



### Market overview

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- Liquidity is integral to the orderly functioning of the financial markets and over the past week liquidity has evaporated across global fixed income markets including Australia. Financial markets have gone into free fall and liquidity has become priceless;
- Central Banks are working in a coordinated manner seeking to underpin financial markets to ensure credit will continue to flow to companies and households;
- Governments including our own have announced fiscal packages to support small business and individuals that are adversely affected by the crisis;
- Duration of interruption to supply chains and demand (and our everyday lives) is uncertain but Epidemiologists' modelling suggests a likely peak out to June 2020;
- Interestingly, S&P released an article on Australian banks on 17 March which outlined their forecasting that the outbreak will subside during Q2 2020. (i.e. not years).

### How is Gryphon Capital managing our mandates when the financial markets are effectively shut?

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- Gryphon Capital is a specialist fixed income manager in RMBS and ABS, markets which typically are less liquid than some other fixed income markets;
- None of Gryphon's institutional mandates nor GCI are liquidity providing funds, meaning we do not have to sell investments to fund client redemptions;
- We have deliberately been conservative with our portfolio positioning. For instance, the credit spread duration of GCI is 1.73 years and this will provide protection against unrealised mark to market volatility (i.e. as credit spreads are marked wider);
- To take full advantage of opportunities over the next 3–6 months, we will need the financial market to improve enabling us to sell short dated assets so as to reinvest into higher yielding longer dated assets.

### How do we expect our investments to perform over the next 3–6 months and longer term?

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- As at 29 February 2020, 78% of the GCI portfolio is invested in RMBS, 16% in ABS and 4% in cash;
- The RMBS bonds GCI is invested in are secured by over 109,000 home loans which have an average loan balance of approx. \$482,000 and a loan to value of 66% (borrowers' deposit / equity of approx. \$248,000). The borrowers have been paying their mortgage payments for on average of 27 months (i.e. seasoning);
- The performance of each investment continues to exceed our expectations and even under a worst-case scenario (assuming a spike in unemployment), Gryphon's modelling highlights no stress at all to date, the 90days+ in arrears is only 0.2% which is considerably lower than the major banks;
- 97% of GCI's ABS exposures are referred to SME securitisation, which is secured against first ranking mortgage loans to self-managed superannuation funds, companies and individuals secured by both residential and small commercial properties;
- The ABS SME bonds GCI is invested in are secured by over 4,460 loans which have an average loan balance of approx. \$442,000 and a loan to value of 60.4% (borrowers' deposit / equity of approx. \$289,000);
- Self-employed and SME borrowers are likely to be the most vulnerable category of borrowers in the GCI portfolio however, on average, these SME borrowers are 6.5 monthly mortgage payments AHEAD of their scheduled balance (Gryphon is able to calculate this because of our very detailed loan level data capabilities);
- GCI's SME exposures are to the leading originator and servicer of SME loans in Australia. Founded in 1997, the originator is a highly regarded pioneer and leading specialty financial services company with operations across Australia and New Zealand. The servicing function has earned the highest rated servicer with STRONG ratings from S&P Global Ratings Australia Pty Ltd. This servicer was appointed by the Australian government as master servicer for a government program during the GFC. Additionally, this originator has never had a bond downgraded even through the GFC!



## Asset Spotlight “ABS Portfolio”

### What is a SME Securitisation?

SME securitisations involve the securitisation of first ranking mortgage loans to self-managed superannuation funds (SMSF), companies and individuals secured by both residential and small commercial properties.

### Loan Originator and Servicer

A key part of the Gryphon investment process is due diligence on the loan originator and servicer. We examine management experience, Issuer financial capacity, viability and technological sophistication, amongst other factors. A focus on exceptions to underwriting standards, i.e. where the issuer consciously does not follow its own guidelines is important. Originator performance history, i.e. prepayments, delinquency rates and losses can also influence the assessment. We only invest in top tier originators.

### Stress Testing

A key part of Gryphon’s investment process is our stress testing to ensure the bondholder protections are sufficient to protect investors during stressed environments. This includes testing for significant declines in house prices (for RMBS and SME) and large increases in default and loss given default rates (for Auto ABS).

### SME Bondholder Protections

Bondholders in a SME securitisation are secured by a diversified portfolio of mortgages over residential and small commercial properties. Consistent with a RMBS securitisation, there are multiple levels of bondholder protections summarised as follows:

1. The Loan to Valuation (LVR) of the asset securing the borrower’s mortgage;
2. Excess Spread is the originator’s profit which they collect each month;
3. Originator’s First Loss in the transaction – for the SME transactions that GCI has exposure to, the Originator is holding the first loss tranche;
4. Bond Subordination.

### ABS Sector Allocation

Sub Sector	%	A	BBB	BB	B
ABS SME	15.7%	4.8%	5.7%	3.6%	1.6%
ABS Auto	0.6%	0.6%	-	-	-
<b>Total</b>	<b>16.3%</b>	<b>5.4%</b>	<b>5.7%</b>	<b>3.6%</b>	<b>1.6%</b>

### SME Portfolio Underlying Mortgage Loan Statistics

No. of Underlying Loans	4,460
Weighted Average Underlying Loan	\$441,676
Weighted Average LVR	60.4%
Weighted Average Borrowers Equity	\$289,913
<b>Borrower Type</b>	
SMSF	66.1%
Company	18.3%
Individual	15.6%
<b>Property Type</b>	
Residential	65.9%
Commercial	32.9%
Mixed	1.2%
<b>Geography</b>	
NSW	22.8%
Victoria	37.6%
QLD	26.3%
Max to 1 Postcode	1.6%
% > \$1.5m Current Balance	1.4%
% > 80% LVR	1.3%
90+ Days in Arrears as % of Loans	0.1%

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Authorised for release by One Managed Investment Funds Limited, the responsible entity of Gryphon Capital Income Trust.

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