

INFLATION — A complex topic worth watching

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IN THIS ARTICLE and accompanying GRYPHON INSIGHTS VIDEO “Is your GCI investment inflation protected” we discuss the impact of increasing inflation risk on markets globally, what it means for income investors and why an investment in GCI is an inflation-protected source of stable monthly income.

Inflation is looking increasingly likely

The COVID pandemic has seen unprecedented and staggeringly large fiscal and monetary stimulus ploughed into most of the major economies. While this has been instrumental in preventing widespread economic collapse stemming from population lock-downs, these stimuli will also have other, perhaps less desirable, consequences. Certainly, recent market movements, particularly a spike in US government bond yields, have shown that inflation risk is now a very real threat in the eyes of institutional investors worldwide. Gryphon CIO Ashley Burtenshaw discusses the complex inflation outlook in more detail in a recent Gryphon Insights [video](#) in which he also further discusses the inflation protected nature of an investment in GCI.



Gryphon CIO, Ashley Burtenshaw

Inflation matters

Inflation matters because when it gets too high central banks typically raise interest rates to try and slow an overheating economy. Increasing interest rates have a negative impact on traditional fixed income investments (bonds) because these mostly have fixed cash flows which do not increase with inflation — bond prices move inversely with interest rates. Inflation can also impact the outlook for equities by increasing volatility and having a negative impact on the future value of company cash flows.

What we have seen recently is markets anticipating future interest rate increases due to inflation and selling off assets that are most susceptible to inflation. In short, inflation can inflict material damage to the value of your assets.

GCI is an inflation protected investment

GCI is an inflation-protected investment and fits well within a diversified income generating portfolio. GCI's inflation protection comes from two main factors: firstly GCI invests in Australian ABS which are Floating Rate Notes and secondly, ABS are ultimately secured on real assets, mostly housing.

- 1. Floating Rate Notes (FRNs):** FRNs are structured so that their interest rate resets monthly or quarterly to the current level of interest rates. So, if the RBA decides to increase interest rates to restrain inflation, the interest rates on GCIs investments will also increase at the same time. If interest rates increase, GCI's income increases and so will the distributions to unitholders, protecting them from inflation and keeping up with higher rates of income offered elsewhere.
- 2. Secured Bonds:** GCI invests mostly in RMBS (Residential Mortgage Backed Securities) which are secured on mortgage loans which are in turn secured on houses. If house prices increase then the value of the security behind the RMBS increases, increasing the strength of the capital preservation inherent in this asset class. This only matters in the rare case of an actual mortgage loan default, but it is good to know this investor capital protection increases with inflation.

The GCI portfolio is currently positioned for our expectation that rising inflation is likely to play out in the short/medium term; Gryphon has a demonstrated track record of re-positioning the portfolio as circumstances require. Should a non-inflationary environment emerge longer term, as discussed in the [video](#), the investment team have the ability to actively reposition and tilt the portfolio to ensure we continue to deliver on our three pillars of: Predictable cash income, Highest risk-adjusted returns and most importantly, Capital preservation. Regardless of the direction of interest rates, we seek to deliver these attributes through any particular environment.

Consistency, stability and predictability are important

GCI has been a source of consistent, stable and predictable monthly income even in higher volatility equity markets and has a track record of delivering income during low interest rate environments too, all while preserving capital values. This makes it fit well within a diversified income generating portfolio with investment characteristics which should perform strongly in an otherwise uncertain future.

Gryphon Insights

In the Gryphon Insights [video](#) on inflation, Gryphon CIO Ashley Burtenshaw discusses the inflation outlook in more detail citing respected industry experts with conflicting views on how this might play out. Ashley goes on to explain how GCI investors are protected whichever way inflation goes, and to reveal our own views on inflation's likely path.

On the website you will also find a number of investor education videos covering various aspects of investing in GCI and we encourage existing and potential investors to become more familiar with the product and its benefits.

Gryphon Insights videos

To view the inflation video or any other Gryphon Insights videos, please go to:

<https://gcainvest.com/news-insights/>

Disclaimer

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