

GRYPHON

CAPITAL INCOME TRUST

ARSN 623 308 850

ASX RELEASE

5 August 2021

Gryphon Capital Income Trust (ASX: GCI) ('GCI or the Trust') Announces Update to GCI Investment Guidelines

Gryphon Capital Investments Pty Ltd ACN 167 850 535 (**Manager**) has recommended and the Responsible Entity, One Managed Investment Funds Limited ACN 117 400 987 has approved the Manager's recommendations for minor modifications to the Investment Guidelines for GCI.

Historically the Australian securitisation market was dominated by the issuance of Residential Mortgage Backed Securities (**RMBS**) which represented approximately 85% of the total market with the issuance of Asset Backed Securities (**ABS**), including Auto, Consumer and SME, representing the balance. This contrasts with international capital markets where ABS are a far more material component of the market – 2020 issuance in Europe was 41% RMBS and 40% ABS¹. A principal reason for the limited ABS issuance domestically is that local banks have predominantly funded their auto loans and credit cards using their balance sheet whereas international banks utilise the securitisation markets for such funding. Since its first issuance in the late 1990's, there has been in excess of A\$78 billion of ABS issued and the performance of Australian rated ABS has been exceptionally strong, displaying very low risk of loss.

In June 2021, Westpac announced the sale of its auto finance business to a large US alternative investment manager who intends to issue ABS in the domestic securitisation markets to fund this material business. The withdrawal of Westpac from this business segment will also provide growth opportunities for existing non-bank asset finance firms. The changes to the Investment Guidelines are designed to allow the Manager the flexibility to participate in the anticipated growth in the ABS market in Australia; such investments will be supported by the Manager's robust due diligence and credit assessment process.

¹ Source AFME Securitisation Data Report Q4 2020, balance of issuance comprises CLO's 11%, Corporate securitisation 6% and CMBS 1%.

Responsible Entity

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The changes to the Investment Guidelines will also have the additional benefit of simplifying the ramp-up of investments supporting potential growth in GCI.

The current Investment Guidelines can be found in section 5.6 of the most recent Product Disclosure Statement (PDS) which is available at www.gcapinvest.com/resources/product-disclosure-statement-4-november-2019

The Manager continues to evaluate a strong pipeline of potential investment opportunities which it expects will meet the investment objective of GCI as described in the PDS.

The Manager will begin applying the amended Investment Guidelines from 1 September 2021.

The updated Investment Guidelines for the Trust are detailed below (with changes shown in mark-up)

(a) Jurisdiction

All Trust investments must be issued by an Australian domiciled issuer.

(b) Authorised Investments

The Trust investments may consist of the following:

- (i) Cash held in a bank or other ADI.
- (ii) Short term money market securities or cash equivalent.
- (iii) RMBS.
- (iv) Other ABS. That is, non-RMBS which may include securitisations backed by consumer loans, loans to SMEs, auto loans among others.
- (v) Manager Loan.

(c) Currency and security

All investments:

- (i) must be denominated or payable in Australian dollars or denominated in another currency but hedged back to Australian dollars, and
- (ii) other than the Manager Loan, must be fully secured by collateral domiciled in Australia.

(d) Investment concentrations

The Investment Guidelines require the Manager to prudently limit exposures to any individual asset class, issuers and transactions. To support this, the Manager has adopted the following investment restrictions for the Trust:

- (i) At least 50% of the Portfolio will be invested in assets with an Investment Grade Rating.
- (ii) At the time of investment, the maximum holding in any one security will not exceed 10% of the Trust's Portfolio.
- (iii) At the time of investment, the exposure to any one Originator must not exceed ~~43~~30% of the Portfolio.
- (iv) All ABS investments must be rated or credit assessed by a Rating Agency.
- (v) Non-Investment Grade ABS must not exceed 15% of the Portfolio.
- (vi) Subject to the hedging guidelines set out in paragraph (e) below, a maximum of 20% of the Portfolio may be invested in assets denominated in foreign currencies.

The Manager will be generally guided by these investment concentrations when constructing the Portfolio.

If the Trust has commenced a process to undertake a further capital raise, then the Investment concentrations may be measured assuming the proposed capital raising is completed successfully. The Investment concentrations allow for flexibility throughout economic cycles and the active management process of the Manager. The Investment concentrations may be breached from time to time if the value of securities in the Portfolio changes or the Manager sells an asset. However, in those circumstances the Manager will attempt to re-balance the Portfolio within a reasonable timeframe.

(e) Hedging and derivatives

The Manager intends to only use derivatives and other hedging techniques for risk management purposes and not for market speculative purposes in an attempt to increase returns.

(f) Asset allocation

The Manager must ensure the portfolio complies with the following asset allocation:

Asset	Allocation (%)
Cash	0- 2 10
RMBS	6 70-100
ABS	0- 4 30

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

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