AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Gryphon Capital Income Trust

(expected ASX code: GCI)

Pre-IPO Report

March 2018

INDEPENDENT
INVESTMENT RESEARCH

WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

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THIS IS A COMMISSIONED RESEARCH REPORT.

The research process includes the following protocols to ensure independence is maintained at all times:

1) The research process has complete editorial independence from the company and this is included in the contract with the company;

2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;

3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.

4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.

5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;

6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

For more information regarding our services please refer to our website www.independentresearch.com.au.

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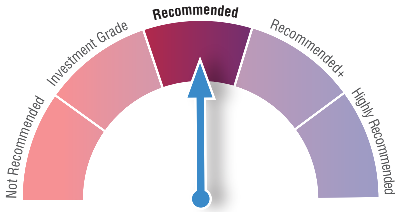
(expected ASX code: GCI)

Note: This report is based on information provided by Gryphon Capital Investments Pty Ltd.

Rating



Key Investment Information	
Expected ASX Code	GCI
Offer Price ($)	2.00
Expected Offer Close	27 April 2018
Expected Listing Date	18 May 2018
Min/Max Units on Offer (m), not including oversubscriptions	50/175
Proforma NAV ($) per Share (Min/Max Subscription)	2.00
Fees:	
Management Fee (p.a)	0.72% (incl. GST)
RE & Custody Fee (p.a)	0.06%-0.09%
Expenses (p.a)	Expected range of 0.08%-0.15%
Performance Fee	na

Key Exposure	
Underlying Exposure	The Manager will invest in a portfolio of floating rate ABS, with a particular focus on RMBS. Securities must be fully secured by collateral domiciled in Australia.
FX Exposure	There is not expected to be direct foreign currency risk associated with the portfolio.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

1. PRODUCT SUMMARY

Gryphon Capital Income Trust (expected ASX code: GCI) is a newly created trust that is seeking to raise between $100m and $350m through the issue of 50m to 175m units at $2.00 per unit and list on the ASX. The Trust will invest proceeds raised in a portfolio of floating rate Asset Backed Securities (ABS), with a particular focus on Residential Mortgage Backed Securities (RMBS). The Trust has appointed Gryphon Capital Investments Pty Ltd (the Manager) as the Manager of the Trust. The Manager specialises in managing fixed income strategies for institutional clients and has in excess of $1.7b FUM. The objective of the Manager is to provide a monthly income stream with a focus on capital preservation. The Trust has a target return of 3.5% above the RBA cash rate, per annum, net of fees and expenses. With the cash rate currently at 1.5%, the target return is 5.0%p.a. The Manager will be paid an annual management fee of 0.72% (incl. GST). No performance fee is applicable. NAV at the day of listing is expected to be the same as the offer price of $2.00 as the Trust will provide a loan to the Manager to cover the costs of the capital raising and listing. The Manager will repay the loan over a 10 year period and will pay interest on the loan of 5%p.a. This results in a non-current asset on the balance sheet of the Trust for the balance of the loan.

2. INVESTOR SUITABILITY

The Trust will seek to provide unitholders with a monthly income stream and as such is suitable for those seeking an investment with a regular income stream. ABS and RMBS are tradable securities and therefore the Trust may experience capital gains or losses, however we expect returns to be largely income. The Trust will provide access to ABS and RMBS, which is typically only available to the institutional market and will be the only listed vehicle on the ASX that provides access to a portfolio of ABS and RMBS. While the Trust provides an alternative fixed income investment, investors should be aware of and comfortable with the risks associated with ABS and RMBS. Up to 50% of the portfolio may be invested in non-investment grade securities which carry a higher level of risk than investment grade securities. Residential mortgages have historically had low levels of defaults and delinquency rates have remained low throughout previous crises. This combined with the credit enhancements of RMBS has resulted in no defaults historically on Australian issued RMBS, however historical performance cannot be used to predict future performance. A significant shock to the residential housing market may negatively impact the performance of the Trust and may result in capital loss.

3. RECOMMENDATION

Independent Investment Research (IIR) has assigned the Gryphon Capital Income Trust (expected ASX code: GCI) a **Recommended** rating. The Manager has a robust investment process with strict investment criteria. The Manager was founded in 2014 and is a specialist investor in securitised assets (ABS & RMBS). Prior to the establishment of the Trust, the Manager only managed portfolios on behalf of institutional investors. The Manager has a focus on capital preservation and will only invest in RMBS that pass the 1 in 200 year event as defined by APRA's Probable Maximum Loss (PML), which imply a national house price decline of over 40%. To be eligible for investment, securities must not be expected to incur a capital loss when the 1 in 200 year event is applied. The Manager has a target return of RBA cash rate + 3.5% p.a, net of fees and expenses. It's important to note that this return is based on the expected income return from the portfolio and does not incorporate any potential capital return. The Manager currently runs two strategies that are relevant to the investment strategy and objectives of the Trust: (1) Investment Grade strategy; and (2) Secured Opportunities strategy. While these strategies have achieved their respective objectives to date, they do not have an extensive performance history with the Secured Opportunities strategy commencing in April 2015 and the Investment Grade strategy commencing in September 2016. There are two key positive structural features of the Trust including: (i) the NTA will be the same as the offer price at the date of listing; (ii) the Manager will be repaying the capital raising and issue costs to the Trust over a 10 year period. This loan will be required to be repaid irrespective of whether the Manager is the Manager of the Trust's portfolio and the Trust will earn interest on the loan.

4. SWOT

Strengths

- The LIT structure provides the Manager with a fixed pool of capital and does not have to manage the threat of large redemptions from the Trust.
- The expenses pertaining to the capital raising and listing will be paid by the Manager through a loan from the Trust, resulting in a non-current asset on the balance sheet of the Trust which allows for the NAV of the Trust at the date of listing to be in line with the offer price of $2.00 per unit. The Manager will repay the loan over a period of 10 years out of the annual management fee paid and interest will be paid on the loan.
- The Manager has outperformed its target return objectives for the two comparable strategies managed by the Manager.
- The key members of the Manager have a significant amount of experience in the ABS and RMBS market both domestically and internationally and have developed a robust investment process and significant database that allows the Manager to identify trends in the market and undertake a detailed credit analysis of securities, however we note the investment teams experience prior to establishing the Manager has been primarily in high grade securities.
- The loan made to the Manager to pay for the IPO costs will be a 10 year loan with the Trust. The Manager will still be required to repay the loan in full even if they are removed from its responsibilities of managing the Trust's portfolio.
- The investment mandate has a weighted average life of less than 5.5 years for the Trust's portfolio. This reduces the risk associated with long duration bonds and given the portfolio will invest in floating rate securities, will enable the Manager to take advantage of rising interest rates.

Weaknesses

- While the members of the Manager have extensive experience in the ABS market, the Manager was only established in 2014 and the two relevant strategies to the Trust have a limited performance history. In addition to this, the strategies have not experienced a full credit cycle, with the strategies being established during a period of historical low interest rates which typically coincides with low delinquency rates and inflated asset prices.

Opportunities

- The Trust will be the only listed vehicle on the ASX that provides access to a portfolio of ABS and RMBS, offering investors the potential to further diversify their existing portfolio.
- The Trust provides an alternative to the current fixed income investment options on the ASX, which primarily include bond funds and hybrids.

Threats

- This is the first retail trust established and managed by the Manager and the first listed vehicle. Being a listed vehicle provides an additional level of disclosure that the Manager has not had to provide to date and the Manager has not managed a mandate to date that provides a regular monthly distribution.
- While the Trust is a closed pool of capital, the RE may issue additional units to grow the size of the Trust. In the event the RE issues new units at a discount to the NAV or unit price, the issue of new units will likely have a dilutive impact on existing unitholders.
- The target return of RBA cash rate + 3.5% p.a, may not be achieved in the first year of operation given it may take up to six months for the portfolio to be fully invested.
- The residential property market has experienced a period of historically low interest rates, significant house price growth and has historically high levels of interest only loans. Banks have recently increased restrictions regarding mortgage lending and there is the potential for regulatory change in the near future which may put downward pressure on the property market. In the event of a significant property market downturn, investors capital may be at risk.

5. STRUCTURE

PRODUCT OVERVIEW

Gryphon Capital Income Trust (expected ASX code: GCI) is a newly established trust seeking to list on the ASX. The Trust is seeking to raise between $100m and $350m through the issue of 50m to 175m units at $2.00 per unit. The Trust can accept over subscriptions at the discretion of the Responsible Entity.

Gryphon Capital Investments Pty Ltd has been appointed as the Manager of the Trust. The Investment Management Agreement is for an initial term of 5 years with an automatic extension of a further five years unless the Manager is terminated before this. The Manager will be paid an annual management fee of 0.72% (incl. GST) of the net asset value of the portfolio. No performance fee will be paid. We view the management fees to be in line with the fees charged by other listed fixed income companies/trusts. NAV at the day of listing is expected to be the same as the offer price of $2.00 as the Trust will provide a loan to the Manager to cover the costs of the capital raising and listing. The Manager will repay the loan over a 10 year period. This results in a non-current asset on the balance sheet of the Trust for the balance of the loan. The Trust will be paid an interest rate of 5% p.a on the loan and the loan is expected to be between $3.5m and $10.3m depending on the size of the capital raising.

The Trust will invest in a portfolio of floating rate ABS, with a particular focus on RMBS. A minimum of 70% of portfolio will be invested in RMBS. The portfolio will only invest in securities that are fully secured by collateral domiciled in Australia and is expected to primarily invest in bonds that are rated AA and below, however, the Manager can invest in AAA rated securities. At least 50% of the portfolio is required to be invested in investment grade securities (BBB- and above). The Manager can invest in both prime and non-conforming RMBS. The large majority of RMBS in Australia are prime and the large majority of securities invested in are expected to be prime RMBS, however there are no investment limitations regarding this. The Manager can invest up to 30% of the portfolio in ABS, which are loans backed by assets other than residential mortgages, such as credit card receivables, car loans and loans to SMEs.

The Trust will seek to pay a monthly distribution that are expected to match the net income generated by the Trust. However, distributions will be paid at the discretion of the Responsible Entity and may depend on a number of factors such as future earnings, capital requirements, financial conditions, etc.

The Trust has a target return of RBA cash rate + 3.5%p.a, net of fees and expenses. Based on the current cash rate, the Trust would be seeking to generate a return of 5.0% p.a.

What is a RMBS?

A RMBS is a collection of bonds that are secured by a dedicated pool of residential mortgages (the collateral pool). The payments of the principal and interest on these bonds is funded by the payments made by borrowers of the underlying collateral pool. RMBS are issued by both authorised and non-authorised deposit taking institutions and can be classified as 'prime RMBS' or 'non-conforming RMBS'. The Trust can invest in both prime and non-conforming RMBS.

Payments of principal and interest and allocations of any losses are made at regular intervals. As repayments are made on the mortgages in the collateral pool, the funds received are used to pay the interest on the notes and to gradually repay (amortise) the outstanding principal on the notes.

The bonds within the RMBS are allocated a rating (AAA to non-investment grade). While all bonds are secured by the same collateral pool, the highest grade of bonds are paid first through to the lowest grade. At the end of each collection period, typically monthly, the funds received from the collateral pool are distributed to the bondholders. The allocation of any losses will first be distributed to the 'junior' notes before then being allocated to the senior notes. Typically, any principal payments for senior notes are fully amortised before junior bonds receive principal payments. Therefore, in the event of defaults within the collateral pool, the lowest grade bonds are will lose out first. In return for the additional risk, the lower rated bonds receive a higher rate of interest.

There are a few structural features that provide a level of protection (credit enhancements) to bondholders. These features include:

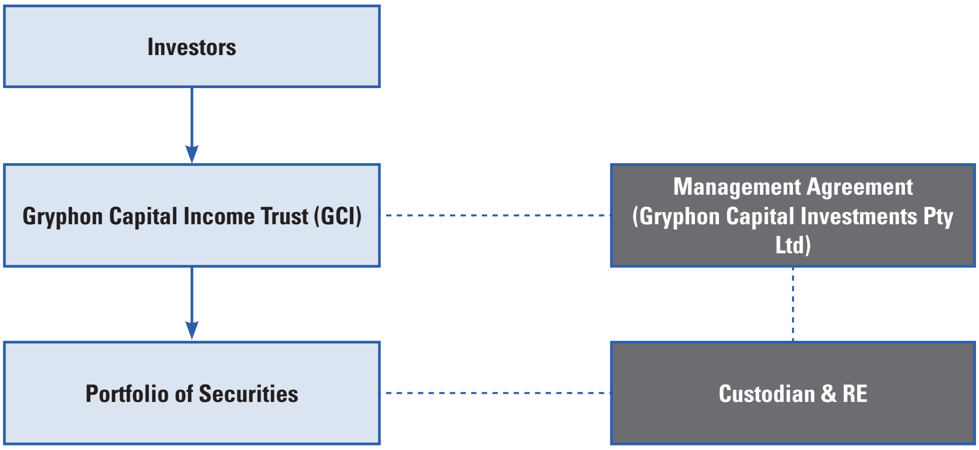
i) **Equity -** in the event the borrower defaults on their payment obligations, the servicer of the loan will repossess and sell the asset to recover the outstanding loan amount. This may or may not cover the outstanding loan amount.

ii) **Mortgage Insurance** - For mortgages with a loan-to-value (LTV) ratio of greater than 80% are often required to take up mortgage insurance. In the event of default, if the sale of the asset was not sufficient to cover the amount outstanding, then the mortgage insurance will cover the loss amount to the lender/issuer of the bond. The level of mortgage insurance in a RMBS will vary. Originators may also at times get insurance on the collateral pool.

iii) **Excess Income** - The interest payments received by the collateral pool may exceed the amount required to be paid to bondholders. The excess income can be used to assist with the liquidity and provide additional credit enhancement through reimbursing any losses experienced by bondholders. The Originators receive any excess income that remains (ie. it is their profit from the issue), thereby aligning the interests of the Originator with bondholders.

While these structural features provide some credit enhancement to the securities, in the event there is a significant increase in defaults or a significant drop in house prices, this may result in the Trust experiencing capital losses on its investments. To date, there has been no capital loss experienced by RMBS bondholders in Australia as a result of a combination of these features and the low historical delinquency rates experienced on residential mortgages.

Investment Structure



Product Leverage	
Used:	The Manager has the ability to borrow up to 25% of the Trust's NAV for a short period of time. The Manager does not intend to use debt to enhance returns.
Cost (incl. Fees):	na
Capital Protection	na
Tax	
Disclaimer:	***Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Independent Investment Research's expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice***.
Capital gains:	A capital gains tax (CGT) event will likely occur in the event the investor sells the shares on market for a higher price than it was purchased for. Investors will likely be eligible for the CGT discount if the shares are held for more than 12 months.
Dividends:	Dividends will likely be on income account in the year earned.
Legal Structure	
Wrapper:	Listed Investment Trust
Responsible Entity:	One Managed Investment Funds Limited
Investment Manager:	Gryphon Capital Investments Pty Ltd
Investor Leverage	
Available:	No
Risks	***The below is not a full list of all risks associated with the trust but highlights what IIR considers to be the more significant risks associated with the company. A detailed risk assessment can be obtained from the PDS.***
Manager Risk:	The performance of the Trust will depend largely on the ability of the Manager to invest in and manage a portfolio of ABS that meets the investment objective and target return.
Dilution Risk:	The RE may issue new units post listing. In the event new units are issued at a discount to NAV or the unit price, this will likely dilute existing unitholder positions.
Discount to NAV Risk:	As with all listed investments, the Trust may trade at a discount to the NAV, meaning unitholders may not able to realise the value of the investment. On the other hand, the Trust may also trade at a premium to NAV, which allows unitholders to capitalise on the fact that Trust is trading above market value.
Default/Credit Risk:	The Trust will invest in a portfolio of ABS, primarily RMBS. While default rates have been historically low for residential mortgages in Australia, in the event default rates rise significantly and/or house prices drop substantially, the portfolio may experience a loss of capital. The Manager will invest in non-investment grade bonds which carry a higher level of default risk than investment grade bonds.

6. MANAGEMENT & CORPORATE GOVERNANCE

RESPONSIBLE ENTITY BOARD OF DIRECTORS

One Managed Investment Funds Limited has been appointed as the Responsible Entity (RE) for the trust. The RE will perform self custody in respect of the Trust's assets. The role of the custodian is limited to holding the assets of the Trust. It has no supervisory role in relation to the operation of the Trust, however, is responsible for the issue of any new units.

Board of Directors		
Name	**Position**	**Experience**
Frank Tearle	Executive Director	Mr. Tearle is a co-founder of One Investment Group. Prior to founding the company, Mr. Tearle served in various roles at Allco Finance Group, including head of business transition and operations, managing director of the Hong Kong office, director in the corporate finance team and general counsel.
Elizabeth Reddy	Non-Executive Director	Ms. Reddy joined the board in 2009. Ms. Reddy has spent a number of years practising law at Herbert Smith Freehills and Atanaskovic Hartnell. Ms. Reddy specialises in advising on the Corporations Act, contractual disputes, M&A, equitable claims, trade practices and insolvency.

Board of Directors		
Name	**Position**	**Experience**
Justin Epstein	Executive Director	Mr. Epstein joined the board in 2009 and is a founding partner of One Investment Group. Prior to founding the company, Mr. Epstein was the investment director of LCJB Investment Group. Mr. Epstein has also worked in the corporate finance and restructuring division of Ernst and Young.

INVESTMENT MANAGER – GRYPHON CAPITAL INVESTMENTS PTY LTD

Gryphon Capital Investments Pty Ltd has been appointed as the Manager of the Trust's portfolio. The Manager was established in 2014 by Steven Fleming and Ashley Burtenshaw. The Manager has in excess of ~$1.7m FUM and currently manages a number of individually managed segregated accounts for institutional investors.

The portfolio will be managed by the two Portfolio Manager's, Steven Fleming and Ashley Burtenshaw, who form the Investment Committee. The Portfolio Manager's are responsible for the management of all of the investment strategies of the Manager. While the Manager was only established three years ago, the investment team have all worked together at Columbia Threadneedle Investments in the global ABS team before forming and joining the Manager. Steven Fleming and Ashley Burtenshaw were both responsible for managing Columbia Threadneedle's global (ex-US) ABS portfolios.

The Investment Management Agreement (IMA) is for an initial five year period and will be automatically extended unless the Manager is terminated prior. The Manager is seeking a waiver from the ASX for the initial IMA to be extended to a 10 year period. We note that the RE cannot terminate the Manager in the event of a change in the ownership of the Manager.

The Manager will be taking out a loan from the Trust to pay for the capital raising and listing costs. These costs are expected to be $3.5m-$10.3m depending on the amount of capital raised. The loan will be repaid over a 10 year period. The Manager will pay interest on the loan of 5%p.a.

Investment Team			
Name	**Position**	**Years with Manager**	**Experience**
Steven Fleming	CEO/Portfolio Manager	3	Mr. Fleming co-founded the Manager and is the CEO. Prior to founding the Manager, Mr. Fleming was the co-head of Columbia Threadneedle Investments Australia and was responsible for managing the global ABS portfolio's. Mr. Fleming has held several roles specialising in structured finance and securitisation throughout his 24 years in the industry, including co-head of Babcock and Brown Capital Markets Group, Director at Nomura and Associate Director at Nomura's Principal Finance Group.
Ashley Burtenshaw	CIO/Portfolio Manager	3	Mr. Burtenshaw is a co-founder and CIO of the Manager. Prior to founding the Manager, Mr. Burtenshaw was the co-head of Columbia Threadneedle Investments Australia and was responsible for managing the global ABS portfolio's. Mr. Burtenshaw has over 23 years experience in financial markets and has worked as a Director of Fixed Income at Credit Suisse First Boston and a Senior ABS Portfolio Manager at Babcock and Brown.
Shane Stanton	Portfolio Analyst	3	Mr. Stanton has been with the Manager since its establishment in 2014. Mr. Stanton has over 12 years experience in credit markets. Prior to joining the Manager, Mr. Stanton spent four years at Columbia Threadneedle Investments as a quantitative analyst in the ABS team. Mr. Stanton has also held positions at Barclays Capital and Allco Finance Group.
Sergey Podzorov	Portfolio Analyst	3	Mr. Podzorov has been with the Manager since its establishment in 2014. Mr. Podzorov has over 24 years experience in financial markets. Prior to joining the Manager, Mr. Podzorov spent five years with Columbia Threadneedle Investments as a database programmer in the ABS team. Mr. Podzorov also held system development positions at Babcock and Brown, CBA and Credit Suisse First Boston.

Investment Team			
Name	**Position**	**Years with Manager**	**Experience**
Michael Groom	Head of Operations	3	Mr. Groom has been with the Manager since its establishment in 2014. Mr. Groom has over 24 years experience in financial markets and prior to joining the Manager was the Australian Head of Operations at Columbia Threadneedle Investments. Mr. Groom has held key accounting and middle office positions specialising in equities, fixed income, structured products and infrastructure for a number of organisations.

7. INVESTMENT PROCESS

Investment Objective

The objective of the Trust is to provide a monthly income stream with a focus on capital preservation. The Manager seeks to achieve this through an investment in a diversified portfolio of ABS and RMBS, using its robust investment process and principles. The Manager is targeting a return on RBA Cash Rate + 3.5%p.a, net of fees and expenses.

Investment Process

- The Manager has a long-only, research driven, macro-aware investment process that incorporates both top-down and bottom-up analysis to construct portfolios. The Manager intends to hold the investment until maturity at the time of investment, however, will sell an investment prior to maturity if the Manager believes the capital could be deployed more effectively elsewhere.
- The Manager has a robust investment process which can be broken down into four key steps:

1) Idea Generation

The Manager has an extensive database that incorporates data on all bonds issued in Australia. The database incorporates detailed information on the underlying collateral on which the bonds are secured. The information is sourced from the Originator of the security and a security can only be invested in if this information is provided by the Originator. The database is updated regularly during the term of bonds. At December 2017, the Manager's database included details on in excess of 115,000 loans and over 1,100 Australian RMBS securities.

The data collected is overlaid with analysis regarding the macroeconomic environment to identify themes and potential investment opportunities.

The Investment Committee (IC) will meet weekly to evaluate the portfolio. The IC analyses the structure of the portfolio and its exposure to market risks, credit rating profile and collateral securing the investments using the database.

2) Security Selection & Research

After the IC has identified investment opportunities, the research team conduct a thorough credit analysis of the opportunity. This involves the research team obtaining the data file from the Originator, which contains a summary term sheet for the collateral of the security and loan data.

The detailed credit analysis includes:

- Credit Report - this report evaluates the individual bonds which make up the security, the parties to the transaction and identifies the risks of the bonds.
- Deal Modelling - a detailed model is constructed which includes an analysis of the investment protections, such as excess spread and level of mortgage insurance, and provides an analysis of the likelihood of a possible rating downgrade/upgrade of the bonds.
- Security Analysis - this analysis involves a detailed analysis of the collateral underlying the security to determine the risk of the collateral pool.

Once the credit analysis is complete, the research team stress test the security given the occurrence of certain events. For example, the security will tested against a significant decline in national house prices to project a worst case loss scenario. In order for the IC to proceed to execution phase of the investment process, the strength and size of the protections must satisfy a multiple of 'worst case' loss scenarios.

3) Portfolio Construction

The portfolio will primarily invest in RMBS, however, up to 10% can be allocated to cash and up to 30% of the portfolio allocated to ABS. The Manager expects it will take three to six months to fully invest the portfolio. As such, the target return may not be reached in the first year of operation.

Portfolio Allocation		
Authorised Investment	**Allocation Requirements**	**Indicative Portfolio**
RMBS	70%-100%	85%
ABS	0%-30%	13%
Cash	0%-10%	2%

The IC constructs the portfolio based on the analysis completed by the research team. The Manager will seek to deliver the optimal portfolio for the agreed risk parameters.

There are a number of investment limitations that the Manager is required to adhere to. The investment limitations are intended to manage the level of risk in the portfolio. The investment restrictions include:

- At least 50% of the portfolio is to be invested in assets with an investment grade rating;
- A maximum investment of 10% of the portfolio value in a single security; and
- No more than 25% of the portfolio exposed to any one originator.
- The weighted average life of the bonds must be below 5.5 years.

4) Portfolio Management

The Manager will monitor the portfolio and regularly review the loans in the collateral pool for a security. This provides dynamic reporting for each loan in a security. The Manager tracks the performance of delinquent loans over time which allows the Manager to determine if the collateral pool is deteriorating or if borrowers are improving the position.

The monitoring involves in-depth risk reporting on securities in the portfolio and provides a projection for the likelihood and any rating downgrade or upgrade. The Manager also regularly reports on the excess spread to determine the safety margin that exists before bondholders will incur a loss.

8. PERFORMANCE ANALYTICS

SUMMARY OF ANALYTICAL RESULTS

The Trust is a newly established vehicle and as such there is no performance history for the Trust. We have provided the performance of the Investment Grade and Secured Opportunities strategies below, to provide an indication of the ability of the Manager to achieve the stated objectives of the Trust. All returns below are provided on a net basis, after fees and expenses. We note that the fees for the two strategies are lower than the fees for the Trust and therefore under the Trust structure the returns would have been different. The key findings include:

- The Secured Opportunities strategy commenced in April 2015 and the Investment Grade strategy commenced in September 2016. The Investment Grade strategy can only invest in securities rated BBB- or higher. The Secured Opportunities strategy has no security credit rating requirements.
- The target return for the Secured Opportunities strategy is 5.0% above the benchmark (Bloomberg AusBond Bank Bill Index). The strategy has achieved its objective over the two full calendar years of investment, outperforming the benchmark by 5.75% and 5.90% in 2016 and 2017, respectively. The Secured Opportunities strategy has experienced 3 months of negative returns to 31 December 2017, since its inception.
- The target return for the Investment Grade strategy is 2.7% above the benchmark (Bloomberg AusBond Bank Bill Index). The strategy has only been operating for one full calendar year and as such has very limited performance history. To 31 December 2017, the strategy has had 0 negative months and has achieved its target objective, outperforming the benchmark by 3.59% in 2017.
- For both strategies the large majority of returns have been generated from income with a small portion of returns attributable to unrealised and realised capital gains.

- We note that the two strategies have limited performance history and have been established during periods of historically low interest rates and we are yet to see the performance of the funds through a full credit cycle.

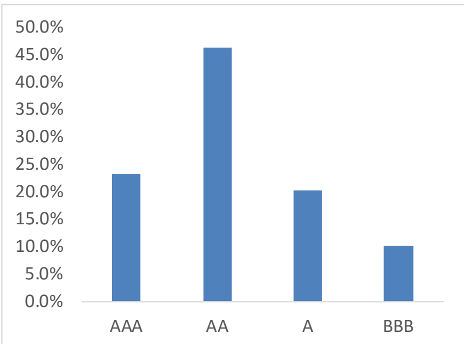
Performance History

- The Manager currently operates two strategies that can invest in the securities that are intended to make up the portfolio for the Trust - the Investment Grade and Secured Opportunities strategies. As will be the case with the Trust, these portfolios are largely invested in RMBS. The Investment Grade strategy can invest in ABS with a rating of BBB- and above. The Secured Opportunities strategy can invest in both investment grade and non-investment grade securities.
- There are a few differences between the portfolios of the two strategies and the investment mandate of the Trust: (1) There is no monthly distribution requirement for the two strategies; and (2) the target returns differ - the Investment Grade strategy has a target return of 2.7% above the benchmark and 5% above the benchmark for the Secured Opportunities strategy. The benchmark being the (Bloomberg AusBond Bank Bill Index).
- The Manager has achieved the target return objectives for the two strategies in the full calendar years of operation, as shown below. The large percentage of returns for both strategies can be attributed to income returns.
- The below charts show the portfolio composition of the two strategies with respect to the security weightings by credit rating. As at 31 December 2017, the Investment Grade strategy was largely allocated to AA rated securities with 45% of the portfolio allocated to securities with this credit rating. The construction of the portfolio at December-end is very different to the quarterly average allocation. On average, this strategy has had 45% allocated to AAA rated securities.
- The Secured Opportunities portfolio composition is vastly different from the Investment Grade strategy. At 31 December 2017, 53.9% of the portfolio was allocated to investment grade securities. This is below the quarterly average of 68.4%. This is largely due to an increased allocation to not rated securities. At December-end the weighting of not rated securities was 29.8%, this is well above the average of 17.7% since inception.

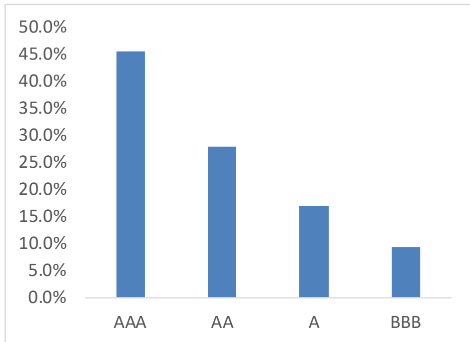
Portfolio Composition of Existing Strategies

Investment Grade Strategy

As at 31 December 2017

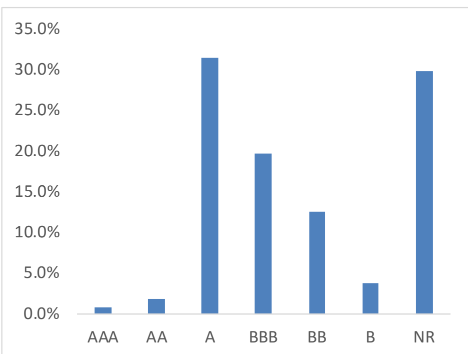


Average since establishment to 31 December 2017

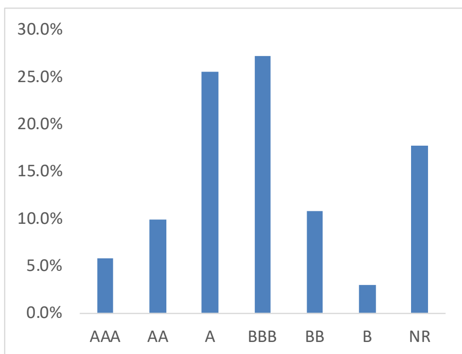


Secured Opportunities Strategy

As at 31 December 2017



Average since Establishment to 31 December 2017



- In addition to the target return objectives, the Manager has a focus on capital preservation with a key goal of the Manager being not to experience any capital loss. The Manager has experienced 0 negative monthly returns in the Investment Grade strategy and 3 negative months in the Secured Opportunities strategy. The negative returns were a result of mark-to-market unrealised capital losses. While the portfolio will focus on delivering income returns the portfolio invests in tradable securities and as such may experience capital loss or gain.
- The loan-to-value ratio at 31 December 2017 for the Investment Grade strategy was 64.1% and 62.3% for the Secured Opportunities strategy.

Historical Net Returns to 31 December 2017				
	Investment Grade Strategy	**Benchmark**	**Out/Under performance of Benchmark**	**Percentage of Income Return**
Inception Date	September 2016			
Calendar Year Returns:				
2016 - From September	1.68%	0.51%	+1.16%	68.3%
2017	5.41%	1.75%	+3.59%	76.3%
Volatility p.a	0.63%	0.06%		
Number of negative months	0 out of 16			
	Secured Opportunities Strategy	**Benchmark**	**Out/Under performance of Benchmark**	
Inception Date	April 2015			
Calendar Year Returns:				
2015 - from April	3.37%	1.55%	+1.79%	79.3%
2016	7.94%	2.07%	+5.75%	74.2%
2017	7.76%	1.75%	+5.90%	80.5%
Volatility p.a	1.54%	0.09%		
Number of negative months	3 out of 33			

- One of the objectives of the Manager is to provide uncorrelated returns to equities. As such we have looked at the performance of the two strategies compared to the performance of the S&P/ASX 200 Accumulation Index. The Manager has largely achieved this with the two strategies, with the a correlation of -0.17 and 0.25 for the Secured Opportunities and the Investment Grade strategy, respectively, against the ASX 200 Accumulation Index.

Peer Comparison

- The Trust is will be the only LIC or LIT on the ASX that provides direct exposure to a portfolio of ABS and RMBS. Given the profile of the underlying investments we have compared the income return of floating rate bank issued hybrids issued over the last 12-months to provide a comparison on the income return expectations.
- In addition to the structural differences, the risk profiles of the Trust versus hybrids is different. The Trust will be investing in secured bonds, while hybrids are unsecured securities and hybrids are exposed to the credit risk of the issuer compared to the Trust which will be directly exposed to the credit risk of the collateral pool.
- The hybrids below all have a face value of $100 and have a floating rate coupon based on the 90 day BBSW. As at 22 February 2018, the 90 day BBSW rate was 1.765%. The coupon rates ranged from 2.2% and 3.9% above the 90 day BBSW.
- As with the Trust, the hybrid securities trade on the ASX and may trade at a premium or discount to the face value. As at 23 February 2018, all the hybrid securities were trading above the face value of the security. This means that investors are prepared to pay a premium for the regular coupon payment.
- The target interest rate of the Trust is slightly below the coupon rate of hybrid securities, reflecting an additional margin for the unsecuritised nature of the hybrid securities.

Peer Comparison

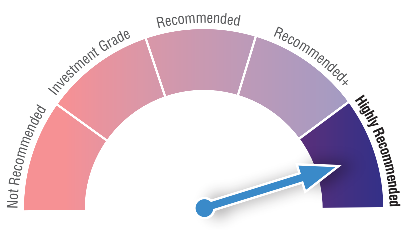
Issuer	ASX Code	S&P Credit Rating of Issuer	Face Value	Market Price (as at 23 February 2018)	Coupon
Australia and New Zealand Banking Group	ANZPH	AA-	$100	$102.85	90 day BBSW + 3.8%
Bendigo & Adelaide Bank	BENPG	BBB+	$100	$102.20	90 Day BBSW + 3.75%
Bank of Queensland	BOQPE	BBB+	$100	$101.23	90 Day BBSW + 3.75%
Commonwealth Bank of Australia	CBAPF	AA-	$100	$103.20	90 day BBSW + 3.9%
National Australia Bank	NABPE	AA-	$100	$104.04	90 day BBSW + 2.2%
Gryphon Capital Income Trust	GCI	na	na	na	RBA Cast Rate + 3.5%

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

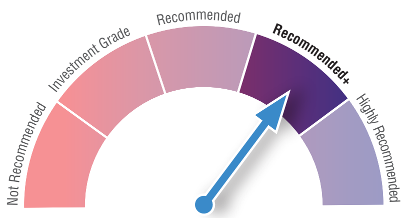
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**



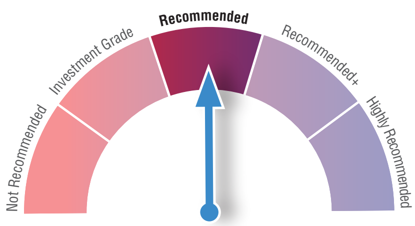
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.

Recommended +	**79–83**



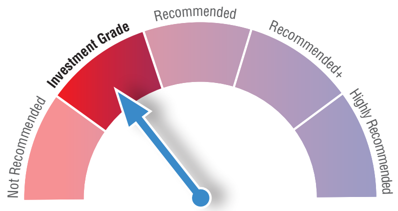
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.

Recommended	**70–79**



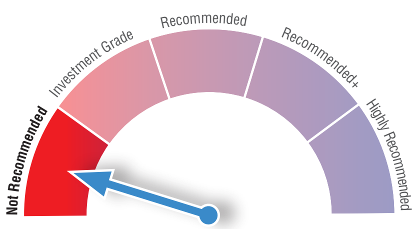
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

Investment Grade	**60-70**



This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.

Not Recommended	**<60**

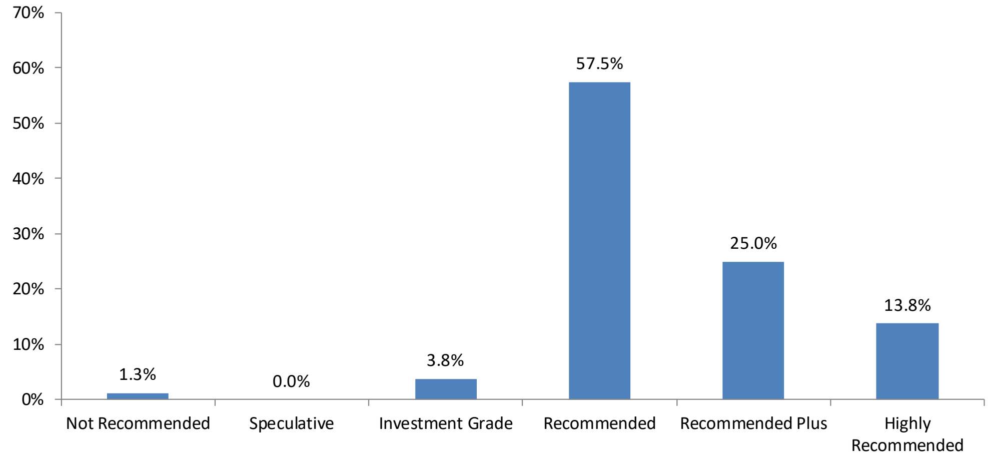


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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For further information, please contact IIR at: client.services@independentresearch.com.au

Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE
Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE
Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE
1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE
200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS
PO Box H297 Australia Square
NSW 1215