



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.

GCI's 3 strategic objectives

1. Sustainable monthly cash income



2. High risk-adjusted return

3. Capital Preservation

Fund Performance

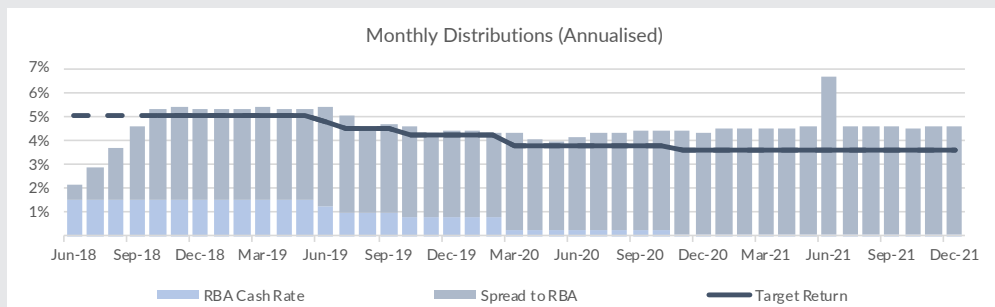
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr (Ann)	Incep (Ann) ¹
Net Return (%)	0.37	0.92	2.06	5.29	5.08	4.94
RBA Cash Rate (%)	0.01	0.03	0.05	0.10	0.53	0.69
Net Excess Return (%)	0.37	0.89	2.01	5.18	4.53	4.22
Distribution ¹ (%)	0.38	1.12	2.27	4.70	4.65	4.55
Distribution (¢/unit)	0.77	2.26	4.55	9.31	9.15	8.96

¹ Inception date – 21 May 2018

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

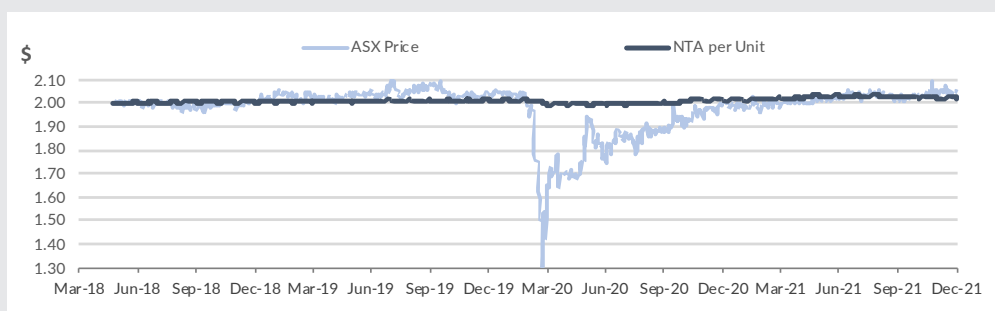
Distribution

GCI announced a 0.77 cents per unit distribution for the month, generating a trailing 12-month distribution return of 4.70% (net)².



² Actual distribution as % of NTA, assuming distribution reinvestment.

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



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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 \$2.8 billion.

SNAPSHOT

ASX Code	GCI
IPO Date	25 May 2018
Asset	Fixed Income, floating rate
Market Cap/Unit	\$500.9m/\$2.06
NTA/Unit	\$491.1m/\$2.02
Investment Management Fee ³	0.72%
Performance Fee	None
Distributions	Monthly
Unit Pricing	Daily

³ Includes GST, net of reduced input tax credits

CHARACTERISTICS

Current Yield ⁴	4.49%
Distributions (12m) ⁵	4.70%
RBA Cash Rate	0.10% pa.
Interest Rate Duration	0.04 years
Credit Spread Duration	1.34 years
Number of Bond Holdings	100
Number of Underlying Mortgage Loans	104,826

⁴ December 2021 distribution as % of unit price, annualised.

⁵ Actual distribution for the 12 months to 31 December, as a % of NTA, assuming distribution reinvestment.

RESEARCH

BondAdviser

INDEPENDENT
INVESTMENT RESEARCH

Zenith
RECOMMENDED

Lonsec

WEBSITE

www.gcapinvest.com/our-lit



Review of 2021

2021 has delivered a number of new challenges for investors, as well as repeating others. We go through the major challenges of 2021 as well as significant events below:

Flooding

In March, Eastern Australia was hit by massive floods across the region, the consequence of unprecedented rainfall. This (much like the bushfires a year earlier) highlighted the resilience of RMBS to natural disasters through the geographical diversity embedded in the asset class. As reported at the time, Gryphon was able to monitor the impact of the flooding on GCI's portfolio at the individual loan level concluding that the risk was in fact negligible.

Inflation

For the first time in many years high inflation has become a real concern for financial markets. Pandemic induced disruptions have triggered shortages and price rises across all economies and central banks have started to adjust policy accordingly. Australian RMBS are inherently protected from inflation and we put out an [Insight Video](#) in April this year discussing the topic in more detail. Interest rates are now increasing across the globe and the RBA is expected to increase cash rates over the coming years, but the floating rate nature of RMBS means GCI will receive increasing income to offset any rises in interest rates.

House Prices

Always a topic of conversation in Australia where housing is such a significant part of financial markets – the prospect of RBA rate hikes in coming years has led to forecasts for the growth in house prices to slow and possibly become negative in future as affordability reduces. We discuss this risk in detail in the [October Investor Update](#). While we publish the original weighted average LTV for the GCI portfolio in our monthly investor updates, we can calculate an indexed weighted average LTV¹ for the portfolio of 60.8% providing real protection against future house price declines. We conclude that house prices have had such a strong run during 2021 that the modest declines forecast for 2023 are unlikely to impact the credit strength of RMBS and may well present an opportunity for GCI if generalist investors pull back from RMBS investments.

APRA Reacts

In response to rising house prices, in October, APRA adjusted lending guidelines by increasing the minimum interest rate buffer it expects banks to use when assessing the serviceability of home loan applications to 3% (previously 2.5%). Given that most borrowers do not borrow to full capacity this is unlikely to have a large impact on the housing market.

COVID-19

Since March 2020, we have been closely monitoring the impact of lockdowns and working from home on the economy and, most importantly, on mortgage borrowers' ability to keep up with payments. Australian borrowers have been remarkably resilient throughout the pandemic and have increased savings and kept ahead of scheduled repayments – the weighted average mortgage borrower in the GCI portfolio is now 2.1 years ahead of scheduled repayments – providing a huge buffer against income shocks for the benefit of GCI's investors. This is in addition to the amount of home-owner equity discussed above.

Further Capital Raise

GCI successfully raised a further \$74 million in two placements in September lifting the market capitalisation of GCI to just under \$500 million. These placements were sized and timed to take advantage of available investment opportunities so that the effort did not drag on income performance, which has been consistent since IPO.

¹ For each loan we know the original property valuation and its date. We can update that using a property-type and location-specific index to get an estimate of current property value. Dividing the current loan balance by the indexed valuation gives us a very good indication of the current homeowners equity and we can aggregate this across all loans (circa 106,000 of them) in the GCI portfolio.

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INVESTMENT HIGHLIGHTS

Income	Sustainable monthly cash income.
Large, institutional fixed income market	Australian ABS market >A\$110 billion is double the size of the corporate bond market
Security, capital preservation	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
Portfolio diversification	Allows retail and SMSF investors to access a fixed income asset class that generally has only been available to institutional investors
Investment Manager	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	Mason Stevens
MLC	Navigator
Netwealth	North

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Research on GCI

GCI is now covered by four independent research houses, all of which have upgraded GCI's rating since they started to cover the trust, based on the consistent performance to date.

Research Provider	Upgraded to#	Upgraded on	Original Rating	Rating Definitions
Lonsec ¹	Recommended	September 2021	Investment Grade	Lonsec
Zenith* ¹	Recommended	June 2021	Approved	Zenith
BondAdviser ²	Recommended	August 2020	Subscribe	BondAdviser
IIR ²	Recommended Plus	March 2021	Recommended	IIR

Ratings are only one factor to be taken into account when deciding whether to invest in GCI. Any person reading this document should, before deciding to invest in or continue to hold their investment in GCI, seek professional advice.

* Zenith originated coverage in May 2019, all others at IPO in 2018.

¹ Not authorised under its AFSL to provide financial advice to retail clients.

² Authorised under its AFSL to provide financial advice to retail clients.

Outlook

While we will face a number of uncertainties going into 2022 with the real prospect of inflation, rate hikes and house price weakness, for the reasons outlined above we believe that RMBS is still a defensive asset class and is well placed to continue delivering income, high risk-adjusted returns and capital preservation for GCI investors.

GCI Independent Research

Risk Return Metrics³ (RRM), an EFT and LMI research specialist, prepared a 'state of play' [research paper](#) on GCI in December 2021. RRM state "Performance wise, GCI has not missed a beat. We view GCI as the lowest risk of all the public and private debt ASX-listed LIT vehicles, a view that we view as relatively uncontroversial: Australian RMBS is truly loss remote."

RRM goes further and states "If there is one word RRM would use to describe GCI's performance over its now 3-year track record, it is consistency and consistently exceeding its benchmark return target of RBA Cash Rate + 3.5%. Over the last 12-month period, GCI has delivered a distribution yield of 4.68% and currently has a running yield of 4.46%."

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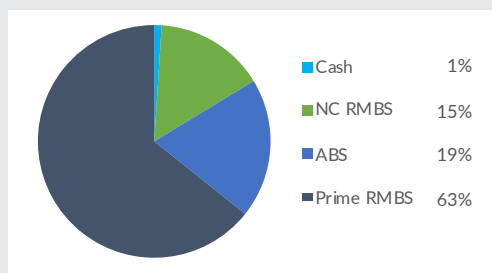


The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned "Recommended" June 2021) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at <https://www.zenithpartners.com.au/our-solutions/investment-research/fund-research-regulatory-guidelines/>.



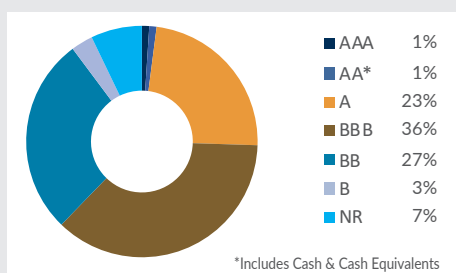
Portfolio Construction

Sector Allocations¹



¹ Excludes Manager Loan.

Rating Breakdown¹



Portfolio Underlying Residential Mortgage Loan Statistics²

	Total	Prime	Non-conforming ³
No. of Underlying Loans	104,826	93,825	11,001
Weighted Average Underlying Loan Balance	\$568,704	\$523,845	\$750,207
Weighted Average LVR	66%	65%	69%
Weighted Average Seasoning	26 months	29 months	15 months
Weighted Average Interest Rate	3.22%	3.06%	3.87%
Owner Occupied	63%	62%	67%
Interest Only	23%	23%	20%
90+ Days in Arrears as % of Loans	0.37%	0.31%	0.60%
% Loans > \$1.5m Balance	1.89%	1.32%	4.16%

² 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.

³ 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	10.8%	1.8%	4.8%	4.2%	-

SME Portfolio Underlying Mortgage Loan Statistics⁴

No. of Underlying Loans	3,768	Borrower Type	
Weighted Average Underlying Loan Balance	\$497,158	SMSF	61.0%
Weighted Average LVR	58.6%	Company	18.8%
% > 80% LVR	1.09%	Individual	20.2%
Weighted Average Borrowers' Equity	\$350,106	Property Type	
90+ Days in Arrears as % of Loans	0.28%	Residential	34.3%
% > \$1.5m Current Balance	0.59%	Commercial	64.4%
		Mixed	1.3%

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continued overleaf...



Distributions (%)

Fin. Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD ²
2022	0.38	0.38	0.37	0.37	0.37	0.38	-	-	-	-	-	-	2.27
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)¹ (%)

Fin. Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD ²
2022	0.37	0.44	0.32	0.29	0.25	0.37	-	-	-	-	-	-	2.06
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 Returns³ (%)

Fin. Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD ²
2022	1.36	0.87	(1.60)	0.87	1.84	0.37	-	-	-	-	-	-	3.75
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

¹ Fund Return reflects compounded movements in the NTA.

² Assuming monthly compounding.

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

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ASX release date: 11 January 2022

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

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