



### Investment Objective and Strategy

The GCI strategy aims to provide monthly income (Target Return equal to RBA Cash Rate plus 3.50%) whilst preserving capital through investing in a defensive asset class with a track record of low capital price volatility and capital preservation. The Australian securitisation market consisting of Residential Mortgage-Backed Securities (RMBS) and Asset Backed Securities (ABS) 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 as at 30 September 2020

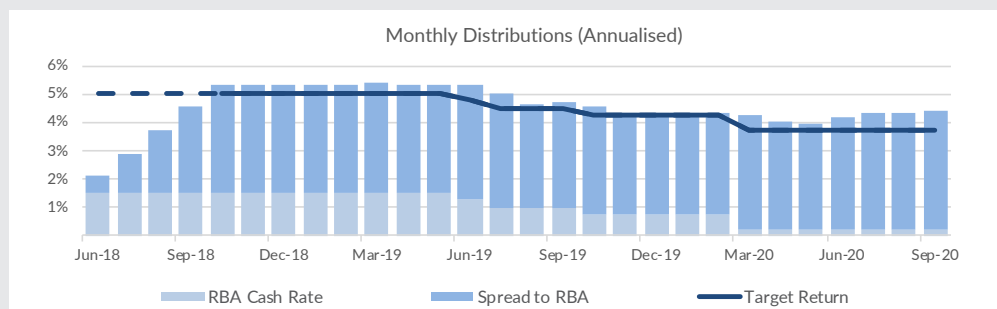
	1 Mth	3 Mth	6 Mth	1 Yr	Incep (Ann) <sup>1</sup>
Net Return (%)	0.49	1.25	2.33	3.83	4.55
RBA Cash Rate (%)	0.02	0.06	0.13	0.48	1.01
Net Excess Return (%)	0.47	1.18	2.21	3.33	3.51
Distribution <sup>1</sup> (%)	0.36	1.08	2.08	4.30	4.51
Distribution (¢/unit)	0.71	2.15	4.12	8.43	8.84

<sup>1</sup> Inception date – 21 May 2018

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

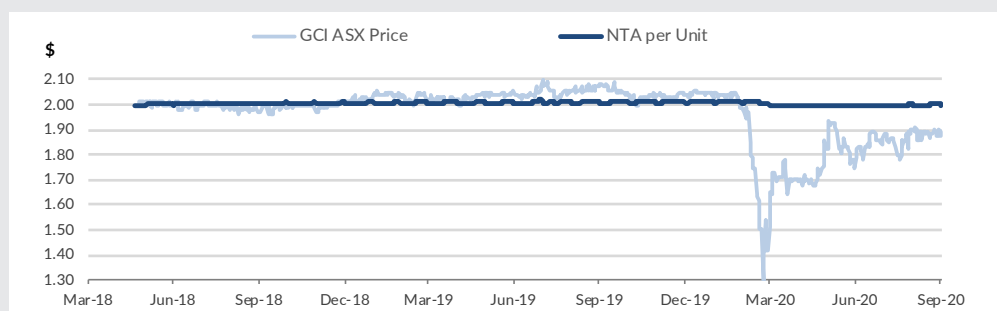
### Distribution

GCI announced a 0.71 cents per unit distribution for the month of September, generating a distribution yield for the 12 months to September 2020 of 4.30% (net)<sup>2</sup>.



<sup>2</sup> 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 \$2.1 billion.

### SNAPSHOT

ASX Code	GCI
IPO Date	25 May 2018
Asset	Fixed Income, floating rate
Market Cap/Unit	\$386.5m/\$1.88
NTA/Unit	\$411.7m/\$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>4</sup>	4.71%
Distributions (12m) <sup>5</sup>	4.30%
RBA Cash Rate	0.25% pa.
Interest Rate Duration	0.04 years
Credit Spread Duration	1.90 years
Number of Bond Holdings	94
Number of Underlying Mortgage Loans	114,813

<sup>4</sup> September 2020 distribution as % of unit price, annualised.

<sup>5</sup> Actual distribution for the 12 months to 30 September, as a % of NTA, assuming distribution reinvestment.

### RESEARCH

BondAdviser

INDEPENDENT INVESTMENT RESEARCH



Lonsec

### WEBSITE

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



### Market and GCI Investment Activity

Good news from a credit perspective, we have seen the number of COVID affected loans in the GCI portfolio decline substantially. Since the peak, approximately 44% of the COVID impacted loans have cured, meaning borrowers have re-commenced their loan repayments. This dramatic improvement is at least partially explained by the fact that many borrowers originally deferred payments “just in case” as noted by the RBA in their October 2020 Financial Stability Review.

While Gryphon is assuming and modelling for an increase in mortgage arrears, it is important to focus on how many of the loans in arrears will actually go through to default and potentially eat into the 4 bondholder protections in Australian RMBS. Do not forget that a recent RBA research<sup>1</sup> paper concluded that for a home loan borrower in Australia to default requires **both** an inability to repay the loan, and (importantly) for the home loan to also be in negative equity. We can see that the GCI portfolio has a very small number of loans in negative equity. In fact, less than 0.01% of loans in the GCI portfolio are COVID impacted **and** in negative equity **and** without mortgage insurance – so far none of these are in arrears. Capital preservation is our primary objective and this shows the risk of loss to the GCI portfolio remains incredibly low.

In the first 9 months of 2020, there have been 22 new RMBS deals in the Australian securitisation market with a total issuance of circa \$18.5 billion. Whilst down from the same period in 2019 (circa \$24.0 billion), it does underscore the depth of the securitisation market demonstrating just how vital a funding tool it is by considering combined impact of (i) COVID disruptions; and (ii) the RBA's \$150.0 billion Term Funding Facility (TFF)<sup>2</sup> which has resulted in ADI RMBS issuance ‘falling off a cliff’ (\$4.8 billion YTD 2020 v \$13.2 billion in 2019).

In the aftermath of the COVID inspired liquidity crunch, the Australian Government (via the AOFM's Structured Finance Support Fund (SFSF)), supported the securitisation market through primary and secondary market purchases along with the provision of warehouse facilities to non-bank originators. Whilst the Government's support was important, since July we have seen strong demand for Australian RMBS with international investors returning in size. As a result, the need for the AOFM's involvement has all but disappeared.

September saw seven new primary RMBS transactions totalling \$4.65 billion; four Prime RMBS transactions and three Non-Conforming RMBS. Additionally, there was a single \$600 million Small Ticket Commercial ABS transaction. From a portfolio positioning perspective, Gryphon has been increasing its portfolio weighting to Prime RMBS transactions with no COVID ‘hardship’ loans and continued doing so in September by participating in HSBC's LION Prime RMBS transaction.

The LION Prime RMBS transaction became only the second ADI RMBS in 2020 and was secured by a well-diversified pool of 2,855 home loans to Australian Prime residential borrowers with appealing portfolio (and risk) attributes – average seasoning 38 months, weighted average current LVR 56%, average current loan balance of approx. \$349,000, all loans >80% LVR benefiting from mortgage insurance with no loans experiencing COVID hardship.

<sup>1</sup> The Determinants of Mortgage Default in Australia – Evidence for the Double-trigger Hypothesis, Economic Research Department, RBA, July 2020.

<sup>2</sup> The TFF provides 3-year term funding to ADIs at a very compelling 0.25% pa and temporarily removes the incentive for ADIs to issue RMBS.

### Gryphon Market Update – Webinar

Gryphon Capital co-founders, Steven Fleming and Ashley Burtenshaw, will provide a live webinar update on GCI's portfolio and the markets to financial advisers at 12.30pm AEDT on Tuesday 10 November. Advisers who are familiar with GCI and those new to the fund are all encouraged to join. An invitation with further details will be sent in the coming weeks.

Please email any questions you may have to [info@gcapinvest.com](mailto:info@gcapinvest.com).

In addition to the webinar, Steven and Ashley will meet with advisers directly during the first half of November. To register your interest in receiving an update, please contact Seed Partnerships at [info@seedpartnerships.com](mailto:info@seedpartnerships.com).

### 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	Mason Stevens
MLC	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)

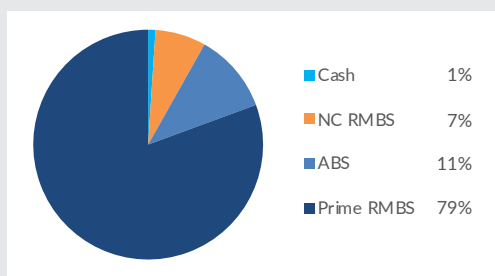
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### Portfolio Construction<sup>1</sup>

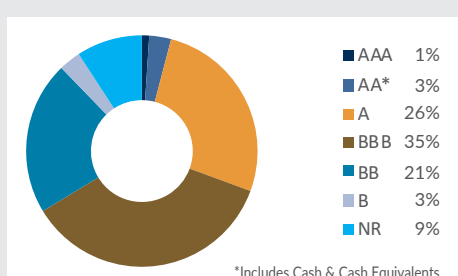
<sup>1</sup> As at 30 September 2020.

#### 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	114,813	107,576	7,237
Weighted Average Underlying Loan Balance	\$469,938	\$459,394	\$582,384
Weighted Average LVR	65%	65%	68%
Weighted Average Seasoning	30 months	30 months	27 months
Weighted Average Interest Rate	3.66%	3.53%	5.09%
Owner Occupied	65%	65%	69%
Interest Only	23%	23%	22%
90+ Days in Arrears as % of Loans	0.35%	0.30%	0.82%
% Loans > \$1.5m Balance	0.85%	0.72%	2.27%

<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.

### SME Portfolio Statistics

Sub sector	%	A	BBB	BB	B
ABS SME	10.9%	2.0%	5.3%	2.1%	1.5%

### SME Portfolio Underlying Mortgage Loan Statistics<sup>5</sup>

No. of Underlying Loans	5,133	<b>Borrower Type</b>	
Weighted Average Underlying Loan Balance	\$497,443	SMSF	60.6%
Weighted Average LVR	58.1%	Company	19.6%
% > 80% LVR	0.40%	Individual	19.8%
Weighted Average Borrowers' Equity	\$361,490	<b>Property Type</b>	
90+ Days in Arrears as % of Loans	0.32%	Residential	34.9%
% > \$1.5m Current Balance	1.71%	Commercial	63.4%
		Mixed	1.6%

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### Distributions (cents / unit)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	0.73	0.68	0.71	0.65	0.65	0.67	0.72	0.72	0.71	-	-	-	6.24
2019	0.88	0.80	0.90	0.85	0.88	0.86	0.84	0.77	0.76	0.76	0.70	0.73	9.73
2018	-	-	-	-	-	0.46	0.48	0.62	0.74	0.88	0.86	0.88	4.92

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

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD <sup>2</sup>
2020	0.38	0.34	(0.45)	0.36	0.30	0.41	0.36	0.39	0.49	-	-	-	2.61
2019	0.50	0.42	0.49	0.43	0.42	0.45	0.74	0.43	0.35	0.41	0.38	0.39	5.54
2018	-	-	-	-	0.02	0.24	0.25	0.31	0.39	0.44	0.45	0.45	2.58

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

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD <sup>2</sup>
2020	0.85	(2.60)	(16.7)	3.12	7.76	(3.75)	8.15	1.45	(0.94)	-	-	-	(4.92)
2019	2.43	(0.10)	(1.03)	0.42	2.43	0.91	2.35	(1.54)	1.34	(1.56)	0.34	0.36	6.42
2018	-	-	-	-	0.50	(0.27)	0.24	0.06	(0.88)	1.97	(1.07)	2.48	3.01

<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: 13 October 2020

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

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