three-year fixed rate mortgages often at interest rates below 2%. Such low rates led to a boom in fixed rate mortgage lending with circa 40% of all home loans written in June 2021 being a fixed rate as compared to a typical market weighting of circa 15%. Many of these fixed rates won't convert to variable rates until 1H 2023, muting the impact of the RBA's rate rises. It is worth noting that GCI's exposure to fixed rate mortgages is very small at circa 5% (fixed rate mortgages are not easily securitised). The overwhelming majority of the fixed rate mortgages converting to variable rates sit on bank balance sheets. While the potential arrears performance impact of these fixed rate mortgages being reset to a higher variable rate won't be felt until 1H 2023 or later, GCI has very limited exposure to this borrower cohort.

While arrears are setting post GFC lows (as per S&P), our expectation is a steady rise in early-stage arrears starting in 1H 2024. The impact of rising rates does lag and the higher concentration of fixed rate borrowers has pushed this lag even further out into 2023.

While we are expecting an increase in early-stage arrears and some borrowers will clearly experience financial pressure, our on-going analysis provides us with confidence that the majority of borrowers are well placed to manage significantly higher rates. A combination of strong employment, elevated savings and an over-payment history provides effective mitigants against financial stress. In addition, we expect the substantial build up in borrowers' equity as a result of recent house price increases will enable many borrowers experiencing financial pressure to voluntarily self-manage their way out of late-stage arrears through property sales.

### What does all this mean for our Portfolio Positioning?

In anticipation of a weaker investment environment, during the second half of 2021 Gryphon's investment committee positioned the GCI portfolio with a strong defensive bias protecting the NTA from increased volatility from the widening in credit spreads. While strong risk management remains at the forefront of the Gryphon investment process, the challenging macro and investment environment is presenting compelling, high risk-adjusted investment opportunities enabling Gryphon to play cautious offence in taking advantage of these opportunities.

*continued overleaf...*

### INVESTMENT HIGHLIGHTS

<b>Income</b>	Sustainable monthly cash income.
<b>Large, institutional fixed income market</b>	Australian ABS market >A\$110 billion is double the size of the corporate bond market
<b>Security, capital preservation</b>	Defensive asset class with a track record of low capital price volatility No investor has ever lost a \$ of principal investing in Australian Prime RMBS
<b>Portfolio diversification</b>	Allows retail and SMSF investors to access a fixed income asset class that generally has only been available to institutional investors
<b>Investment Manager</b>	Exposure to a specialist investment manager with a proven track record of investment outperformance

### PARTIES

#### Responsible Entity

One Managed Investment Funds Limited  
ACN 117 400 987 AFSL 297042

#### Manager

Gryphon Capital Investments Pty Ltd  
ACN 167 850 535 AFSL 454552

### AVAILABLE PLATFORMS INCLUDE:

Asgard	BT Panorama
BT Super Wrap	BT Wrap
First Wrap	HUB24
Macquarie Wrap MLC	Mason Stevens Navigator
Netwealth	North

### FURTHER INFORMATION AND ENQUIRIES

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#### General

Email [info@gcapinvest.com](mailto:info@gcapinvest.com)

#### Boardroom (Unit Registry)

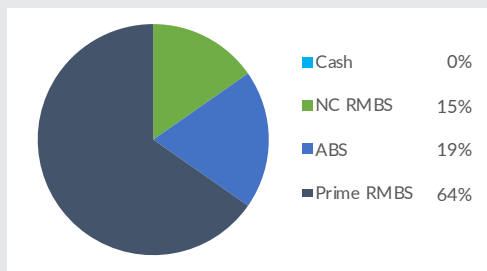
Phone 1300 737 760

Email [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)



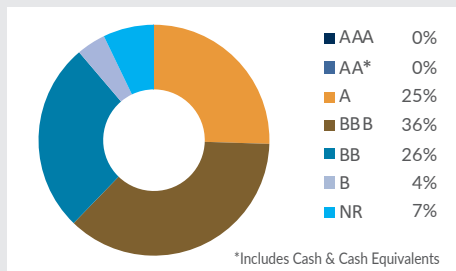
### Portfolio Construction

#### Sector Allocations<sup>1</sup>



<sup>1</sup> Excludes Manager Loan.

#### Rating Breakdown<sup>1</sup>



#### Portfolio Underlying Residential Mortgage Loan Statistics<sup>2</sup>

	Total	Prime	Non-conforming <sup>3</sup>
No. of Underlying Loans	91,502	81,193	10,309
Weighted Average Underlying Loan Balance	\$392,405	\$338,697	\$613,672
Weighted Average LVR	65%	64%	67%
Weighted Average Seasoning	25 months	28 months	16 months
Weighted Average Interest Rate	4.62%	4.44%	5.36%
Owner Occupied	61%	59%	67%
Interest Only	23%	23%	22%
90+ Days in Arrears as % of Loans	0.23%	0.20%	0.36%
% Loans > \$1.5m Balance	3.70%	1.94%	10.96%

<sup>2</sup> Please note that although the values in this Investment Report are accurate portfolio statistics, the return and performance of actual credit instruments invested in are assessed individually.

<sup>3</sup> Non-conforming loans are residential mortgage loans that would not typically qualify for a loan from a traditional prime lender and are generally not eligible to be covered by LMI. Borrowers may not qualify due to past credit events, non-standard income (self employed) or large loan size.

#### SME Portfolio Statistics

Sub sector	%	A	BBB	BB	B
ABS SME	11.3%	2.2%	4.3%	4.7%	-

#### SME Portfolio Underlying Mortgage Loan Statistics<sup>4</sup>

No. of Underlying Loans	4,199	<b>Borrower Type</b>	
Weighted Average Underlying Loan Balance	\$363,863	SMSF	72.8%
Weighted Average LVR	60.0%	Company	13.4%
% > 80% LVR	1.58%	Individual	13.8%
Weighted Average Borrowers' Equity	\$339,517	<b>Property Type</b>	
90+ Days in Arrears as % of Loans	0.05%	Residential	31.4%
% > \$1.5m Current Balance	1.07%	Commercial	67.8%
		Mixed	0.7%

<sup>4</sup> Please note that although the values in this Investment Report are accurate portfolio statistics, the return and performance of actual credit instruments invested in are assessed individually.

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### Distributions (%)

Fin. Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD <sup>2</sup>
2023	0.49	0.53	-	-	-	-	-	-	-	-	-	-	1.02
2022	0.38	0.38	0.37	0.37	0.37	0.38	0.38	0.35	0.38	0.38	0.41	0.55	4.79
2021	0.36	0.36	0.36	0.37	0.35	0.36	0.37	0.34	0.37	0.36	0.38	0.53	4.61
2020	0.42	0.38	0.38	0.38	0.35	0.36	0.36	0.34	0.36	0.33	0.33	0.34	4.40
2019	0.24	0.31	0.37	0.44	0.43	0.44	0.44	0.40	0.45	0.42	0.44	0.43	4.92

### Fund Returns (Net)<sup>1</sup> (%)

Fin. Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD <sup>2</sup>
2023	0.12	0.60	-	-	-	-	-	-	-	-	-	-	0.73
2022	0.37	0.44	0.32	0.29	0.25	0.37	0.40	0.28	0.27	0.23	0.38	0.16	3.83
2021	0.36	0.39	0.49	0.71	0.67	0.37	0.33	0.57	0.45	0.61	0.68	0.48	6.29
2020	0.74	0.43	0.35	0.41	0.38	0.39	0.38	0.34	(0.45)	0.36	0.30	0.41	4.12
2019	0.25	0.31	0.39	0.44	0.45	0.45	0.50	0.42	0.49	0.43	0.42	0.45	5.12

### Total Unitholder Returns<sup>3</sup> (%)

Fin. Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD <sup>2</sup>
2023	1.77	0.53	-	-	-	-	-	-	-	-	-	-	2.31
2022	1.36	0.87	(1.60)	0.87	1.84	0.37	0.37	(1.12)	1.86	(0.12)	(0.09)	(3.14)	1.39
2021	8.15	1.45	(0.90)	3.33	0.63	3.73	(0.62)	(0.67)	2.17	1.12	0.88	1.03	21.83
2020	2.35	(1.54)	1.34	(1.56)	0.34	0.36	0.85	(2.60)	(16.73)	3.12	7.76	(3.75)	(11.43)
2019	0.24	0.06	(0.90)	1.97	(1.07)	2.48	2.43	(0.10)	(1.03)	0.42	2.43	0.91	8.03

<sup>1</sup> Fund Return reflects compounded movements in the NTA.

<sup>2</sup> Assuming monthly compounding.

<sup>3</sup> Total Unitholder Returns comprises compounded distributions plus compounded movements in the listed price of ASX:GCI.

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ASX release date: 16 September 2022

Authorised for release by One Managed Investment Funds Limited, the responsible entity of Gryphon Capital Income Trust.

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