

## GYROSTAT CAPITAL STABILITY INCOME FUND

28 FEBRUARY 2017

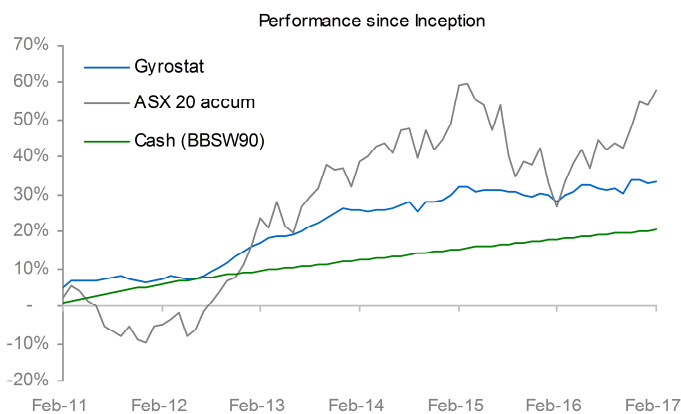
### Stable and rising returns with regular income

### 'Shares for income' with capital stability

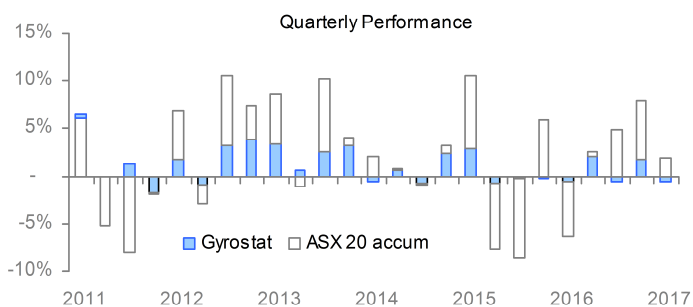
The missing link in today's market is a long term dividend product where there are some underlying protections against market risk. We are a risk managed equity fund ("protected equity"). We buy and hold ASX20 blue chip high yielding shares and insure downside at the stock specific level with lowest cost alternatives on the ASX. We have a **six year track record** of delivering stable and rising returns with regular income. Our **innovative risk management approach has at all times a risk-return profile to participate in share price upside with minimal capital at risk** ("hockey stick" payoff). Our strategy **benefits** from increasing stock market **volatility**.

#### Investment Objectives

- **Returns with protection:** 60-70% ASX 20 accum index upside over rolling 3 year period with no quarterly downside exceeds 2%
- **Income:** Minimum **cash rate + 3%** paid semi-annually (currently 4.7% p.a.) from dividends and franking credits
- 6 year track record of delivering our investment objectives.



Gyrostat compounded returns are net of fees and include franking credits, cash (BBSW90) includes re-investment of interest.



ASX 20 accum index is shown to illustrate the fund's protection with ASX falls, and participation in ASX gains

Further details can be found in our Information Memorandum

Portfolio Inception	December 2010
Minimum Investment	AUD 50,000
Management Fee	1% per annum
Performance Fee	15% of excess return
Hurdle Rate	BBSW 90 + 3%
High Water Mark	quarterly
Distribution (paid semi-annual)	≥ BBSW 90 + 3%
Access	Wholesale Investors

2 distinct investment cycles since inception:

Period	Conditions	Gyrostat
Dec10 – Mar15	Annual returns ranged from 5.5% pa to 7.9% pa	+ 32%
Apr15 – Feb17	ASX20 accumulation index -1% returns with falls and rises	+ 2%

Performance	Total Return			Max Down
	Gyrostat	BBSW90	ASX 20 accum index	
1 Month	0.3%	0.1%	2.4%	-1.7%
3 Months	-0.5%	0.4%	6.4%	-3.6%
1 Year	4.0%	2.0%	24.6%	-7.3%
3 Years	1.7%	2.3%	4.5%	-22.7%
5 Years	4.5%	2.7%	11.4%	-22.7%
Inception	4.7%	3.0%	7.6%	-22.7%

\* total return is compound annual growth rate as defined by Financial Services Council

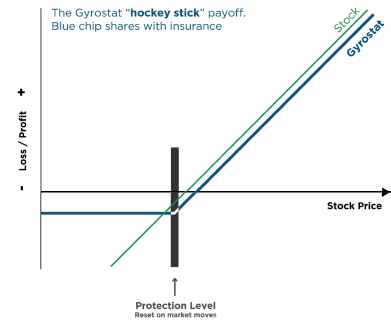
† maximum drawdown is the maximum loss from a peak to a trough during the period. Gyrostat maximum drawdown since inception is -3%.

#### Commentary

- The Fund NAV at the end of February was **\$0.86420**.
- Since our inception we have captured 64% of the ASX20 accumulation index upside with no quarterly downside ever exceeding 2%. Our objective is to capture 60-70% upside over a rolling 3 year period, with minimal capital at risk at all times and no quarterly downside exceeding 2%. We have a 6 year track record of delivering our investment objectives.
- Since mid November 2016 volatility has been at our near historical low levels. During 2017 we anticipate rising levels of stock market volatility from geopolitical developments and changes to macro economic policies. Growth asset valuations are 'high' by historical standards and have been rising for over 7 1/2 years without a significant correction. With global debt at historical levels these are dangerous times for traditional investment approaches. Increasing levels of stock market volatility provides the opportunity to lower the costs of protection.

## Risk managed funds 3 step approach:

1. Buy and hold blue chip shares with protection on the Australian Stock Exchange
2. The amount of protection is set to always participate in the upside with minimal capital at risk.
3. On market moves we re-set the protection level. If the share price rises, we buy more to 'lock in' the gains, on falls we sell some that is no longer required.

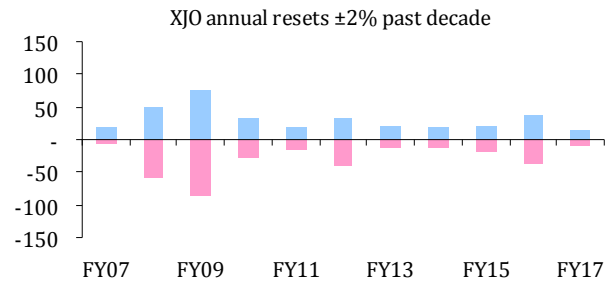
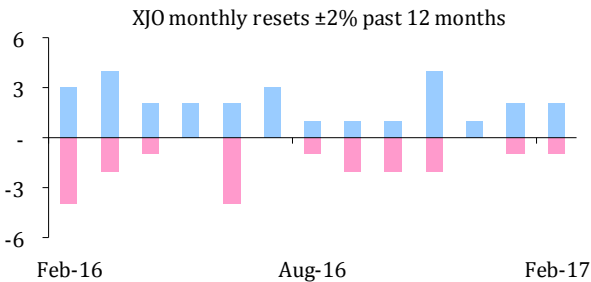


## Key drivers – Gyrostat investment performance

The key drivers of investment performance for Gyrostat are:

- Upside price movement and gaps on open
- Franking credits
- Market volatility - prefer more volatile market conditions
- Changes in the price of protection (“implied volatility”)
- “One off” large stock falls beneficial

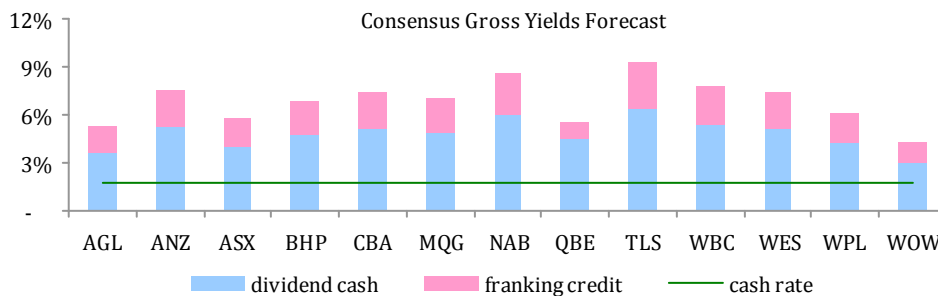
The current market conditions (past 12 months) and historical context are shown in the graphs below. The number of ‘blue’ upside re-sets, and upside gaps on open is a key driver of investment performance.



The price of protection (“implied volatility”) is currently near historical lows.



Consensus dividend yield and franking credits investment universe



## Fund positioning – Why Gyrostat?

### The challenge – ‘shares for income’ with capital stability

The missing link in today’s market is a long term dividend product where there are some underlying protections against market risk. This would address the natural aversion to share market volatility and its impact of investment capital. The major beneficiaries of such a product are conservative investors including pre and post retirees (to address sequencing risk), industry associations, philanthropic and charities, individuals and family offices (for intergenerational wealth transfer.) Blending traditional ‘income’ and ‘growth’ assets has produced a painful dilemma for conservative investment planning - “income” assets such as cash, term deposits and short term bonds provide insufficient income with no prospect for any capital growth. “Growth” assets, investing directly in blue chip high yielding shares, or equity funds, leave investors exposed to fluctuations in the value of invested capital.

With this view, there is a need to **expand the range of ‘income’ and ‘growth’ assets to include risk managed equity funds.**

### Our solution – stable and rising returns with regular income

A ‘risk managed equity fund’ is an innovative risk management technique with protection always in place provides a solution for investors sensitive to capital losses (sequencing risk), and desiring to grow investment capital (longevity risk). The risk return profile of an equity portfolio is managed by using ASX options. Traditionally protecting your portfolio was expensive. Gyrostat has overcome this issue by actively managing ASX options, utilising proprietary software and taking advantage of reduced broker costs due to deregulation. We are always fully invested in blue chip high yielding shares and insure downside with lowest cost alternatives on the ASX. Gyrostat’s unique offering is the ability to have a “**hockey stick**” risk-return profile at all times, participating in share price upside with minimal capital at risk.

### Recent articles

SMSF Association innovative retirement income products:

<http://trustees.smsfassociation.com/wp-content/uploads/2016/07/Innovative-retirement-income-products.pdf>

FS Super: The Journal of Superannuation Management:

<http://www.fssuper.com.au/comments/88279872>

Fairfax media: Retirement Planning

<http://www.theage.com.au/money/investing/end-of-sevenyear-rule-brings-a-new-ball-game-for-retirees-20150716-gidojh.html>



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