



### Investment Objective

Gryphon Capital Income Trust (GCI) set itself 3 strategic objectives at IPO:

1. Sustainable monthly cash income



2. Highest risk adjusted return

3. Capital Preservation

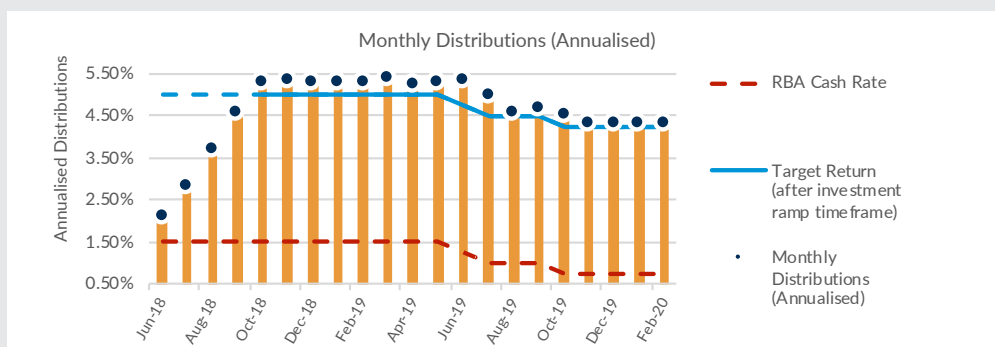
GCI continues to generate attractive and sustainable monthly income with highest risk adjusted returns through investments in a defensive asset class with a track record of low capital price volatility and capital preservation.

### Investment Highlights

<b>Income<sup>1</sup></b>	Sustainable monthly cash income. Current 12-month distribution yield at 4.82% (net).
<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

### Distribution

GCI announced a 0.68 cents per unit distribution for the month of February 2020, generating a distribution yield for the 12 months to February 2020 of 4.82% (net)<sup>1</sup>.



### Fund Performance as at 29 February 2020

	1 Mth	3 Mth	6 Mth	1 Yr	Incep (Ann) <sup>2</sup>
Net Return (%)	0.34	1.11	2.27	5.33	4.99
RBA Cash Rate (%)	0.06	0.19	0.40	1.06	1.25
Net Excess Return (%)	0.28	0.92	1.86	4.23	3.69
Distribution <sup>1</sup> (%)	0.34	1.07	2.19	4.82	4.60
Distribution (¢/unit)	0.68	2.14	4.36	9.46	9.04

<sup>1</sup> Actual distribution as % of NTA, assuming distribution reinvestment.

<sup>2</sup> Inception date – 21 May 2018

Note: Past performance is not a reliable indicator of future 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 \$2.1 billion.

### SNAPSHOT

<b>ASX Code</b>	GCI
<b>IPO Date</b>	25 May 2018
<b>Asset</b>	Fixed Income, floating rate
<b>ASX Price</b>	\$1.99
<b>Market Cap</b>	\$410.2m
<b>NTA/Unit</b>	\$414.0m/\$2.01
<b>Investment Management Fee<sup>3</sup></b>	0.72%
<b>Performance Fee</b>	None
<b>Distributions</b>	Monthly
<b>Unit Pricing</b>	Daily

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

### CHARACTERISTICS

<b>Distributions (12m)<sup>4</sup></b>	4.82%
<b>RBA Cash Rate</b>	0.75% pa.
<b>Interest Rate Duration</b>	0.04 years
<b>Credit Spread Duration</b>	1.73 years
<b>Number of Bond Holdings</b>	87
<b>Number of Underlying Mortgage Loans</b>	109,217

<sup>4</sup> Actual distribution for the 12 months to 29 February, as a % of NTA, assuming distribution reinvestment.

### RESEARCH

BondAdviser

INDEPENDENT INVESTMENT RESEARCH



Lonsec

### WEBSITE

[www.gcapinvest.com/gcit/overview](http://www.gcapinvest.com/gcit/overview)



### Market valuation of the GCI bond portfolio

All Trust investments (excluding the manager loan) are independently valued on a daily basis by a leading 3rd party security pricing provider.

Australian fixed income securities including RMBS and ABS are largely traded OTC and are not priced or traded via an exchange. The market pricing for such securities are driven by observable secondary market trades or the pricing of comparable new issues. With the market dislocation since Friday there has not been many observable price prints which has reset the pricing expectation for the market which means price discovery is limited at this stage however our view is it will form a base very quickly.

We expect the impact to GCI's NTA not to be material due to the following:

1. Short credit duration of 1.73 years (i.e. a metric reflecting how quickly the principal is expected to be returned)
2. The magnitude of the bond holder protections embedded in each of the Trust investments will ensure limited bond price volatility, plus
3. Performance of the underlying home loans securing each RMBS investment continues to surpass our expectations.

### Performance of the RMBS collateral (home loans)

The RMBS bonds GCI is invested in are secured by over 109,000 home loans which have an average loan balance of approx. \$482,000 and a loan to value of 66% (borrowers' deposit / equity of approx. \$248,000). The borrowers have been paying their mortgage payments for on average 27 months (i.e. seasoning).

The key drivers for the future performance of RMBS is affordability (mortgage rates) and borrowers' capacity to pay (unemployment).

The performance of each investment continues to exceed our expectations and even under a worst-case scenario, Gryphon's modelling highlights no stress at all. During March, the RBA cut the official cash rate to a record low of 0.5 per cent, improving borrowers' affordability, reducing arrears and supporting the housing market.

Most importantly, one of the global Rating Agencies reinforced Gryphon's view in a research report released on 5 March 2020, commenting:

*"The COVID-19 outbreak could indirectly affect arrears performance due to lower incomes stemming from a fall in tourist numbers following the implementation of travel restrictions, but Fitch expects the impact to be negligible."*

### How has the Gryphon Capital Investment Portfolio performed during the market stress over the last week?

We should break down the performance into two components:

- a) Market valuation of the individual RMBS and ABS bonds comprising the underlying investment portfolio, and
- b) Performance of the collateral (i.e. home loans) securing each RMBS transaction that GCI is invested in.

As investors (not traders) our investment decisions are centred on the bond holder protections for each investment (i.e. essentially the investment's "credit risk"), the performance of each investment under our "stress testing" and the relative value of the investment opportunity (i.e. market pricing relative to other eligible opportunities). Investors should note that Gryphon pays distributions out of the interest income generated on the RMBS and ABS portfolio and does not rely on capital gain. Importantly, unrealised market-to-market gains or losses do not impact the Trust's ability to continue to pay monthly distributions.

### Market and GCI Investment Activity

While this investment report is dated 29 February 2020, the commentary is focused on the market events since Friday 6 March and how a series of non-related chain of events set off by the coronavirus led to extreme volatility across global investment markets.

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### 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

### FURTHER INFORMATION AND ENQUIRIES

Gryphon Capital Income Trust  
[www.gcapinvest.com/gcit/overview](http://www.gcapinvest.com/gcit/overview)

#### 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)



The coronavirus has shown in China, South Korea and Italy that it has the potential to cause severe restrictions on activity and movements with the inevitable hit to economic activity expected to be sizable. Too many unanswered questions concerning the spread of the coronavirus and the resulting uncertainty for global growth, led to offshore liquid credit markets being smashed on Friday. Then unrelated, on the weekend, Russia's move against the US shale industry led to the collapse of the Russian-OPEC alliance and Saudi Arabia's decision to launch an oil price war contributed to the price of oil crashing by as much as 30%. The fall was crude's biggest one day fall since the early 1990s Gulf war. The oil price collapse has spread into the global credit markets with the epicentre of stress being the US High Yield market where energy bonds comprise approx. 11% of the US High Yield index.

On Monday morning in Australia, futures contracts on the US stock market hit their 5% overnight down limit coupled with extreme moves in the US Treasury market during Asian trading (entire Treasury yield curve being under 1 per cent) resulted in significant falls in the ASX and dislocation in Australian credit markets. On our Monday evening, the Dow experienced a level 1 circuit breaker (down 7%) within a few minutes of opening and the Italian Prime Minister announced an extension of emergency quarantine nationwide. The world's 8th largest economy has put restrictions on movement, closed museums, schools, universities and cancelled all sporting events including football matches until 3 April. Travel will be restricted to those with a valid work or family reason that cannot be postponed.

It certainly has been a wild few days in the markets however at Gryphon, the portfolio managers have seen similar events previously including, among others, the GFC and in 1998 when Russia defaulted on its domestic debt and US hedge funds caused credit markets to go into a free fall. It is with this experience that we position our portfolios with significant protections against market stress. Our data advantage provides us with the clarity and confidence in our investment decision making and portfolio construction.

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[www.gcainvest.com/gcit/overview](http://www.gcainvest.com/gcit/overview)

#### General

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

#### Boardroom (Unit Registry)

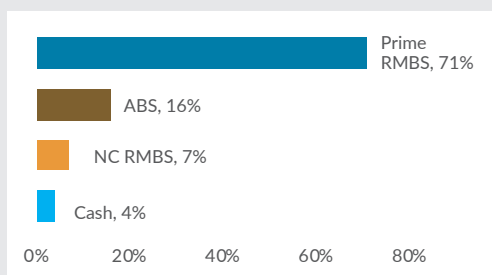
Phone 1300 737 760

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

## Portfolio Construction<sup>1</sup>

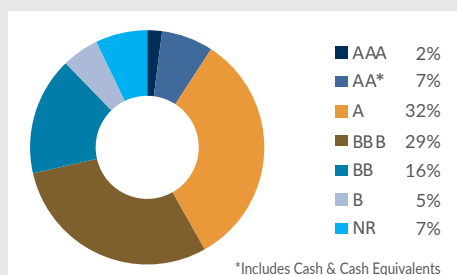
<sup>1</sup> As at 29 February 2020.

### Sector Allocations<sup>2</sup>



<sup>2</sup> Excludes Manager Loan.

### Rating Breakdown<sup>2</sup>



<sup>2</sup> Excludes Manager Loan.

## Portfolio Underlying Residential Mortgage Loan Statistics<sup>3</sup>

	Total	Prime	Non-conforming <sup>4</sup>
No. of Underlying Loans	109,217	103,611	5,606
Weighted Average Underlying Loan Balance	\$481,791	\$468,889	\$618,881
Weighted Average LVR	66%	65%	67%
Weighted Average Seasoning	27 months	27 months	30 months
Weighted Average Interest Rate	3.97%	3.84%	5.36%
Owner Occupied	66%	66%	68%
Interest Only	25%	26%	23%
90+ Days in Arrears as % of Loans	0.28%	0.20%	1.13%
% Loans > \$1.5m Balance	1.14%	0.97%	2.97%

<sup>3</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>4</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.



ASX release date: 11 March 2020

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

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