

Assessing the ESG Performance of Australian Securitisation Originations

SEPTEMBER 2022

Background

At Gryphon we believe that we have a fiduciary and social duty to integrate environmental, social, and governance (ESG) factors into our investment process. Given the complexities of securitised products, a holistic approach must be taken to effectively assess the sustainability of RMBS and ABS. Accordingly, we utilise a framework that assesses ESG factors across three key components of a transaction: the originator, assets, and deal structure.

We have long assessed and monitored how originators are placed on relevant ESG issues through our extensive originator due diligence process. Given the ever-evolving ESG landscape, and our commitment to continually refine our responsible investment approach, we decided it was time to develop a specific tool to effectively evaluate originators on a wider

range of ESG issues. Over the past year, we have designed and implemented a proprietary ESG questionnaire and scoring system.

Our key aims throughout this process have been to:

1. Better understand how each originator is placed across relevant ESG issues
2. Gauge where the industry is currently at overall, including identifying emerging trends
3. Use this information to manage ESG risks and opportunities more effectively across our portfolios
4. Facilitate targeted engagement to drive industry progress and ensure any originators we invest with are similarly forward thinking.

We recognise that several third party ESG rating agencies and data providers have emerged

over recent years to provide ESG ratings to investors. However, these providers generally only assess larger companies and do not cover many of the smaller ADI's and non-bank lenders whose issuance comprises a sizeable portion of our investable universe. In addition to covering all relevant originators, we decided to build our own assessment tool to tailor it to the Australian securitisation market and our investment needs.

Process

The process began with extensive research to identify and understand relevant ESG issues and evaluate their relative materiality to assign appropriate weightings. This resulted in an assessment structure with 26 different sections across four dimensions: governance, environment, sustainable finance, and social.

Gryphon's Originator ESG Assessment Dimensions and Sections:

Governance	Environment	Sustainable Finance	Social
<ul style="list-style-type: none">• Corporate Governance• Risk Management• Codes of Conduct• Policy Influence• Tax Strategy• Information Security• Anti-Crime Policy• Privacy Protection• Sustainability Initiatives & Platforms – Governance	<ul style="list-style-type: none">• Environmental Reporting• Operational Eco-Efficiency• Climate Strategy• Sustainability Initiatives & Platforms – Environment	<ul style="list-style-type: none">• Retail Products• Corporate Banking• Project Finance• Asset Management• Funding Sources	<ul style="list-style-type: none">• Labour Practice Indicators• Human Rights & Modern Slavery• Human Capital Development• Talent Attraction & Retention• Health & Well-being• Financial Inclusion & Resilience• Responsible Lending• Sustainability Initiatives & Platforms – Social



A questionnaire comprised of over 100 questions was developed to assess these areas within the context of the Australian regulatory environment and securitisation industry, capturing up to 400 data points for each originator. The final questionnaire was sent out to 39 originators who actively issue RMBS and ABS in Australia. In total, 29 originators participated, including all originators that Gryphon currently has exposure to.

A proprietary scoring system was developed to translate the responses into a score out of 100 for each question, which were then weighted to give section, dimension, and overall scores. The use of quantitative scores facilitates easy comparisons between originators and the creation of benchmarks based on originator subgroups. The tiered scoring system enables us to easily drill down into an area and quickly

identify the contributing factors to a high or low score.

Score Distributions and Observations

In addition to examining the performance of individual originators, we have created benchmarks and analysed the results to gain a thorough understanding of how the industry overall is currently positioned.

Some high-level observations that were made during this process include:

- Generally, performance was higher amongst ADIs compared to non-ADIs, public companies compared to private companies, and larger companies compared to smaller ones

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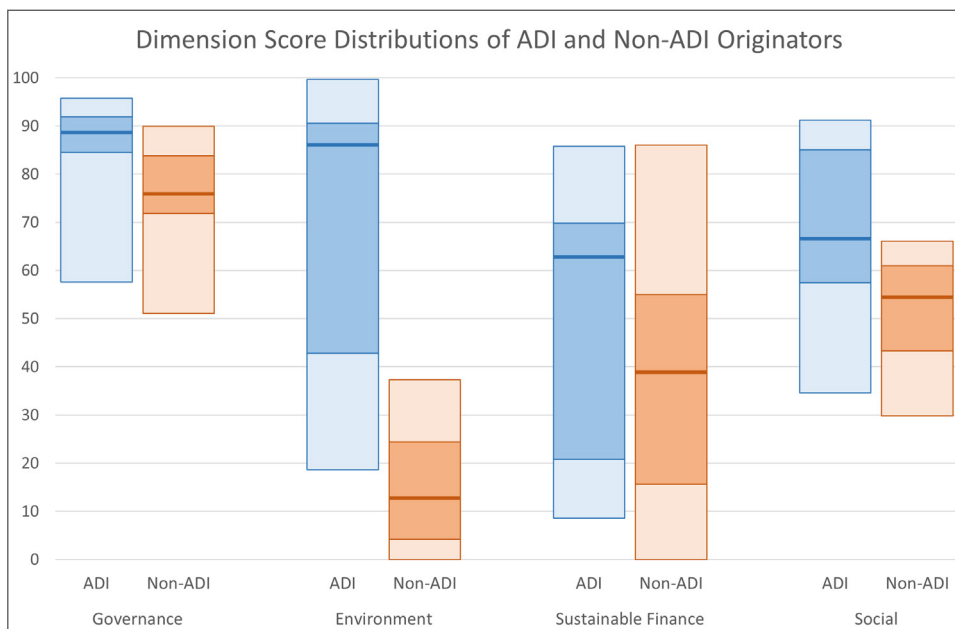
- Governance scores were high and tightly distributed, which makes sense considering Australia's regulatory environment for lenders. As expected, public companies performed noticeably better in governance than private companies.
- There was a large range of scores within the Environment dimension. Environment has historically been the least developed area of ESG within the finance industry but is now a focus. As a result, we are observing leaders who have taken early action and other companies who are lagging. ADIs tend to be further along this journey than non-ADIs.
- We also observe a large spread in the Sustainable Finance dimension for similar reasons. However, there is less of split in performance between ADIs and non-ADIs or public and private companies. This dimension is more material for companies engaging in corporate banking, project finance and/or asset management, which was reflected in our weighting system.
- The Social dimension is the second most developed dimension after Governance, which is reflected in the score distribution. However, there is much less uniformity between originators and there were several sections which had a large range of scores.

Investment Committee

Gryphon's Investment Committee has analysed each originator's results and the benchmarks. The results have also been incorporated into investment tools, allowing portfolio managers to easily refer to them when making investment decisions.

Engagement is Key

To share what we learned and help drive progress, written and verbal feedback was provided to participating originators. This included individualised feedback reports outlining the originator's score in each



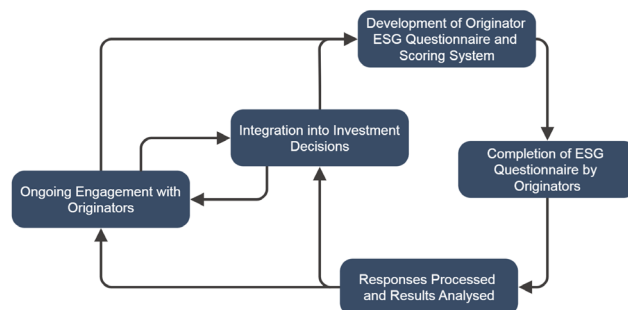
section, comparison to relevant benchmarks, and suggestions for improvement.

Feedback meetings were also offered to all participating originators. This facilitated a two-way dialogue and gave originators the opportunity to ask questions and seek additional feedback. Throughout these discussions, we discovered that this the first time many of the smaller originators had received any feedback on their ESG performance. We were also pleased to learn that many originators have already made additional progress since completing the questionnaire.

We will continue to engage with originators, particularly those we have exposure to, to monitor progress and ensure improvements are made on any deficits identified throughout this process.

We will be repeating the ESG assessment process periodically to update our scoring and formally track progress in this rapidly evolving area. This has also been a learning experience for us, and we will be using what we learned from this initial iteration and our engagements with originators to make improvements for the next assessment round.

Incorporation of the Originator ESG Assessment Process within Gryphon's Responsible Investment Activities



We strive to continually improve our responsible investment approach to deliver the best results for our investors and contribute to positive societal change.

Gryphon Insights videos

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