Fixed Income Research

Gryphon Capital Income Trust Entitlement Offer

- One Managed Investment Funds Limited as the Responsible Entity (RE) is making a 1 for 2 pro-rata non-renounceable Entitlement Offer of new fully paid ordinary units in Gryphon Capital Income Trust (GCI) (Trust) at an Offer Price of $2.00 per New Unit to raise up to approximately $108.03 million to eligible Unitholders.
- Eligible Unitholders who take up their Entitlement in full may also apply for Additional New Units in excess of their Entitlement at the Offer Price through the Oversubscription Facility.
- Any units not taken up by Eligible Unitholders under the Entitlement Offer or the Oversubscription Facility will be offered to new investors under the Shortfall Offer.
- Since listing in May 2018 the Trust NTA has been extremely stable despite the volatility evidenced in other fixed interest sectors and equity markets.

Gryphon Capital Income Trust

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 the Trust 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 $1.9b.

The Investment Strategy reflects the key tenets of the Manager's investment philosophy of capital preservation and superior investment returns, given the associated risk. The Manager will continue to employ its investment selection processes, policies and risk protocols when investing the funds raised under the Offer to increase the scale and diversity of the Portfolio.

An investment in the Trust provides access to an important and significant sector of the fixed interest asset class (RMBS and ABS). The Trust therefore provides asset class diversification and is complementary to other fixed income securities.

The Trust listed on the ASX on 25 May 2018, and since then has paid regular monthly cash distributions. Since the Portfolio has been fully invested, distributions paid and declared by the Trust have exceeded the Target Return.

In addition to the attractive target returns of RBA + 3.50%, investors can look to the multiple layers of protection afforded to them by investing in a diversified portfolio of secured bonds. The protections within the RMBS process mean that there has never been a principal loss on any bond.

Further, despite a soft housing market, Trust assets have exhibited resilience evidencing conservative management and robustness of the asset class.

Morgans Financial Limited is a Joint Arranger and Joint Lead Manager to Gryphon Capital Income Trust 1 for 2 Entitlement Offer and Shortfall Offer

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Figure 1: Key terms

Issuer:	Gryphon Capital Investments Pty Ltd
ASX code:	GCI
Offer Size:	Approximately $108.03 million
Unit Price:	$2.00
Minimum application amount:	$1,000 (500 units)
Targeted Distribution Rate:	3.50% above the RBA Cash Rate
Indicative initial Distribution Rate:	4.75% (assuming a 1.25% Cash Rate)

SOURCES: MORGANS, COMPANY REPORTS

Figure 2: Key dates

Record Date for Entitlement Offer:	28 June 2019
Dispatch PDS and Application Forms:	3 July 2019
Offer Opens:	4 July 2019
Morgans Entitlement Offer closing date:	23 July 2019
Shortfall Offer closing date:	31 July 2019
Commencement of trading (Entitlement):	2 August 2019
Commencement of trading (Shortfall):	14 August 2019
Distribution payment dates:	Monthly

SOURCES: MORGANS, COMPANY REPORTS

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Non-renounceable Entitlement Offer

Gryphon Capital Income Trust

The Trust was listed on the ASX in May 2018 and raised in excess of $175 million in its initial public offering. A recent placement of Units to wholesale investors was also completed raising approximately $11.82 million. The Trust seeks to provide Unitholders with monthly income and low risk of capital loss by investing in a portfolio of Australian debt securities including residential mortgage backed securities (RMBS) and asset backed securities (ABS).

The Trust provides investors with a means of diversifying their income investments to a defensive fixed income asset class which has displayed little correlation to global equity market volatility and other debt securities.

Since listing on the ASX, the Trust has met or exceeded all targets and has delivered its investors regular monthly cash income above the Trust's Target Return and a stable Net Tangible Asset backing (NTA).

The Trust continues to have access to a strong pipeline of investment opportunities and will invest proceeds from the Offer in opportunities which are consistent with the investment mandate and target return.

Offer Price

The Offer Price is $2.00 per New Unit under both the Entitlement Offer and Shortfall Offer which is based on the NTA.

Entitlement Offer

Under the Entitlement Offer, Eligible Unitholders are invited to apply for 1 New Unit for every 2 existing Units held on the Record Date, being 7.00pm (AET) on Friday, 28 June 2019, at the Offer Price to raise up to approximately $108.03 million under the Entitlement Offer.

Gross proceeds raised under the Offer will be invested in opportunities identified by Gryphon, as Investment Manager of the Trust, consistent with the objectives and target return that the Trust seeks to achieve.

The Offer will increase the size and scale of the Trust which will enhance Gryphon's ability to manage a diversified investment portfolio and provide lower overall management costs for Unitholders.

Eligible Unitholders who take up their Entitlement in full may also apply for Additional New Units in excess of their Entitlements at the Offer Price (Oversubscription Facility).

Oversubscription Facility

The Offer includes an Oversubscription Facility which will allow Eligible Unitholders who take up their Entitlement in full to also apply for Additional New Units in excess of their Entitlement at the Offer Price.

Additional New Units will only be allocated to Eligible Unitholders if available. Allocations of Additional New Units will be determined by the Responsible Entity. New Units and Additional New Units issued under the Entitlement Offer will rank equally with existing Units.

Please see Section 2.4 of the PDS for further information on the Entitlement Offer and the Oversubscription Facility.

Shortfall Offer

Any Units not taken up by Eligible Unitholders under the Entitlement Offer or the Oversubscription Facility will be offered to new investors under the Shortfall Offer. In the event that applications for New Units under the Shortfall Offer exceed the number of New Units representing the shortfall under the Entitlement Offer, the Responsible Entity may issue New Units to retail investors and Institutional Investors which represent the Trust's available placement capacity under ASX Listing Rule 7.1 under the Shortfall Offer.

The maximum gross proceeds from Entitlement Offer and Shortfall Offer will be approximately $108.03 million.

Please see Section 2.6 of the PDS for further information on the Shortfall Offer.

Rationale for issuance

The Responsible Entity is seeking to raise up to approximately $108.03 million and will use the funds raised under the Offer to finance the acquisition of investments consistent with the Investment Strategy. To ensure the Trust will earn income in the period the funds raised under the Offer are being deployed, immediately following the allotment of New Units, the Manager will invest the Offer proceeds in more readily available RMBS and ABS in order to ensure the Trust is earning income on the new funds deployed. The Manager will then begin to transition those investments into higher income generating Authorised Investments as opportunities arise.

The Offer seeks to:

(a) Add scale to expand the Trust's participation in the RMBS/ABS market, thereby diversifying the Portfolio;

(b) Expand the Trust's investor base, providing greater liquidity for Unitholders and

(c) Reduce the operating costs of the Trust on a cost per Unit basis.

Please see Section 3 of the PDS for further information on the purpose of the Offer.

Options Available to Existing GCI Unitholders

If you are an Eligible Unitholder, you may do any one of the following:

- take up all or part of your Entitlement;
- take up all of your Entitlement and also apply for Additional New Units in excess of your Entitlement;
- do nothing, in which case your Entitlement will lapse and you will receive no value for those lapsed Entitlements – you will remain invested in the Trust by way of the units you already own.

Overview of the Trust

The Trust will seek to provide investors with the following:

Portfolio diversification
Fixed income is an important component of a balanced investment portfolio, offering stable yields and lower risk of capital loss than other asset classes.

Asset class diversification for investors by gaining exposure to a portfolio of RMBS and ABS.

Monthly cash income
Target Return of RBA Cash Rate plus 3.50% per annum (net of fees) through the economic cycle, paid monthly.

Capital preservation
The portfolio will consist of an actively managed portfolio of assets which historically have a very low risk of capital loss.

Portfolio Diversification
Fixed income is an important component of a balanced investment portfolio providing stable income with low risk of capital loss. The Trust enables investors to diversify their income investments to a defensive asset class. The Trust's NTA since listing is evidence of the defensive characteristics and has displayed little correlation to equity markets or other fixed interest sectors.

Experienced management
Gryphon's Investment Team has over 50 years of collective experience in successfully investing in RMBS and ABS.

LIT structure
A closed pool of capital enabling the Manager to make long term investments without the need to source liquidity for potential investor redemptions.

Strong corporate governance - Investors will benefit from GCIs established processes for institutional investors.

Attractive fee structure and innovative fund design
Base management fees comparable to fees charged to wholesale investors for similar products. There are no incentive fees.

Please refer to Section 1.1 of the PDS for further detail on the key highlights of the Trust.

Investment Objective & target return

The Trust's Investment Objective is to provide monthly cash income and low risk of capital loss by investing in a portfolio of securitised fixed income bonds comprising RMBS and ABS (in accordance with the Investment Objective and the Investment Guidelines - detailed in sections 5.5 and 5.6 of the PDS).

The Target Return is RBA Cash Rate plus 3.50% per annum net of fees through the economic cycle. Based on the RBA Cash Rate as at the date of the PDS of 1.25%, the Target Return is 4.75% per annum (net of fees).

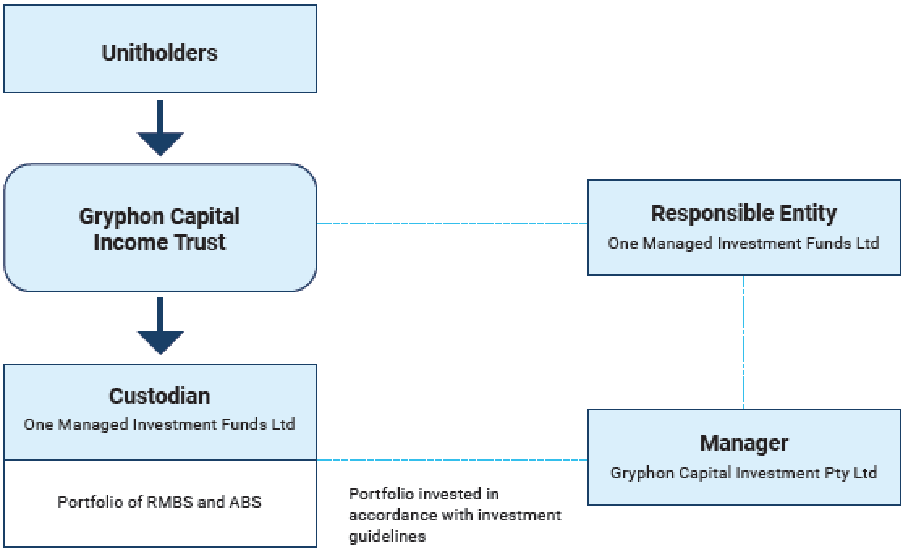
The Manager seeks to deliver the Target Return while preserving Unitholders' capital.

Trust Structure

The Trust is an Australian registered managed investment scheme and will be listed on ASX.

One Managed Investment Funds Limited is the responsible entity and custodian of the Trust. The Responsible Entity has appointed Gryphon Capital Investments as the manager of the Portfolio. Please refer to Section 5.1 of the PDS for further detail on the Trust Structure.

Figure 3: Trust structure



SOURCES: MORGANS, COMPANY REPORTS

Distribution payment dates and rate calculation

Distributions are payable monthly. Please refer to Section 5.5 of the PDS for further information on the Target Return. The Target Distribution Rate is calculated as follows:

Target Distribution Rate = (Market Rate + Margin)

Where:

- Market Rate means the RBA Cash Rate on the first Business Day of the Distribution Period; and
- Target Margin is 3.50%.

Gryphon Capital Investments

Gryphon is the investment manager of the Trust.

Gryphon is a specialist institutional fixed income fund manager based in Brisbane and London. Gryphon was founded in 2014 by Steven Fleming, Ashley Burtenshaw and Henry Cooke when the Gryphon team separated from their former employer but continued to manage the same client funds.

As at the date of this PDS, Gryphon has circa $1.9b in funds under management, which includes the Trust and bespoke mandates for institutional clients. Gryphon is a deep-credit, research driven, low volatility manager aiming to deliver strong and stable returns to their clients not constrained by conventional fixed income benchmarks.

The Manager is 100% privately owned by entities associated with the Gryphon Investment Team.

Please refer to Section 6 of the PDS for further details about the Manager.

Fixed Income Overview

A fixed income (or fixed interest) security is a commitment by a borrower to pay an agreed rate of interest on the amount borrowed (principal) over a set period of time and, when that period ends, to repay the money in full. The lender or investor knows at the outset how much interest or income it can expect to receive over the life of the agreement. The interest on the debt may be at either a floating rate or a fixed rate.

A bond is a fixed income security and comes in a number of forms (see Table below).

A bond generally provides greater certainty as to the income stream and return of capital, as compared to other investments. Generally speaking, there is a trade-off between risk and return and this is why most fixed income instruments pay lower returns than listed equities and other riskier investments.

Within the fixed income asset class, different types of bonds pay different returns. The interest rate paid on bonds will be determined by a number of factors including the following:
(a) Term: How long the capital is committed.
(b) Capital structure: The priority of the bond in the capital structure and whether the bonds are secured against assets, unsecured or subordinated to other debt instruments.
(c) Credit assessment: The credit assessment of the borrower to ensure it will have the ability to meet principal and interest repayments.

Please refer to Section 4 of the PDS for an overview of the fixed income market.

The Trust will invest in floating rate RMBS and ABS which are secured bonds created through a process known as securitisation. RMBS, ABS and the securitisation process is summarised below.

Types of Bonds

The priority in the ranking of the capital structure of a fixed income security is a key determinant of whether the expected return adequately compensates the investor for the risk involved.

Figure 4: Types of Bonds

Risk	Instrument	Bond Type
Lowest Risk	Cash	
	Government Bonds	
	Secured Bonds	RMBS and ABS
	Unsecured Bonds	
	Subordinated Bonds	
	Convertible Debt	
	Hybrid Securities	
Highest Risk	Equity	

SOURCES: MORGANS, COMPANY REPORTS

Holders of fixed income securities have preferential treatment over equity holders for income distributions and capital returns in the event of insolvency. Debt securities are generally considered lower risk than hybrid securities or equity investments, as they tend to have a less volatile return profile.

Secured debt generally has a lower risk than unsecured debt.

Secured debt is the first debt to be repaid in the event of a default and carries the highest ranking, above any other debt issued by a company. This debt is secured by specific underlying assets and in the event that a borrower defaults, the holder of a secured bond has a first claim over the assets offered as security. Senior unsecured debt has no specific collateral backing from the borrower (i.e. ranks behind secured debt), however are prioritised ahead of other unsecured creditors to the residual assets.

Subordinated debt holders stand behind the more senior debt holders in a default event, but ahead of convertible debt, hybrids and equity. Please refer to Section 4.2 “Capital Structure” of the PDS for further information.

RMBS & ABS market

An important and growing segment of the wholesale fixed income market is RMBS & ABS issued as a result of securitisation (see below) of underlying assets such as residential mortgages or other loans. This sector forms a very important part of the funding model for banks and other lenders. All Australian major and regional banks as well as non-bank lenders use securitisation to fund their businesses.

Gaining exposure to this very significant asset class provides an opportunity for investors to further diversify their investment portfolio and gain exposure to a steady and reliable income stream.

RMBS & ABS are simply bonds issued to fund a pool of underlying loans. The interest payments and repayment of face value of the bonds are linked to and secured against the underlying pool of assets (loans). Interest payments on RMBS & ABS are serviced by the interest paid by the underlying borrowers. This process is known as securitisation. This compares to government or corporate bonds where interest payments are typically sourced from cash flows arising from tax revenues in the case of governments, and operating income in the case of companies.

RMBS is a type of ABS where the pool of assets are exclusively loans which are secured against residential property. As highlighted above, RMBS and ABS are a very large component of the Australian bond market with the main investors being domestic and international institutional investors including banks, insurance companies and fund managers.

What is securitisation?

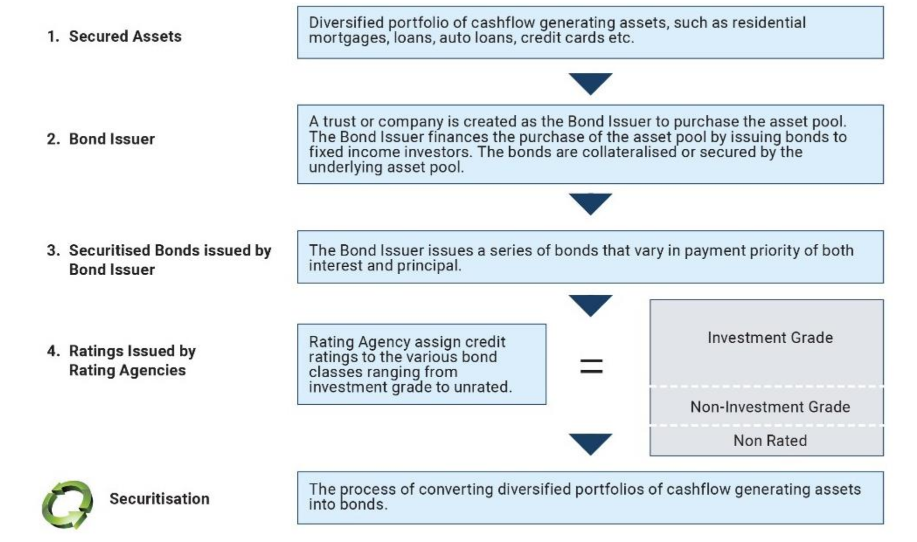
Securitisation is the process of funding the purchase of a pool of assets (loans) by issuing bonds which are secured against the value of those underlying assets. RMBS and ABS are both forms of this type of bond. Banks and other lenders (Originators) use securitisation to fund their lending activities. It is not new and has been a feature of the Australian financial landscape for over 30 years. As banking regulations have tightened, it has become a more important part of banks' funding as regulatory changes make it is less attractive for banks to retain loans on their balance sheet for their full life.

Investors are attracted to these bonds due to their diversification benefits and returns. The underlying loan pools are highly diversified and consist of thousands of loans. Institutional investors select their bond investments based on the types of loans, bond rating and term.

The chart below steps through the securitisation process. A pool of mortgages is transferred by a bank to the Bond Issuer. The Bond Issuer issues bonds to investors; the proceeds are passed back to the originating bank. The principal and interest payments made on the mortgages are used to pay interest on the bonds and the maturity (face) value of the bonds. The secured nature of the bonds means they are a lower risk investment than many other fixed income securities. Please refer to Section 4.6 "Securitisation process" of the PDS for further details.

Importantly, all bond obligations must be paid ahead of any residual profit to the mortgage leaders.

Figure 5: Securitisation process



SOURCES: MORGANS, COMPANY REPORTS

Bond ratings

Unlike corporate bonds where there is no security over specific assets of the company, the ratings agency attributes a rating to a bond based specifically on the risk of payment default of the borrower. In fixed income RMBS/ABS, all bonds issued in the securitisation process are secured against the entire underlying pool of loans they are funding. Accordingly one of the primary drivers that determines the rating of a bond in that series is the priority (or order) of payment of interest and repayment of face value attributable to each bond issued as explained below.

The table below provides an example of the series bonds that might typically be issued to fund a pool of residential mortgages by a bank. Please see Section 4.7 of the PDS for further details.

Figure 6: Capital structure of a typical prime RMBS issue*

Credit Rating	AUD Issuance	Indicative Interest Rate	Spread Over Floating Benchmark	
AAA	960,000,000	2.85%	1.05%	
AA	20,000,000	4.10%	2.30%	Trust's Target Investments
A	9,500,000	4.55%	2.75%	
BBB	3,500,000	5.35%	3.55%	
BB	3,500,000	6.75%	4.95%	
NR	3,500,000	7.85%	6.05%	
Total	1,000,000,000			

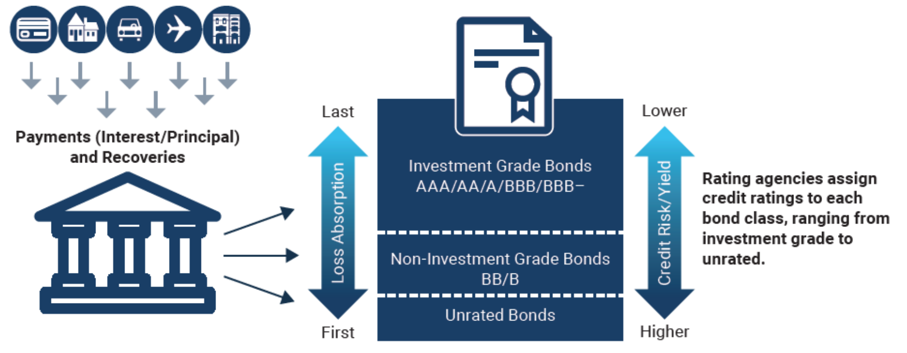
*Based on typical prime RMBS issue of $1,000,000,000.
**Each rating tranche may also include sub-sets within the rating class. For example, 'BBB' includes BBB+ and BBB- which is considered investment grade.
***The rates disclosed in this Table are not a forecast nor an indication of future interest rate returns on a typical RMBS issue. The rates provide an indication of the coupon interest rates of each tranche for a typical prime RMBS issue as at the date of the PDS.

SOURCES: MORGANS, COMPANY REPORTS

Payment process

Each month the interest received from the pooled loans is paid to investors. Interest is paid first to those holding the highest rated bonds (AAA), then interest is paid to holders of the next highest rated bonds (AA) and so on. The same thing occurs when principal payments (made by borrowers of the underlying loans) are received and passed through to bondholders. The highest rated bonds are paid principal first and so on. Hence, a higher rated bond receives a lower rate of interest whereas a lower rated bond receives a higher rate of interest even though they are secured by the same pool of loans. In the event of a shortfall, investors in the lowest ranking bond class would be exposed to losses first, with any further losses impacting more senior classes in reverse order of payment priority. However, there are a number of important features in the securitisation process that are designed to limit the likelihood of any loss to investors. Please see Section 4.8 for further details.

Figure 7: Payment Process of Bonds



SOURCES: MORGANS, COMPANY REPORTS

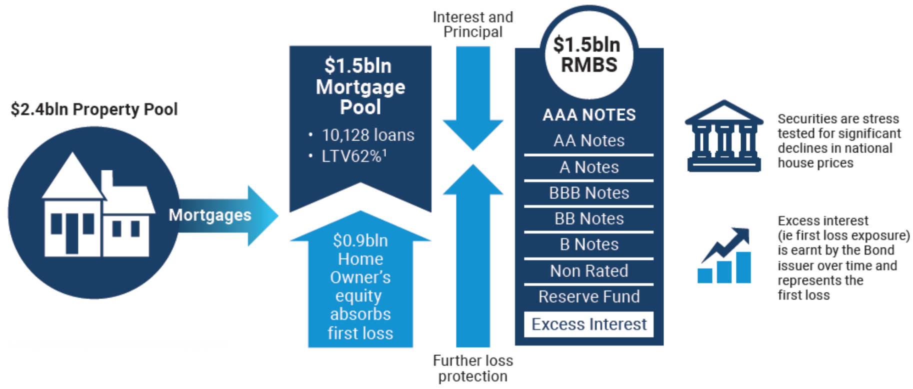
What are the Bondholder protections?

RMBS and ABS have a number of important structural protections (credit enhancements) that mitigate the risk of bondholders taking a principal loss. These credit enhancements include:

- Equity: If the underlying borrower defaults on their payment obligations, the bank repossesses the asset and sells it to recover the outstanding loan amount. Therefore, the first loss is absorbed by the borrower's equity in the underlying asset.
- Lenders Mortgage Insurance (LMI): For RMBS, LMI is often in place for mortgages with a loan to value ratio (LTV) of greater than 80%. In the event of a default and after the sale of the secured asset, if the sale of the property was not sufficient to cover the principal amount outstanding of the loan (i.e. homeowner equity was zero), then the mortgage insurance provider will pay the loss amount to the lender (or issuer of the bond). This payment can then be used to protect bondholders if required.
- Excess Interest: The interest payments received monthly from the pool of loans less the interest paid to bond holders is referred to as excess interest. This surplus represents the profit margin paid to the Originator (e.g. bank) on the assets sold under the securitisation process. The excess interest (profit) is paid throughout the life of the loan but is only received if the borrowers continue to pay their mortgage payments (i.e. the bank collects the payments) and all bondholders are paid in full. In the event of a loan default, any losses that remain after first looking to the borrower's equity and any LMI paid, accrues against the excess spread (Originator profit) every month. This sets a clear alignment of the interests between the Originator and bondholders. The bank's profit is reduced to ensure bondholders are paid.
- Originator holds first-loss bonds: For RMBS/ABS, the most junior tranche is often required to be held by the Originator. In the event of a default and after the sale of the secured asset, if the sale of the asset was not sufficient to cover the principal amount outstanding, then the Originator (e.g. bank) will incur the first loss. Again, this means that the Originator is incentivised to ensure bondholders receive the principal and interest payments in full otherwise they are directly exposed to losses.

Please refer to Section 4.9 of the PDS for further information.

Figure 8: Payment Process of Bonds



1. Weighted average LTV across the mortgage pool.

SOURCES: MORGANS, COMPANY REPORTS

What has been the historial performance of RMBS in Australia?

Firstly, investors should keep in mind that Australian mortgages are not the same as U.S. Sub-prime mortgages made infamous in the GFC (or indeed any other U.S. mortgage). The protections outlined above and which have been a feature of the Australian market since inception, were not present in the US. In addition, Australian mortgages are full-recourse loans, i.e. the lender has the right to pursue the defaulted borrower's other assets where default and subsequent loss exists. Mortgages in the US are generally non-recourse, which means that the lender has no recourse to the borrower beyond the secured property.

Notwithstanding, even in Australia, losses on underlying loans do occur. Historically though these losses have not flowed through to RMBS bondholders. The historical loss performance of the Australian securitisation market has been exceptional since its origins. While the credit enhancements provide multiple layers of protection for bondholders against losses on the underlying loan assets, the absolute level of losses (even before these protections) on loans in Australian RMBS has been extremely low compared to the large volume of loans that have been securitised.

Australian prime RMBS represents approximately 85% of the outstanding Australian securitised bond market (as at 31 December 2018). For prime RMBS, after the realisation of the home owners' equity, payouts from LMI and the securitisation's excess spread, as at 21 November 2018 there have been no losses ("charge offs") on any rated securitisation bonds (Source: Standard & Poors: An Overview of Australia's Housing Market and Residential Mortgage-Backed Securities 21 November 2018)[1].

How is the Trust portfolio constructed?

The Trust invests in a diversified portfolio of RMBS and ABS and other Authorised Investments. Once the Manager Loan is repaid the only investments in the Trust will be in RMBS and ABS.

Unlike other more common fixed income investments such as government bonds, the Trust invests in RMBS and ABS. Before making an investment the Manager will often negotiate with an Originator to ensure that the terms of the bond issue meets its robust due diligence standards. This is one of the major reasons why retail investors have difficulty accessing the RMBS and ABS markets. To ensure the Trust will earn income in the period the funds raised under the Offer are being deployed, immediately following the allotment of New Units, the Manager will

[1] It is important to note, historical loss performance of the Australian securitisation market is not necessarily indicative of future loss performance.

invest the Offer proceeds in more readily available RMBS and ABS in order to ensure the Trust is earning income on the new funds deployed almost immediately. The Manager will then begin to transition those investments into higher income generating Authorised Investments as opportunities arise.

The table below sets out the Authorised Investments of the Trust (investment mandate) and the actual Portfolio construction as at 31 May 2019.

Figure 9: Authorised Investments

Authorised Investments	Investment Mandate (%)	Actual Portfolio (%)
Cash	0 - 10	1
RMBS (of different credit ratings)	70 - 100	81
ABS (of different credit ratings)	0 - 30	15

SOURCES: MORGANS, COMPANY REPORTS

The Manager currently manages over $1.9b held in a number of individually managed segregated accounts for institutional clients. Two of the investment strategies GCI manages for its institutional clients are the Secured Opportunities strategy (since April 2015) and the Investment Grade Securitised strategy (since September 2016).

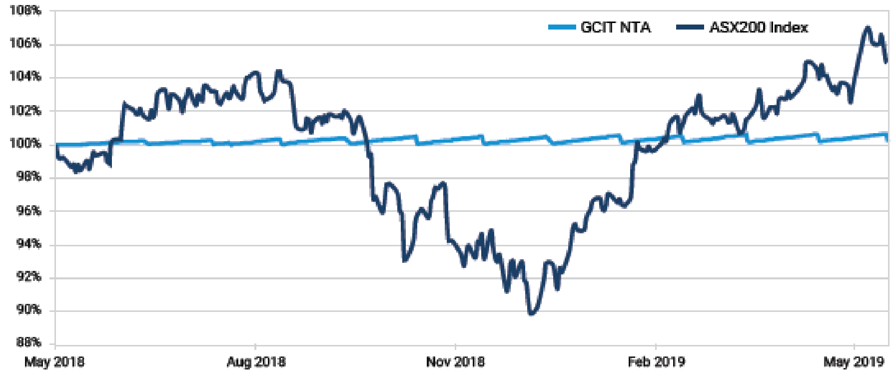
The Manager employs the same investment philosophies and processes used in the above funds to the management of the Trust, having regard to its specific Investment Objectives and Investment Guidelines.

Please refer to Section 5.7 of the PDS for further information on Portfolio Construction.

Trust Performance

The Trust's NTA is calculated and published daily. This includes the bond portfolio that is independently priced daily by a third-party pricing provider. Notwithstanding the recent volatility in equity markets and other fixed interest sectors experienced in the fourth quarter of 2018, the graph below evidences the stability of the Trust NTA since the Trust listed on the ASX in May 2018.

Figure 10: Historical NTA verses ASX Index



Note: Illustrates movement in the Trust's NTA verses movement in ASX 200 Index from the Trust's IPO to 31 May 2019

SOURCES: MORGANS, COMPANY REPORTS

The Trust listed on the ASX on 25 May 2018, and since then has paid Unitholders total distributions of 9.23 cents per Unit up to 31 May 2019. Since the Portfolio has been fully invested, distributions paid and declared by the Trust have exceeded the Target Return.

The first distribution was paid in July 2018 and distributions have been paid within six business days of the end of each month since then.

The Responsible Entity intends to continue to pay distributions to Unitholders monthly. Distributions will be paid at the discretion of the Responsible Entity and may depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects and other factors the Responsible Entity deems relevant.

The Responsible Entity may establish a distribution reinvestment plan, and if so, details will be provided to Unitholders. Please refer to Section 5.8 of the PDS for further information on the Trust performance.

House Prices – Stress Testing

The Manager's stress testing of each investment is consistent with the Trust's key objective of capital preservation. For RMBS, the Gryphon Investment Team will generally conduct a review of all 'large loans' (typically in excess of $700,000) in the portfolio. Following the detailed assessment, the Gryphon Investment Team then stress tests the investment opportunity. For RMBS, the collateral pool is stress tested for significant declines in national house prices across the collateral pool to project a worst case loss scenario.

The value of an RMBS and ABS can be affected by a number of factors, including:

(i) changes in the market's perception of the underlying assets backing the security (for example, RMBS are particularly at risk from a decline in the housing market)

(ii) economic and political factors such as interest rates and levels of unemployment and taxation which can have an impact on the arrears, foreclosures and losses incurred with respect to the pool of assets backing the security

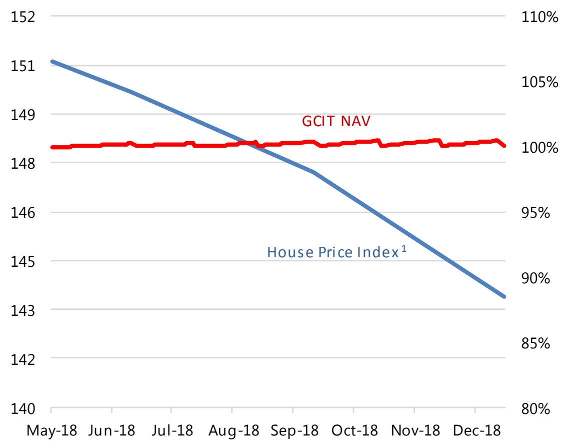
(iii) changes in the market's perception of the adequacy of credit support built into the security's structure to protect against losses caused by arrears and foreclosures

(iv) changes in the perceived creditworthiness of the originator, of the underlying security or any other third parties to the transaction, and

(v) the speed at which mortgages or loans within the pool are repaid by the underlying borrowers (whether voluntary or due to arrears or foreclosures).

The chart below shows the historic NTA against the house price index. As the House price index has continued to fall, the NTA for GCI has remained extremely stable.

Figure 11: Historical NTA verses House Price Index



1. House Price Index – Australian Bureau of Statistics

SOURCES: MORGANS, COMPANY REPORTS

Leverage

The Manager does not intend to use long-term debt to enhance returns. The Trust's gearing policy limits debt to up to 25% of the Trust's NTA and it is intended to be used for short term purposes only. For example, the Manager does not intend to use debt unless it has also planned to raise new capital from the issue of new Units which will be used to repay any borrowings. At the date of this PDS, the Trust has no short-term debt. Please see Section 5.17 of the PDS for further details.

The Manager, its philoposhy and process

The Manager will make investment and divestment decisions for the Trust and implement the Investment Strategy on the terms and conditions set out in the Investment Management Agreement (Section 12.2). GCI is a low volatility fixed income specialist manager which aims to deliver superior investment returns where the return outweighs the risk involved.

Gryphon's investment style is a long-only, deep-credit, research-driven, macro-aware approach using top-down and bottom-up techniques to build portfolios of what it considers to be the best relative-value securities consistent with its client's individual investment parameters.

GCI's investment strategies do not rely on 'timing' the market. Therefore, when making investment decisions, GCI's investment horizon and that of the Trust assumes the investment will be held until maturity, thus making capital preservation paramount especially through periods of economic turbulence. That said, GCI may still sell the Trust's investments before maturity where it believes it can reinvest capital more effectively elsewhere.

GCI believes the safest passage to long term success comes from the benefits of being a specialist investment manager. GCI's processes require it to establish the charter for each investment strategy in consultation with its clients and then not deviate from the strategy making sure there are no surprises and performance directly mirrors their client's objectives.

Please see Section 6.3 of the PDS for further information on the investment philosophy of the Manager.

GCI's investment process can be broken down into four pillars:

(a) Idea generation

The GCI Investment Committee actively evaluates and manages all client portfolios. Using a comprehensive proprietary database that accesses data fed directly from RMBS & ABS Originators, GCI analyses detailed information on 244,320 residential loans and 1,327 Australian RMBS securities (as at 31 March 2019). The database includes up to 47 fields of information in respect of each of the 244,320 loans. The Manager believes this data gives GCI a rich source of information about the performance of the collateral supporting its investments and provides it with a competitive advantage over its peers in assessing and pricing risk in the RMBS markets in which it invests.

(b) Security selection and research

After identifying investment opportunities, the GCI Investment Committee engages the research team to conduct a thorough credit analysis for each opportunity. This process involves the research team obtaining the data file from each Originator which contains a summary term sheet for the securitisation, an information memorandum and, for RMBS, the loan by loan data.

The GCI Investment Team then completes a detailed assessment which includes:

- Credit report,
- Deal modelling, and
- Security analysis.

All securities are subjected to Gryphon's robust stress testing prior to inclusion in the portfolio.

(c) Portfolio construction

Portfolio construction brings together the best ideas formulated by the GCI Investment Committee and then researched by the GCI Investment Team to deliver the optimal Portfolio composition for the agreed risk budget.

Not all investments that pass the security selection process will enter the Portfolio owing to the proactive management of risk. The Portfolio is constructed with consideration to the following principles:

- Diversification across the Portfolio.
- Correlation to traditional asset classes.
- Relative value between existing holdings and those available in the investible universe which may lead to rebalancing of the Portfolio
- Analysis of the credit quality of any counterparty to a securitisation such as LMI providers.
- Drivers of mortgage performance such as an analysis of historical trends in the speed of borrower repayments which can create an early sell or buy signal for the GCI Investment Team.

(d) Portfolio management

The GCI Investment Team regularly receives updated data on all loans within a RMBS collateral pool. This data provides dynamic reporting on the current status of each loan within a collateral pool. For example, the reports will identify whether an individual residential borrower is current or delinquent, the loan amount outstanding, and if the borrower has repaid or refinanced. The GCI Investment Team tracks the performance of all residential loans over time which allows the Manager to determine if the collateral pool is deteriorating or borrowers are remedying any delinquency quickly. This can provide the Manager with an early buy or sell signal on an investment.

For RMBS, analysis includes projecting the likelihood of any rating upgrades or downgrades, assessing ‘actual excess spread’ (bondholder protection) to ‘projected excess spread’ which is a good indicator of the safety margin which exists before any bond holders could potentially suffer a loss. Please see Section 6.4 of the PDS for further information on the investment process.

GCIT Investment Guidelines and Authorised Investments

The Investment Guidelines for the Trust are summarised below:

(a) Jurisdiction

All Trust investments must be issued by an Australian domiciled issuer.

(b) Authorised Investments

The Trust investments may consist of the following:

i. Cash held in a bank or other ADI
ii. Short term money market securities or cash equivalent
iii. RMBS
iv. Other ABS i.e. non-RMBS which may include securitisations backed by consumer loans, loans to SMEs, auto loans among others
v. Manager Loan

(c) Investment Guidelines

All investments:

i. must be denominated or payable in Australian dollars or if denominated in another currency hedged back to Australian dollars, and
ii. other than the Manager Loan, must be fully secured by collateral domiciled in Australia.

(d) Investment concentrations

The Investment Guidelines require the Manager to prudently limit exposures to any individual asset class, issuers and transactions. To support this, the Manager has adopted the following investment restrictions for the Trust:

i. At least 50% of the Portfolio will be invested in assets with an Investment Grade Rating.
ii. At the time of investment, the maximum holding in any one security will not exceed 10% of the Trust’s Portfolio.
iii. At the time of investment, the exposure to any one Originator must not exceed 30% of the Portfolio.
iv. All ABS investments must be rated or credit assessed by one of Standard & Poors, Moodys or FitchRatings.
v. Non-investment grade ABS must not exceed 15% of the Portfolio.
vi. Subject to the hedging guidelines set out in paragraph (e) below, a maximum of 20% of the Portfolio may be invested in assets denominated in foreign currencies.

The investment concentrations may be breached from time to time if the value of securities in the Portfolio changes or the Manager sells an asset. However, in those circumstances the Manager will attempt to re-balance the Portfolio within a reasonable timeframe.

(e) Hedging and derivatives

The Manager intends to only use derivatives and other hedging techniques for risk management purposes and not for market speculative purposes in an attempt to increase returns.

Please see Section 5.6 of the PDS for further details on the Investment Guidelines and Authorised Investments.

Manager Loan

The Manager Loan is an unsecured loan advanced to GCM which is part of the Gryphon Group. The primary purpose of the loan is to fund the up-front costs of establishing and listing the Trust.

The Responsible Entity has provided a working capital loan to (Gryphon Capital Management) (GCM) (Manager Loan). The current Manager Loan is for $4,878,774 as at 31 May 2019 and has a term of 10 years, expiring on 21 May 2028. GCM is required to pay principal and interest on the loan regularly throughout the term in accordance with an agreed amortisation schedule. The Manager Loan permits GCM to make further draw downs for amounts agreed between the Manager, GCM and the Responsible Entity from time to time, provided the draw down does not mean the amount owing exceeds the amount agreed in the amortisation schedule.

The Responsible Entity has agreed to advance a maximum of 3% of the Offer proceeds (up to $3.2429 million if the Offer is fully subscribed) to GCM as a further drawdown under the Manager Loan to be used by Gryphon Group to meet the costs of the Offer.

Please see Section 5.9 of the PDS for further information on the Manger Loan.

Fees and Other Costs

There are no performance fees. The Manager will receive a management fee of 0.72% p.a. of NAV of the Trust.

The Responsible Entity will receive a Responsible Entity fee of:

(a) 0.06% p.a. on the gross value of the Trust's assets (up to $200 million)

(b) 0.04% p.a. on the gross value of the Trust's assets (from $200 million to $300 million), and

(c) 0.02% p.a. on the gross value of the Trust's assets (from $300 million),

subject to minimum monthly fee of $5,225 and annual CPI increases.

The Responsible Entity will also receive a custody fee equal to 0.01% per annum on the gross value of the Trust's assets for performing custodial services on behalf of the Trust. This fee is subject to a minimum monthly fee of $2,563 and annual CPI increases.

The Manager will also repay the Manager loan from its management fee.

Please see Section 7.4 of the PDS for further information on fees and costs.

Key Risks

There are risks associated with investing in the Trust which include, but are not limited to the following:

- Manager risk – The Trust's success is reliant upon the ability of the Manager to devise and maintain a portfolio that achieves the Investment Objective and Investment Strategy.
- Availability of investments – There is no guarantee the Manager will find sufficient investments for the Trust at suitable prices to deliver the Investment Objective.
- Distribution risk – The Manager may make poor investment decisions which may result in the Trust's return being inadequate to pay distributions to Unitholders.
- Key man risk – The Responsible Entity has no right to terminate the Investment Management Agreement solely as a consequence of a change of control of the Manager or in the event of a material change to the composition of the CGI Investment Team. For example, the Responsible Entity cannot terminate the Investment Management Agreement if either Steven Fleming or Ashley Burtenshaw resigns from the Manager.
- Market risk – The investments comprising the Trust's Portfolio are subject to market risk. Market risk is risk associated with changes in market prices or rates, including interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, national and international political circumstances.
- Reinvestment risk – To achieve the Target Return over the long term the proceeds of securities held by the Trust that mature and are sold must be able to be reinvested in securities with a yield comparable to that of the Portfolio as a whole. This may not always be possible.
- Value of RMBS/ABS – There are a number of factors which can affect the price of RMBS/ABS in which the Trust invests. For example, this can include changes in market perception of the assets underlying the security, the credit quality underlying the security and the creditworthiness of the issuer of the security.
- Credit risk – There is a risk that a rating agency may assign incorrect or inappropriate credit ratings to issuers and the securities issued which may mean the underlying security is more likely to be subject to a default event than was anticipated.
- Non-investment grade investments – The Trust will invest in high yield (namely non-investment grade) securities which have a higher risk of default than investment grade securities.
- Hedging risk – The Manager intends to only use derivatives and other hedging techniques for risk management purposes. There is no perfect hedge for any investment, and a hedge may not perform its intended purpose of offsetting losses on an investment and, in certain circumstances, could increase such losses.
- Liquidity risk – If a security cannot be bought or sold quickly enough to minimise potential loss, the value of the Portfolio may be adversely affected.
- Unit trading price risk – Units may not trade on ASX at or near the stated underlying NAV per Unit.
- Volatility of Units risk – Units when listed on ASX may be thinly or heavily traded, and could be volatile, irrespective of the value of the investments held by the Trust.
- ASX liquidity risk – Units in the Trust are listed on ASX. Although liquidity is generally expected to exist in this secondary market, there are no guarantees that an active trading market with sufficient liquidity will be maintained.
- Manager Loan risk – The Trust assets have been used to make the Manager Loan (and will be used to make any further advance under the Manager Loan) to GCM (an entity within the Gryphon Group). The term of the loan is 10 years expiring on 21 May 2028. GCM is required to repay the loan including interest from its own resources. If GCM fails to repay the Manager Loan for any reason, then the Trust will incur a loss.
- Please refer to Section 8 of the PDS for further details in relation to the risks outlined above and other risks not covered in this Offer Summary.

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