Gryphon Capital Income Trust (ASX: GCI)

ARSN 623 308 850

Investment Update as at 30 June 2020

Investment Objective

Gryphon Capital Income Trust (GCI) set itself 3 strategic objectives at IPO:

1. *Sustainable monthly cash income*
2. *High risk-adjusted return*
3. *Capital Preservation*

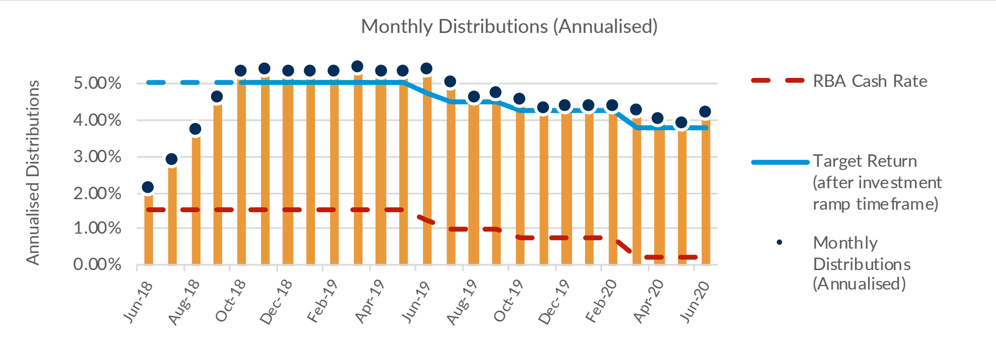
GCI continues to generate attractive and sustainable monthly income with highest risk adjusted returns through investments in a defensive asset class with a track record of low capital price volatility and capital preservation.

Investment Highlights

Income[1]	Sustainable monthly cash income. Current 12-month distribution yield at 4.40% (net).
Large, institutional fixed income market	Australian ABS market >A$110 billion is double the size of the corporate bond market
Security, capital preservation	Defensive asset class with a track record of low capital price volatility No investor has ever lost a $ of principal investing in Australian Prime RMBS
Portfolio diversification	Allows retail and SMSF investors to access a fixed income asset class that generally has only been available to institutional investors
Investment Manager	Exposure to a specialist investment manager with a proven track record of investment outperformance

Distribution

GCI announced a 0.67 cents per unit distribution for the month of June, generating a distribution yield for the 12 months to June 2020 of 4.40% (net)[1].



Fund Performance as at 30 June 2020

	1 Mth	3 Mth	6 Mth	1 Yr	Incep (Ann)[2]
Net Return (%)	0.41	1.07	1.34	4.12	4.49
RBA Cash Rate (%)	0.02	0.06	0.22	0.67	1.10
Net Excess Return (%)	0.39	1.01	1.12	3.43	3.36
Distribution[1] (%)	0.34	0.99	2.06	4.40	4.52
Distribution (¢/unit)	0.67	1.97	4.09	8.65	8.88

[1] Actual distribution as % of NTA, assuming distribution reinvestment.

[2] Inception date – 21 May 2018

Note: Past performance is not a reliable indicator of future performance.

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ABOUT THE MANAGER

Gryphon Capital Investments Pty Ltd ("Gryphon") is a specialist fixed income manager with significant experience in the Australian and International fixed income markets. Gryphon manages individual segregated accounts on behalf of institutional investors and GCI on behalf of wholesale and retail investors seeking opportunities in fixed income credit markets including RMBS and ABS. Gryphon currently manages funds in excess of $2.1 billion.

SNAPSHOT

ASX Code	GCI
IPO Date	25 May 2018
Asset	Fixed Income, floating rate
ASX Price	$1.75
Market Cap	$359.7m
NTA/Unit	$411.0m/$1.99
Investment Management Fee[3]	0.72%
Performance Fee	None
Distributions	Monthly
Unit Pricing	Daily

[3] Includes GST, net of reduced input tax credits

CHARACTERISTICS

Distributions (12m)[4]	4.40%
RBA Cash Rate	0.25% pa.
Interest Rate Duration	0.04 years
Credit Spread Duration	2.09 years
Number of Bond Holdings	89
Number of Underlying Mortgage Loans	114,260

[4] Actual distribution for the 12 months to 30 June, as a % of NTA, assuming distribution reinvestment.

RESEARCH

BondAdviser

Independent Investment Research

Zenith Investment Partners — Recommended

Lonsec

WEBSITE

www.gcapinvest.com/gcit/overview

Market and GCI Investment Activity

Reflecting on the 2019/2020 financial year, it seems like it was specifically designed to test the resilience of the GCI investment portfolio. The GCI NTA has had to withstand falling housing prices, a slowing economy, wild bushfires and in the final quarter of the year, the entire world had to deal with the Covid-19 pandemic, an unprecedented event with far-reaching consequences for financial markets. On the positive side, GCI undertook two successful Entitlement and Shortfall capital raisings, more than doubling the trust's assets under management. Despite it being a tumultuous year, GCI was able to deliver on its objectives — sustainable, monthly income with low volatility of returns and stable underlying asset values (NTA).

The decline in house prices in early 2019 illustrated that house prices only have a second order effect on borrowers' ability to pay their mortgage loans. The real drivers of mortgage loan performance are affordability (mortgage rates) and ability to pay (unemployment). In the early part of the year, low unemployment and low mortgage rates meant that despite the falling house prices, borrowers continued to make their loan payments.

During the Australian bushfires, Gryphon actively monitored the impacted areas using various information sources including postcode data from the relevant fire services, to determine what impact they may have had on GCI's RMBS investments. Our detailed data analytics showed that Australian RMBS investments had relatively low exposure to properties that had been destroyed — due to their geographical diversity, RMBS had only small exposures to rural and regional areas. Additionally, the government and lender relief initiatives provided financial support to impacted borrowers, reducing the risk of any borrower defaults.

Capital raising for an investment trust is generally viewed as a positive for Unitholders because it increases the liquidity of the units trading on the ASX and GCI has now reached a healthy market capitalisation of circa $360 million. Whenever new capital is raised, there is a risk that the new cash can cause a drag on investment performance as it takes time to deploy it into compelling investment opportunities which satisfy the return and risk characteristics outlined in the PDS. For this reason, instead of a single larger capital raise, GCI executed multiple but smaller capital raisings because the timing and size of the capital raises were designed to coincide with suitable investment opportunities arising in RMBS markets — consequently GCI avoided significant cash drag and was able to exceed its return targets.

In the latter part of the year the COVID-19 pandemic had a completely unforeseen and global impact on markets and economies. While the true cost and impact of the pandemic is yet to be understood, it has tested individuals and governments alike. It has also tested mortgage loans and we have seen unprecedented levels of mortgage payment holidays being granted to borrowers whose incomes have been impacted by the virus. We have also seen the government provide similarly unprecedented levels of support to workers whose jobs have been impacted. We often talk about the four investor protections built into RMBS transactions (borrowers' equity, LMI, excess interest and bond subordination); the protection from excess interest specifically comes into play here. As large numbers of borrowers delay payments on their mortgages, a common question is how can RMBS continue to make regular interest payments to its bondholders (including GCI)? Essentially the underlying mortgage loans pay a significantly higher rate of interest than the RMBS secured by them. In a recent Prime RMBS transaction the loans pay an average interest rate of 3.1% whereas the cost of interest on all the RMBS tranches and senior costs (i.e. servicing etc) averages only 1.9%, meaning that there is about 1.2% of excess interest per annum. This implies that even if 40% of borrowers stop paying, there is still enough interest available to meet the interest due to all the RMBS bondholders[1]. In the GCI investment portfolio, about 6.7% of mortgage borrowers have been granted Covid-19 hardship compared to over 10% for the major banks. This further demonstrates the quality of portfolio holdings.

In the last quarter of the year we saw the Australian government launch a $15 billion Structured Finance Support Fund (SFSF) designed to support the real economy through the Australian Office of Financial Management (AOFM) investing in RMBS — this is similar to an earlier successful program employed by the AOFM during the GFC. GCI invested alongside the AOFM at the height of the pandemic taking advantage of stressed markets to buy assets at cheaper levels than had prevailed during the earlier part of the year. GCI was also able to trade with the AOFM allowing it to recycle capital into higher yielding, lower risk assets.

Throughout the turmoil of the past financial year, GCI has continued to deliver regular monthly income in excess of its target, whilst maintaining a stable NTA. Importantly, GCI has been able to fund its distributions using interest income earned from the underlying investment portfolio and has not had to rely on capital to do so. It is pleasing to see that the GCI investments have performed as well as expected despite the significant challenges of the past 12 months, demonstrating that RMBS is indeed a defensive asset class.

[1] This is an important concept and it will be described in more detail in a separate research article on Investor Protections in RMBS to be published on the GCI website shortly.

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PARTIES

Responsible Entity

One Managed Investment Funds Limited
ACN 117 400 987 AFSL 297042

Manager

Gryphon Capital Investments Pty Ltd
ACN 167 850 535 AFSL 454552

AVAILABLE PLATFORMS INCLUDE:

Asgard	BT Panorama
BT Super Wrap	BT Wrap
First Wrap	HUB24
Macquarie Wrap	Mason Stevens
MLC	Navigator
Netwealth	North

FURTHER INFORMATION AND ENQUIRIES

Gryphon Capital Income Trust
www.gcapinvest.com/gcit/overview

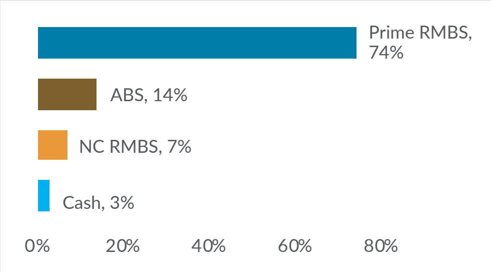
General
Email info@gcapinvest.com

Boardroom (Unit Registry)
Phone 1300 737 760
Email enquiries@boardroomlimited.com.au

Portfolio Construction[1]

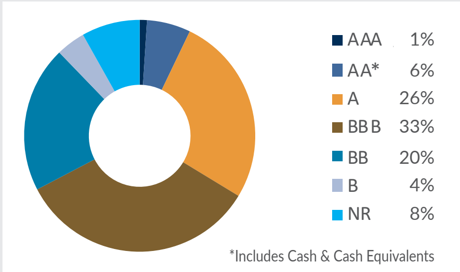
[1] As at 30 June 2020.

Sector Allocations[2]



[2] Excludes Manager Loan.

Rating Breakdown[2]



[2] Excludes Manager Loan.

Portfolio Underlying Residential Mortgage Loan Statistics[3]

	Total	Prime	Non-conforming[4]
No. of Underlying Loans	114,260	106,666	7,594
Weighted Average Underlying Loan Balance	$479,603	$467,712	$605,060
Weighted Average LVR	65%	65%	69%
Weighted Average Seasoning	29 months	30 months	26 months
Weighted Average Interest Rate	3.68%	3.54%	5.06%
Owner Occupied	65%	65%	67%
Interest Only	24%	24%	24%
90+ Days in Arrears as % of Loans	0.37%	0.29%	1.16%
% Loans > $1.5m Balance	0.95%	0.79%	2.58%

[3] Please note that although the values in this Investment Report are accurate portfolio statistics, the return and performance of actual credit instruments invested in are assessed individually.

[4] Non-conforming loans are residential mortgage loans that would not typically qualify for a loan from a traditional prime lender and are generally not eligible to be covered by LMI. Borrowers may not qualify due to past credit events, non-standard income (self employed) or large loan size.

ABS Sector Allocation

Sub sector	%	A	BBB	BB	B
ABS SME	14.2%	2.9%	6.0%	3.8%	1.5%

SME Portfolio Underlying Mortgage Loan Statistics[5]

No. of Underlying Loans	4,078
Weighted Average Underlying Loan Balance	$482,326
Weighted Average LVR	58.7%
% > 80% LVR	0.22%
Weighted Average Borrowers' Equity	$339,073
90+ Days in Arrears as % of Loans	0.16%
% > $1.5m Current Balance	1.37%

Borrower Type	
SMSF	73.1%
Company	13.8%
Individual	13.1%

Property Type	
Residential	34.9%
Commercial	64.1%
Mixed	1.0%

[5] Please note that although the values in this Investment Report are accurate portfolio statistics, the return and performance of actual credit instruments invested in are assessed individually.

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FURTHER INFORMATION AND ENQUIRIES

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