

GRYPHON

CAPITAL INCOME TRUST

MAY 2020

GCI objective is to deliver

1. *Sustainable
monthly cash
income*

2. *High risk-adjusted
return*



3. *Capital Preservation*

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GCI overview Risk vs Return

Sustainable monthly cash income

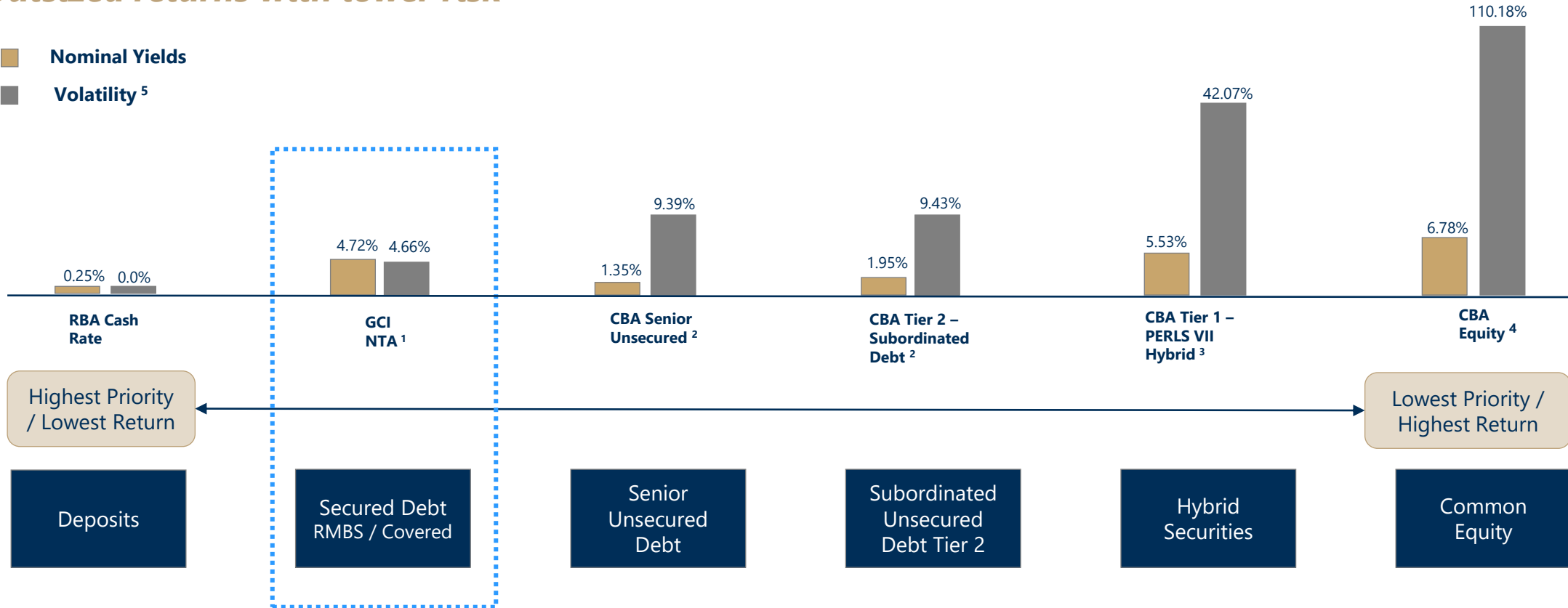


High risk-adjusted return

Capital Preservation

Outsized returns with lower risk

Nominal Yields
Volatility⁵



¹ Trailing 12 month distribution yield as of 31 March 2020
² Calculated YTM as of 31 March 2020 sourced on Bloomberg
³ Calculated YTM sourced on EL&C Baillieu Research Report dated 23 April 2020
⁴ Volatility uses daily closing price. Bloomberg projected 12 month yield excluding franking
⁵ Annualised volatility calculated since GCI listing – 25th May 2018.



- Massive monetary and fiscal stimulus to keep the economy and consumer afloat, with indications of willingness to do more if necessary
 - APRA & RBA supporting the Banks' funding and capital
 - AOFM supporting the Non Banks including \$15 billion Structured Finance Support Fund ("SFSF") available to invest in RMBS/ABS
 - Performance of the GCI investable universe is supported by monetary and fiscal stimulus, AOFM co investment and existing bond holder protections
 - Robustness of RMBS validated by the AOFM investment in asset class
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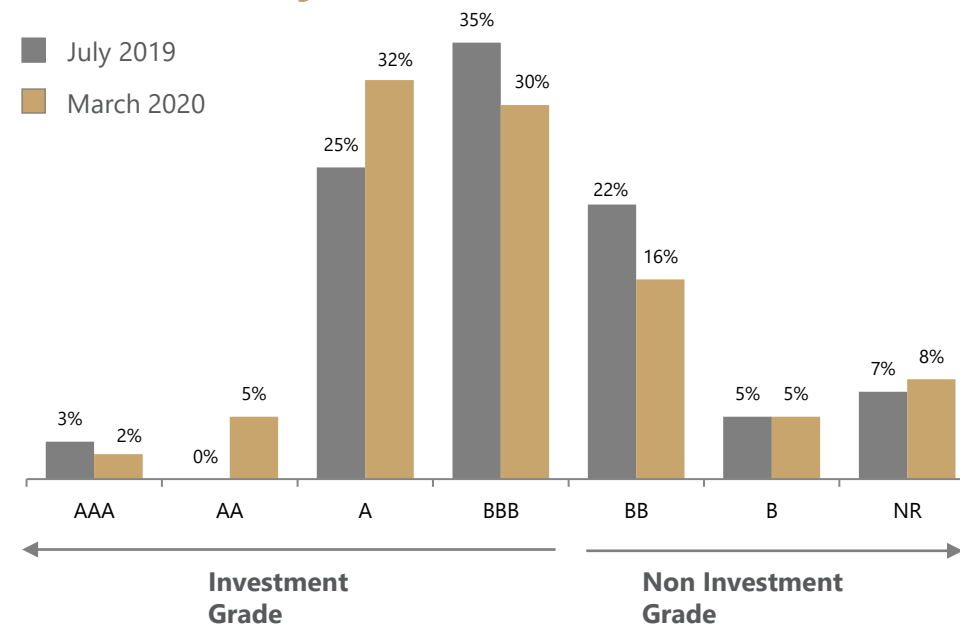
GCI Portfolio – Strong Bondholder Protections



Portfolio Construction – no style drift

	July 2019	March 2020
GCI Capital Raised	\$187.12m	\$412.77m
Prime RMBS	70%	72%
ABS	14%	16%
NC RMBS	13%	8%
No. of Underlying Loans	78,407	113,567
Weighted Average Underlying Loan Balance	\$452,647	\$480,348
Weighted Average LVR	64%	65%
Weighted Average Seasoning	26 months	29 months
Weighted Average Interest Rate	4.84%	3.96%
Owner Occupied	59%	65%
Interest Only	27%	25%
90+ Days in Arrears as % of Loans	0.38%	0.32%
% Loans > \$1.5m Balance	0.64%	1.09%

Credit Quality



COVID Stress Testing



- Dynamic loan level borrower data enables bottom up stress testing
 - Stress testing imbedded in GCI investment process – Capital Preservation is paramount
 - Impact of borrower COVID hardship on GCI investments is 2 fold
 1. Cashflow disruption due to borrowers given hardship includes relief from making repayments for 6 months (interest is capitalised to loan balance) and
 2. Expectation of higher later stage payment arrears and borrower defaults
 - Multiple layers of bondholder protections to protect bondholders' capital against losses
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Will GCI benefit from market dislocation?

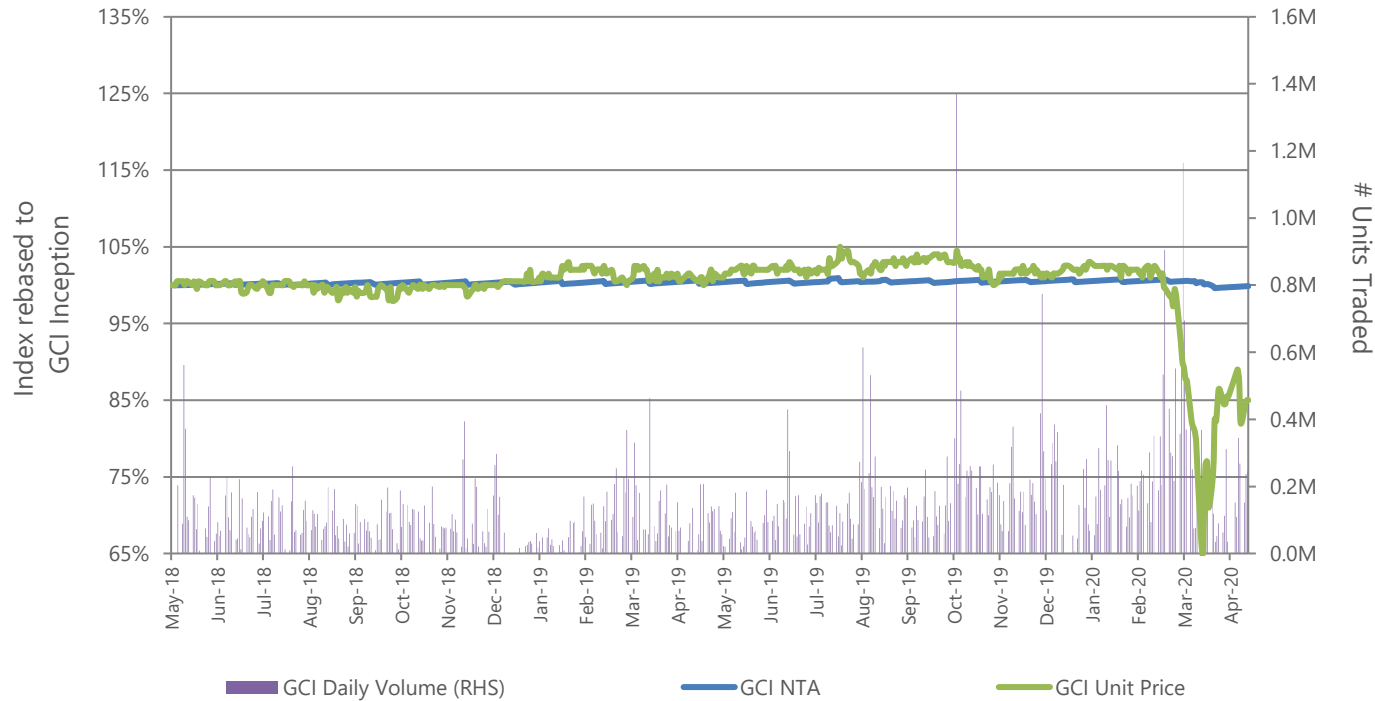


- Gryphon's portfolio managers are employing the lessons learnt from managing through prior crisis environments
- GCI has been conservatively positioned and is in a strong position to take advantage of dislocations and opportunities
- Capital preservation is paramount with Gryphon IC to exercise patience until risk / reward metrics compelling
- Gryphon is a manager of long term patient capital (including GCI) and the RMBS new issue market is looking increasingly attractive
- Sustainable monthly income exceeding the target return

Unit Price dislocation – communication challenge



GCI NTA and Unit Price Performance



- Equity markets continue to experience dislocations
- Gryphon do not believe that risks of this strategy are represented in the Unit Price
- Gryphon committed to narrowing the discount and believe it is a communication challenge
 1. Continue to deliver core objectives
 2. Investor reporting
 3. Portfolio transparency and daily NTA
 4. Investor engagement
 5. Investor education

GCI is an appealing investment solution for those seeking...

1. *Sustainable
monthly cash
income*

2. *High risk-adjusted
return*



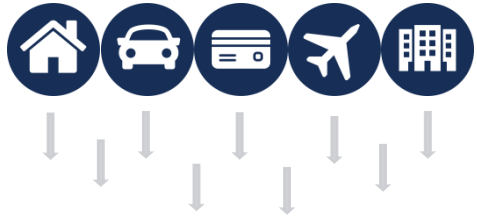
3. *Capital Preservation*

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A Securitisation Process

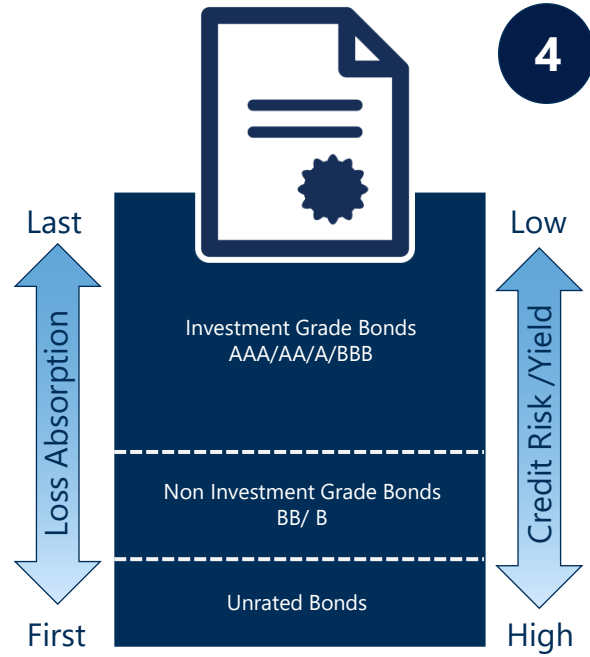
1 Bonds are issued to purchase a pool of assets (i.e. loans)



2 Interest collected on the underlying loans pays the interest on the bonds



3 Principal repaid passes through to bond holders as it is paid



4 Higher rated bonds (AAA) receive Principal and Interest ahead of lower rated tranches

5

Tranches are paid higher rates of interest the lower they sit in the repayment schedule

Multiple layers of protections

Sell the Asset
(e.g. House, Car,
etc)

- The Loan to Valuation (LTV) ratio of the assets securing the bond forms the first line of defence.
- If the LTV ratio is 70%, the asset value must fall by approximately 30% for the potential of loss.

Claim on LMI
(only RMBS)

- RMBS may contain Lenders Mortgage Insurance (LMI).
- In the event of loss (after selling the asset) the lender can claim on LMI.

Excess Interest
tops up Bond
holders

- Excess Spread is the originator's profit which they collect each month.
- Assuming the sale of the asset is not sufficient to cover the loss, and LMI is not payable bond holders are paid from Excess Interest (i.e. the originator's profit).
- Excess Interest is available to cover between 60bps – 110bps pa of first losses on Prime RMBS.

Non-rated bonds
suffer, followed
by next lowest
rated, and so on

- For bonds to be impacted; asset sales, LMI and Excess Interest must not have covered losses.
- S&P has never lowered the rating to D (Default) on any RMBS transaction in Australia.

c Who is Gryphon?

Specialist Fixed Income Investment Manager

- Gryphon established in 2014 by three partners with the backing and support of our former employer Columbia Threadneedle
- Every client moved with us to Gryphon (via Threadneedle)
- Firm is only 6 years old but the team has been together since 2005
- The partners have an average of 25 years experience in global fixed income markets
- Substantial AUM for institutional clients
- Very conservative client base where capital preservation is not just a desire but a stated requirement

Disclaimer

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