

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## Gryphon Capital Income Trust (GCI)

Listed Managed Investments

June 2018 Quarterly Review

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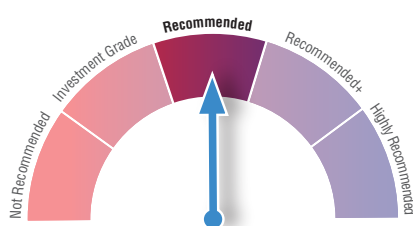
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## Rating



## LMI Type

Listed investment trust

## Investment Area

Australia

## Investment Assets

RMBS & ABS

## Investment Sectors

Diversified

## Key Investment Information

Price (\$) as at 30 August 2018 1.995

Market cap (\$M) 174.9

Units on issue (M) 87.7

Options on issue (M) 0.0

Units traded (\$M p.a) 15.9

12-month L/H (\$) 1.97/2.02

Listing date May 2018

## Fees

Management Fee (p.a) 0.96%\*

Performance incentives (%) na

\*Includes RE & Custody fee and expenses.

## Premium/Discount to Pre-tax NTA

As at 30 June 2018 0.0%

Average since listing 0.2%

## Distribution Yield

FY16 na

FY17 na

FY18 0.23uf

## COMPANY OVERVIEW

Gryphon Capital Income Trust (ASX: GCI) is a newly established investment trust that listed on the ASX in May 2018. The trust raised \$175.3m through the issue of 87.65m units at \$2.00 per unit. The Trust invests in a portfolio of floating rate Asset Backed Securities (ABS) and Residential Mortgage Backed Securities (RMBS). The Trust has appointed Gryphon Capital Investments Pty Ltd as the Manager of the Trust. The Manager specialises in managing fixed income strategies, traditionally for institutional clients, and has in excess of \$1.9b FUM at 30 June 2018. The Manager will be paid an annual management fee of 0.72% (incl. GST). No performance fee is applicable. NAV at the day of listing was the same as the offer price of \$2.00 as the Trust provided a loan to the Manager to cover the costs of the offer. The Manager will repay the loan over a 10 year period and will pay interest on the loan of 5%p.a.

## INVESTMENT OBJECTIVE

The objective of the Trust is to provide a monthly income stream with a focus on capital preservation. The Trust has a target return of 3.5% above the RBA cash rate, per annum, net of fees and expenses. With the cash rate currently at 1.5%, the target return is 5.0%p.a.

## STYLE AND PROCESS

The Manager has a long-only, research driven, macro-aware investment process that incorporates both top-down and bottom-up analysis to construct portfolios. The Manager intends to hold the investment until maturity at the time of investment, however, will sell an investment prior to maturity if the Manager believes the capital could be deployed more effectively elsewhere.

## PORTFOLIO CHARACTERISTICS

The Trust invests in a portfolio of floating rate RMBS and ABS. At 30 June 2018, the capital raised was largely deployed with 17% cash. 84% of the portfolio was invested in investment grade securities (BBB and above, including cash and cash equivalents) with 44% of portfolio invested in AAA rated securities. The large majority of the portfolio was invested Prime RMBS with 83% of the invested capital in Prime RMBS. The portfolio is concentrated with 20 bond holdings, however, these bonds have underlying loans/mortgages of 57,329.

## INDEPENDENT INVESTMENT RESEARCH COMMENTS

Independent Investment Research (IIR) has initiated coverage on GCI with a Recommended rating. The Manager has a robust investment process with strict investment criteria. The Manager was founded in 2014 and specialises in the secured credit asset class, predominantly RMBS and ABS. Prior to the establishment of the Trust, the Manager only managed portfolios on behalf of institutional investors. The Manager has a focus on capital preservation and will only invest in RMBS that pass the 1 in 200 year event as defined by APRA's Probable Maximum Loss (PML), without incurring any loss. The key members of the Manager have a significant amount of experience in the RMBS and ABS market both domestically and internationally. RMBS and ABS are tradable securities and therefore the Trust may experience capital gains or losses, however we expect returns to be largely income. While the Trust provides an alternative fixed income investment, investors should be aware of and comfortable with the risks associated with RMBS and ABS. Up to 50% of the portfolio may be invested in non-investment grade securities which carry a higher level of risk than investment grade securities. The Trust is newly listed and therefore does not have a meaningful performance history as yet. The Trust declared its first monthly distribution of 0.46 cents per unit in June 2018.

Asset Exposure	30 Jun (%)
Prime RMBS	69.0
ABS	7.0
Non-Prime RMBS	4.0
Cash	17.0

Credit Quality	30 Jun (%)
AAA	44.0
AA	17.0*
A	11.0
BBB	12.0
BB	11.0
<BB	2.0

\*Cash and cash equivalents.

## PERFORMANCE ANALYTICS

Performance	Jun Quarter	1 year	3 year p.a	5 year p.a
NAV + Distributions (%)	na	na	na	na
Unit Price + Distributions (%)	na	na	na	na

## OTHER DATA

- ◆ **Distribution policy** – The trust intends to pay distributions to unitholders monthly. Distributions are expected to match the income (net of fees and expenses) achieved by the Trust.
- ◆ **Capital management policy** – The Trust structure allows GCI to invest a permanent and stable pool of capital, while also offering investors ASX liquidity. This allows the Manager to make long term investment decisions without the need to source liquidity for potential investor redemptions, which may impact returns.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – No but the Responsible Entity may establish a DRP.

### GCI's Portfolio Characteristics

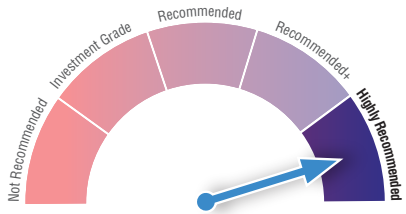
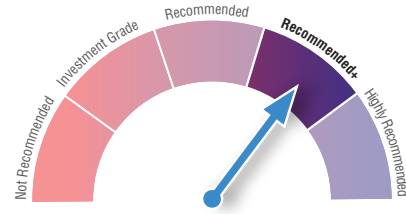
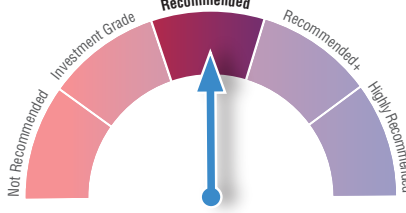
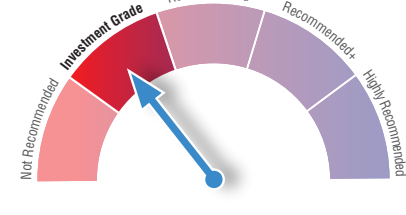
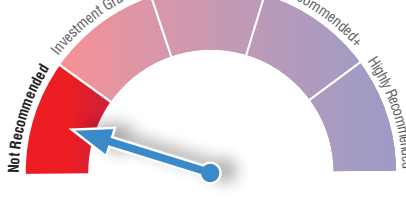
Portfolio Characteristics	
Number of Bond Holdings	20
Number of Underlying Loans	57,329
Net Running Yield	3.47%
Interest Rate Duration	0.04 years
Credit Spread Duration	2.35 years
Weighted Average LVR	63%
Weighted Average Interest Rate	4.71%
% of Loans 30+ Days in Arrears	0.59%

Source all figures: GCI/Independent Investment Research/IRESS.  
All data as at 30 June 2018 unless otherwise specified.

## APPENDIX A – RATINGS PROCESS

### Independent Investment Research Pty Ltd “IIR” rating system

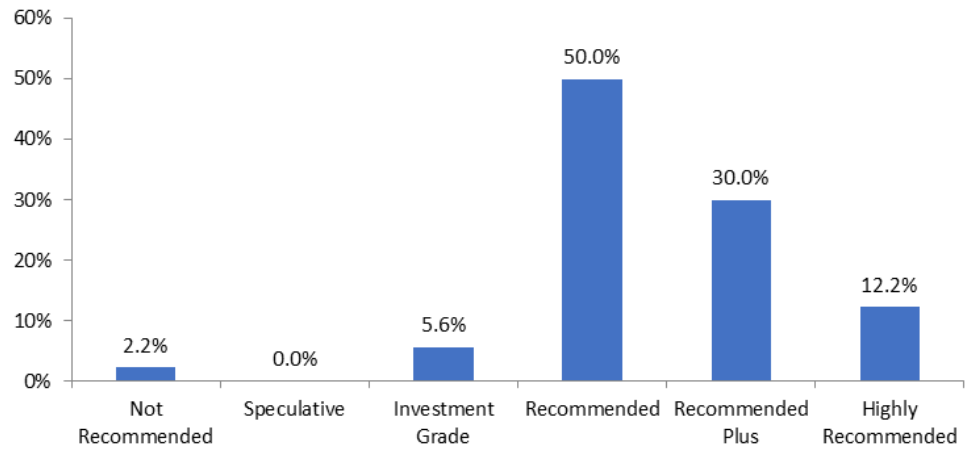
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p><b>Highly Recommended</b></p> 	<p><b>83 and above</b></p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p><b>Recommended +</b></p> 	<p><b>79–83</b></p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p><b>Recommended</b></p> 	<p><b>70–79</b></p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p><b>Investment Grade</b></p> 	<p><b>60–70</b></p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p><b>Not Recommended</b></p> 	<p><b>&lt;60</b></p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

## APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

**Spread of Managed Investment Ratings**



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**Independent Investment Research (Aust.) Pty Limited**

**SYDNEY OFFICE**

Level 1, 350 George Street  
Sydney NSW 2000  
Phone: +61 2 8001 6693  
Main Fax: +61 2 8072 2170  
ABN 11 152 172 079

**MELBOURNE OFFICE**

Level 7, 20–22 Albert Road  
South Melbourne VIC 3205  
Phone: +61 3 8678 1766  
Main Fax: +61 3 8678 1826

**HONG KONG OFFICE**

1303 COFCO Tower  
262 Gloucester Road  
Causeway Bay, Hong Kong

**DENVER OFFICE**

200 Quebec Street  
300-111, Denver Colorado USA  
Phone: +1 161 412 444 724

**MAILING ADDRESS**

PO Box H297 Australia Square  
NSW 1215