



Gryphon Capital Investments Pty Ltd

ACN: 167 850 535

Environmental, Social and Governance
Policy

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1. Introduction

The purpose of this policy is to define Gryphon Capital Investments Pty Limited (“Gryphon”) organisational environmental, social and corporate governance (“ESG”) and responsible investment philosophy. This policy outlines Gryphon’s approach to considering the ESG opportunities and risks into the investments made in the mandates Gryphon manage on behalf of clients.

It is Gryphon’s desire to increase our exposure to investments that make a positive social and environmental impact on top of their financial objectives. Assessing ESG risks in the investment process is consistent with our mandates’ objectives as long-term investors.

Gryphon recognises ESG investing is increasingly becoming part of the mainstream investment process for fixed income investors and there is growing evidence that ESG considerations are becoming a risk factor for fixed income investment.

This policy should be read in conjunction with the Desk Rules Policy and applies to all mandates and accounts managed by Gryphon.

This Policy applies to Gryphon and all our fully owned or controlled entities. This includes all permanent, part-time, contract and temporary employees, as well as officers and directors of these entities. The Policy applies to all of Gryphon’s actively managed investments.

The policy has been approved by Gryphon’s Board of Directors and Investment Committee. This Policy will be reviewed annually, with any changes to the Policy to be provided to the Investment Committee for its review and approval.

Gryphon’s Investment Committee are responsible for all ESG considerations with the Chief Investment Officer responsible for supervising the implementation of this Policy, including training.

2. Definitions

Responsible Investment: 'The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.'



Environmental

- Pollution**
- Waste management**
- Carbon reduction**
- Environmental disaster**



Social

- Human rights**
- Health and Safety**
- Workforce management**
- Diversity**



Governance

- Board Structure**
- Company operations**
- Corruption and bribery**
- Affiliations**

United Nations-backed Principles for Responsible Investment (PRI)

Gryphon has recently admitted as a signatory to the UNPRI; a collective international framework for institutional investors to integrate ESG considerations into their investment decision-making. Gryphon is working progressively towards implementing the six principles, which are incorporated into the Investment Policy Statement, and are as follows

Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry

- Principle 5 We will work together to enhance our effectiveness in implementing the Principles
- Principle 6 We will each report on our activities and progress towards implementing the Principles

3. Responsible investment guidelines

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. ESG factors can affect the performance of fixed income securities at different levels, therefore ESG factors are integrated into Gryphon’s investment activities, this includes due diligence and monitoring of the ESG policies and practices of Australian Fixed Income Issuers. Gryphon commits to consider ESG issues in the course of its underwriting and due diligence of its portfolio investments using the following approach:

- ⇒ Incorporate ESG analysis into Gryphon’s Investment Process
- ⇒ Engagement with Bond Issuers, Originators and Loan Servicers.

ESG initiatives for individual securities, portfolio construction and Originators are discussed and agreed by the Gryphon Investment Committee.

Responsible investment procedures

ESG factors are incorporated into Gryphon’s Investment Process using a combination of the following 3 practices:



1. ESG Screening

Negative Screening: As part of Gryphon’s approach to Responsible Investment, we will exclude certain sectors from our Investment Universe based on specific ESG criteria.

Gryphon complies with laws and regulations in jurisdictions to which it’s managed accounts and funds are subject with specific exclusions documented in each mandate investment guidelines, in addition, Gryphon is also guided by International guidelines and commits to excluding any Bond Issuers involved in the following sectors:

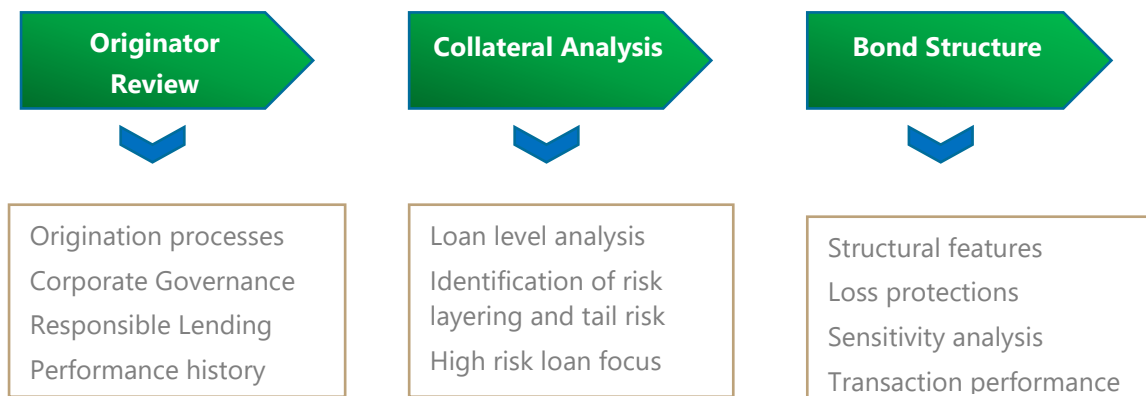


2. ESG Integration into the Investment Process

ESG Integration into Gryphon’s investment process involves identifying the relevant ESG factors alongside traditional financial factors when forming an investment decision about a specific Originator or security, or the overall portfolio structure.

After identifying an investment opportunity, the Gryphon Investment Committee engages the Investment team to conduct a thorough credit analysis for each opportunity. This bottom up process initially involves a thorough review of the asset originator and servicer followed by analysis of the underlying RMBS or ABS collateral and deal structure.

Originator and Security Selection



Originator and Servicer Review

This stage of the investment process includes a due diligence framework to monitor the qualitative aspects of a transaction that includes the capabilities of the originator and loan servicer to understand their impact on the potential performance of the transaction. Gryphon will analyse the originators key performance indicators of the underlying transactions issued by the originator.

The key **ESG factors** during this phase of the investment process include:

- ⇒ The **'Environmental'** impact of the properties and assets that are financed by the underlying loans
- ⇒ The **'Social'** impact of the originators responsible lending practices on their customers' ability to afford and repay the loans.
- ⇒ A review of the originator corporate **'Governance'** strengths and weaknesses such as their senior management expertise.

Gryphon will use this data to rate each Mortgage Originator (positive, neutral, negative).

ESG factors – Originator and Servicer review

Environmental	
Green or Sustainable Bond programs	<ul style="list-style-type: none"> – Does the mortgage originator have a green mortgage program that finances low carbon properties which meet Climate Bonds Standard Criteria? – Does the Lender provide car loans aimed at financing alternative fuel cars?
Environmental Laws	The Lender must comply with all environmental protection laws, regulations and standards
Social	

Responsible lending practices	<p>The Originator must practice responsible lending to protect a customers' ability to afford and repay the loan, this involves:</p> <ul style="list-style-type: none"> – Making reasonable inquiries about the consumer's financial situation – Do they verify the consumer's financial situation? – Making an assessment about the whether the loan is not suitable for the customer – Does the Lender have a Responsible Lending policy available?
Loan recovery processes	<p>When borrowers are in arrears on their mortgage, social factors come into play in the way the originator manages and works with the delinquent borrowers to cure arrears over time:</p> <ul style="list-style-type: none"> – Does the servicer have processes in place to find an acceptable solution to a delinquent borrower without taking possession and disposing of the secured property? – Does the loan servicer have documented Servicing Guidelines? – Do they have policies in place to assist customers experiencing hardship? – Does the servicer have a S&P or Moody's loan server rating?
Human Rights	<p>Gryphon is committed to promoting the rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status, this includes:</p> <ul style="list-style-type: none"> – Slavery – originators must not use slavery in any of their operations or suppliers – Child Labour - originators must not employ children under the legal working age – Does the originator source services from countries that are subject to internationally recognised trade sanctions?

Work Practices	<p>Originator must provide staff with all entitlements and be compliant in all labour laws</p> <ul style="list-style-type: none"> – Discrimination – do they provide a workplace free from discrimination, harassment and bullying. – Safety – does the originator provide a safe and hygienic work place for their staff and comply with all work, health and safety laws? – Diversity – does the originator promote gender balance, age distribution and people with disabilities in their company? – Conflicts - does the company have adequate processes to avoid any potential conflicts of interest, including offering or receiving gifts and entertainment?
Governance	
Loan originating processes	<p>The origination and credit assessment policies should be in line with the Australian lending environment, including the borrower’s ability to service the loan, the credit history of the borrower and independent valuation of the collateral.</p> <ul style="list-style-type: none"> – Are the loans sourced directly or through various distribution channels? – Is there a documented credit policy framework with detailed underwriting criteria? – Is there a valuation policy for the underlying collateral?
Board Structure	<p>A well-functioning board is critical to the success of a company</p> <ul style="list-style-type: none"> – Is the board balanced with independent representation? – Does the board include criteria such as age and gender? – Is the remuneration structure of the executive directors aligned with the company shareholders? – Is there separation between the CEO and the Chairman roles?
Senior management experience	<p>In the Australian loan market, an experienced senior management team is essential for the success of origination and servicing businesses</p> <ul style="list-style-type: none"> – Do the team have experience in loan origination, collections, credit assessment and system development? – Does the originator and servicer offer attractive remuneration packages? – Does the originator offer training?

Technology and Data security	<p>An effective originator will have strong systems in place to drive the loan origination and servicing process</p> <ul style="list-style-type: none"> – Are there effective privacy controls to safeguard the borrowers loan data? – Are there robust data controls to guarantee accurate reporting to Noteholders?
Financial condition	<p>A strong profitable loan originator with a stable balance sheet is key attribute of the better performing loan originators in the Australian loan market:</p> <ul style="list-style-type: none"> – What is the capital management tools and funding mix of the originator? (Securitisation / Deposits) – Is there adequate investment in the origination system? – Is the originator listed or private?
Audit framework	<p>The originator should demonstrate appropriate risk and compliance framework which includes the necessary annual financial audit</p> <ul style="list-style-type: none"> – Is there an audit committee? – Is there an appropriate controls audit performed each year?
Quality control and fraud detection	<p>Originators should have a robust risk and compliance framework to ensure there is not any illegal, fraudulent, corrupt or unethical behaviour</p> <ul style="list-style-type: none"> – Is there any history of bribery, fraud or litigation?
Originator risk retention	<p>Risk retention rules require the originator or sponsor of a securitisation retain an economic interest in the transaction.</p>

3. Thematic approach: Green Bonds

Investment in themes or assets specifically aimed at solving social or environmental problems e.g. clean energy and green technology.

Gryphon believes green, social, and sustainable bonds, whose proceeds fund environmental and social projects, as an effective tool to invest towards sustainable solutions, designed to tackle today's most demanding social and environmental issues of our time.

Gryphon currently undertakes to evaluate any green, social, and sustainable Residential Mortgage Backed Security (“RMBS”) offered in the Australian fixed income market. The supply of green bonds is slowly developing globally each year, however to date in Australia there has only been limited RMBS green issuance. The proceeds raised from Australian green RMBS are generally earmarked towards purchasing eligible mortgages for Australian residential properties which meet Climate Bonds Standard Criteria for Australian low carbon residential buildings.

Gryphon will consider investing in any green, social, and/or sustainable bond offering only if the security complies with each mandate’s investment guidelines.

4. Engagement

Engagement involves Gryphon working with Originators, Bond Issuers and Loan Servicers to collect information and data and encourage better management of ESG risks. As a fixed income investor Gryphon doesn’t have ownership rights that are provided to equity investors, therefore Gryphon relies on proactive engagement with senior management.

Engagement with Originators, Issuers and Servicers normally takes the form of:

- Senior management meetings
- On-site due diligence
- Investor roadshows
- Information and data requests
- Reporting

Good engagement requires identifying relevant ESG factors, choosing issuers to engage, setting objectives, tracking results and feeding those results back into investment decision making.

5. Reporting

Gryphon believes it is best practice to report its responsible investment activities, either to clients or publicly.

- Gryphon is committed to sharing our progress on ESG integration at the request of our clients
- Gryphon to publicly report on our responsible investment activity through the PRI Reporting Framework.