



Investment Objective and Strategy

The Gryphon Capital Income Trust (ASX Code: GCI) is a listed trust designed to provide investors with sustainable, monthly income (Target Return equal to RBA Cash Rate + 3.50% pa) through exposure to the Australian Securitisation market. This asset-class, primarily consisting of Residential Mortgage-Backed Securities (RMBS) and Asset Backed Securities (ABS), is a key pillar of the Australian fixed income market.

GCI's 3 strategic objectives

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



Fund Performance

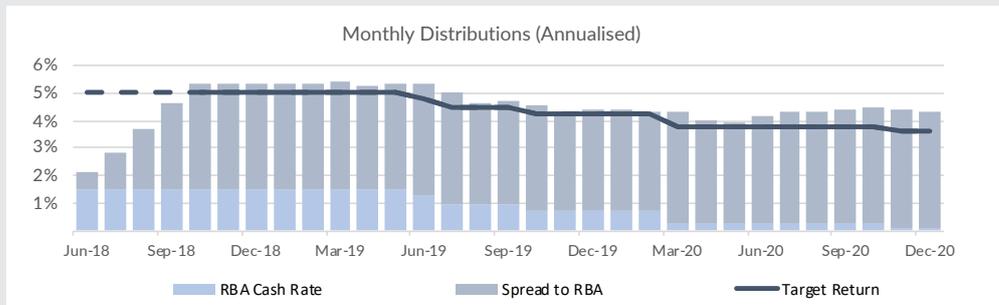
	1 Mth	3 Mth	6 Mth	1 Yr	Incep (Ann) ¹
Net Return (%)	0.37	1.77	3.04	4.42	4.81
RBA Cash Rate (%)	0.01	0.04	0.10	0.32	0.93
Net Excess Return (%)	0.37	1.73	2.93	4.08	3.84
Distribution ¹ (%)	0.36	1.08	2.18	4.29	4.49
Distribution (¢/unit)	0.72	2.17	4.32	8.41	8.82

¹ Inception date – 21 May 2018

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

Distribution

GCI announced a 0.72 cents per unit distribution for the month, generating a trailing 12-month distribution return of 4.29% (net)².



² Actual distribution as % of NTA, assuming distribution reinvestment.

Net Tangible Asset (NTA) / Unit and ASX Price 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 \$2.2 billion.

SNAPSHOT

ASX Code	GCI
IPO Date	25 May 2018
Asset	Fixed Income, floating rate
Market Cap/Unit	\$412.3m/\$2.00
NTA/Unit	\$414.5m/\$2.01
Investment Management Fee ³	0.72%
Performance Fee	None
Distributions	Monthly
Unit Pricing	Daily

³ Includes GST, net of reduced input tax credits

CHARACTERISTICS

Current Yield ⁴	4.32%
Distributions (12m) ⁵	4.29%
RBA Cash Rate	0.10% pa.
Interest Rate Duration	0.04 years
Credit Spread Duration	1.65 years
Number of Bond Holdings	98
Number of Underlying Mortgage Loans	107,743

⁴ December 2020 distribution as % of unit price, annualised.

⁵ Actual distribution for the 12 months to 31 December, as a % of NTA, assuming distribution reinvestment.

RESEARCH

BondAdviser

INDEPENDENT INVESTMENT RESEARCH

Zenith Investment Partners
Recommended

Lonsec

WEBSITE

www.gcainvest.com/gcit/overview



Review of 2020

We don't need to tell you what an extraordinary year 2020 has turned out to be. Bushfires that started in 2019 were still raging into the first quarter of 2020 and as they were finally extinguished, COVID-19 took the whole world by surprise, rapidly spreading across the globe and testing healthcare systems to their limits. COVID-19 also shook the foundations of national economies but no less unprecedented were the powerful responses of national governments in trying to mitigate the impact of the virus on financial markets and consumers. BREXIT and a bizarre US election were also doing their bit to add FUD (Fear, Uncertainty and Doubt). COVID-19 continues to impact the world and is proving hard to manage for many countries. As at the time of writing, England has just entered its third national lockdown expected to last at least six weeks.

The year 2020 has highlighted the importance of data and diversification when investing for income. During the bushfires, the diversification of the mortgage loans underlying GCI's RMBS investments meant that the exposure to loans at risk of fire damage, was both immediately measurable and low. Our extensive and specialist systems allowed us to monitor GCI's exposure to the post code data from relevant fire authorities and take comfort and confidence from that level of detailed insight, confirming that there was no significant risk to GCI.

When the extent of the COVID-19 pandemic became evident in March and the Australian government acted fast to protect consumers by encouraging mortgage lenders to allow borrowers to defer mortgage payments, many generalist RMBS investors became nervous about potential RMBS performance in the face of increasing loan payment deferrals. That nervousness translated into opportunities for higher returns on RMBS as generalist investors pulled back from the market.

The Gryphon team looked at this investor reaction and when coupled with the decision by the AOFM to support the RMBS market, saw an opportunity to de-risk the GCI portfolio with respect to COVID-19 (by increasing the exposure to prime RMBS) at the same time as actually increasing the portfolio yield. The Gryphon team has significant experience of working through a number of crises over the years, starting with Russia defaulting in 1998, the Asian crisis, the GFC and the European debt crisis. Throughout all these crises, the common theme has been one of opportunity for those with sufficient data to understand which investments are likely to perform best under the specific circumstances. In this latest case we could see the unprecedented supply of credit to the consumer from the RBA would be channelled to the best (prime) borrowers and we shifted GCI's portfolio bias accordingly. This allowed us to achieve higher returns for lower risk at the same time as extending our credit duration to lock in these higher returns for longer. You can see this positive impact on distributions in excess of our target from June onwards in the "Distributions" chart on the first page of this report.

While the number of borrowers taking COVID-19 hardship peaked at about 8%, we saw around 84% of those cure themselves by the end of the year, which is clearly good news from a credit perspective. This dramatic improvement is at least partially explained by the fact that many borrowers originally deferred payments "just in case" as noted by the RBA in their October 2020 Financial Stability Review. As Job Keeper rolls off, Gryphon is assuming and modelling for an increase in mortgage arrears. However, it is important to focus on how many of the loans in arrears will actually go through to default and potentially eat into the bondholder protections in Australian RMBS. Do not forget that a recent RBA research paper concluded that for a home loan borrower in Australia to default requires both an inability to repay the loan, and (importantly) for the home loan to also be in negative equity. We can see that the GCI portfolio has a very small number of loans in negative equity. In fact, less than 0.01% of loans in the GCI portfolio are COVID-19 impacted and in negative equity and without mortgage insurance; so far none of these are in arrears. Capital preservation is our primary objective and this metric confirms the risk of loss to the GCI portfolio remains incredibly low.

Despite the turmoil of 2020, we have seen the Australian consumer respond in the most encouraging ways, largely using mortgage payment holidays to pay off more expensive debt before returning to making regular mortgage payments. The Household Savings Ratio increased throughout the year to 19.8% (from 6.0%) and house prices look to be close to their peak-to-trough lows. Gryphon often talks about the four bondholder protections built into RMBS transactions (borrowers' equity, Lenders Mortgage Insurance, excess interest and bond subordination). The GCI portfolio is exposed to around 108,000 mortgage loans with the average borrower's equity now standing in excess of \$250,000. This level of borrower's equity in itself provides us a strong degree of confidence in capital preservation and that is before taking into account the additional three bondholder protections available to investors. This all bodes well for Australian RMBS and we see the asset class as an even stronger vehicle for generating income in 2021 while remaining truly loss-remote.

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INVESTMENT HIGHLIGHTS

Income	Sustainable monthly cash income.
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

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 MLC	Mason Stevens Navigator
Netwealth	North

FURTHER INFORMATION AND ENQUIRIES

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

General

Email info@gcipinvest.com

Boardroom (Unit Registry)

Phone 1300 737 760

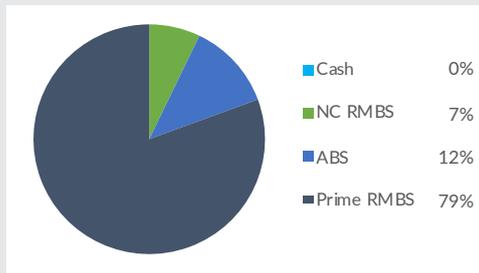
Email enquiries@boardroomlimited.com.au



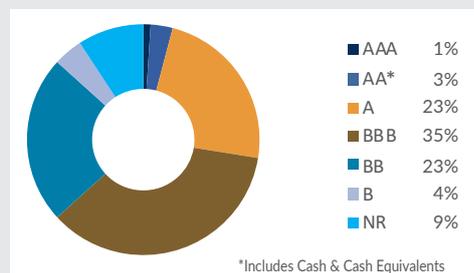
Portfolio Construction¹

¹ As at 31 December 2020.

Sector Allocations¹



Rating Breakdown¹



¹ Excludes Manager Loan.

Portfolio Underlying Residential Mortgage Loan Statistics²

	Total	Prime	Non-conforming ³
No. of Underlying Loans	107,743	99,857	7,886
Weighted Average Underlying Loan Balance	\$492,262	\$483,537	\$590,817
Weighted Average LVR	66%	66%	69%
Weighted Average Seasoning	29 months	28 months	31 months
Weighted Average Interest Rate	3.51%	3.38%	4.96%
Owner Occupied	65%	65%	67%
Interest Only	22%	22%	24%
90+ Days in Arrears as % of Loans	0.25%	0.21%	0.69%
% Loans > \$1.5m Balance	1.14%	1.02%	2.52%

² 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.

³ 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.

SME Portfolio Statistics

Sub sector	%	A	BBB	BB	B
ABS SME	12.2%	2.3%	5.7%	2.6%	1.6%

SME Portfolio Underlying Mortgage Loan Statistics⁵

No. of Underlying Loans	5,461	Borrower Type	
Weighted Average Underlying Loan Balance	\$473,300	SMSF	70.2%
Weighted Average LVR	58.6%	Company	15.2%
% > 80% LVR	0.37%	Individual	14.6%
Weighted Average Borrowers' Equity	\$335,070	Property Type	
90+ Days in Arrears as % of Loans	0.10%	Residential	42.8%
% > \$1.5m Current Balance	1.41%	Commercial	56.0%
		Mixed	1.2%

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continued overleaf..



Distributions (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	0.36	0.34	0.36	0.33	0.33	0.34	0.36	0.36	0.36	0.37	0.35	0.36	4.29
2019	0.44	0.40	0.45	0.42	0.44	0.43	0.42	0.38	0.38	0.38	0.35	0.36	4.96
2018	-	-	-	-	-	0.23	0.24	0.31	0.37	0.44	0.43	0.44	2.48

Fund Returns (Net)² (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD ³
2020	0.38	0.34	(0.45)	0.36	0.30	0.41	0.36	0.39	0.49	0.71	0.67	0.37	4.42
2019	0.50	0.42	0.49	0.43	0.42	0.45	0.74	0.43	0.35	0.41	0.38	0.39	5.54
2018	-	-	-	-	0.02	0.24	0.25	0.31	0.39	0.44	0.45	0.45	2.58

Total Unitholder Returns⁴ (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD ³
2020	0.85	(2.60)	(16.7)	3.12	7.76	(3.75)	8.15	1.45	(0.94)	3.33	0.63	3.73	2.55
2019	2.43	(0.10)	(1.03)	0.42	2.43	0.91	2.35	(1.54)	1.34	(1.56)	0.34	0.36	6.42
2018	-	-	-	-	0.50	(0.27)	0.24	0.06	(0.88)	1.97	(1.07)	2.48	3.01

² Fund Return reflects compounded movements in the NTA.

³ Assuming monthly compounding.

⁴ Total Unitholder Returns comprises compounded distributions plus compounded movements in the listed price of ASX:GCI.

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ASX release date: 12 January 2021

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

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