

GYROSTAT CAPITAL STABILITY INCOME FUND

30 APRIL 2017

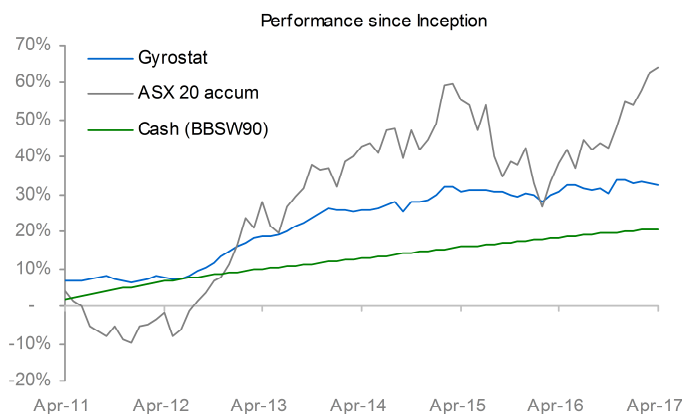
Stable and rising returns with regular income

Protection always with upside return potential

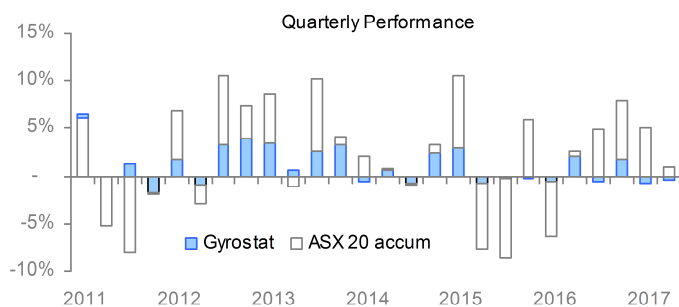
The gap in today's market for **conservative investors** is a fund offering **protection always in place** with **absolute returns through the investment cycle** (capital growth in trending and more volatile markets including large market falls). We buy and hold ASX20 blue chip high yielding shares and at all times protect downside at the stock specific level with lowest cost alternatives on the ASX. Our clients are conservative investors including pre or post retirees (sequencing risk), industry associations and individual/family offices (intergenerational wealth transfer.) We are used in place of short term bonds as our distinctive risk management approach re-sets the protection level with market moves to always have minimal capital at risk at the stock specific level and **upside return potential**.

Investment Objectives

- **Returns:** 6% - 8% pa in trending markets, greater than 8% pa in volatile markets, short term bond returns in stable markets
- **Income:** Minimum **cash rate + 3%** paid semi-annually (currently 4.7% p.a.) from dividends and franking credits
- **Protection:** No quarterly NAV draw-downs exceeding 2%



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 – Apr17	ASX20 accumulation index -1% returns with falls and rises	+ 2%

Performance	Total Return			Max Down
	Gyrostat	BBSW90	ASX 20 accum index	
1 Month	-0.4%	0.1%	0.9%	-2.4%
3 Months	-0.2%	0.4%	6.5%	-2.5%
1 Year	1.4%	1.9%	18.5%	-7.3%
3 Years	1.8%	2.3%	5.3%	-22.7%
5 Years	4.1%	2.5%	11.0%	-22.7%
Inception	4.5%	3.0%	8.1%	-22.7%

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

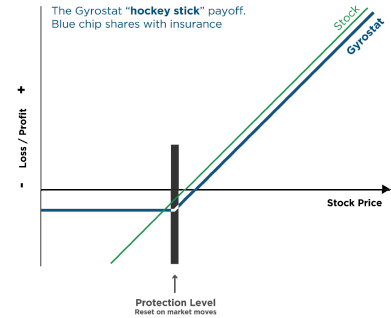
† maximum drawdown is the maximum loss from a peak to a trough during the period. Gyrostat maximum drawdown since inception is -3%.

Commentary

- The Fund NAV at the end of March was **\$0.85964**.
- Throughout the investment cycle the market conditions can be trending, stable or volatile. Our expected returns vary with the stage of the investment cycle. Our distinctive risk management approach with **protection always in place and upside return potential** prefers trending and volatile markets as this provides the opportunity to re-set protection levels and lowers the costs.
- In recent years volatility has been at our near historical low levels (with short spikes from China fears, Brexit, US election result). During 2017 we anticipate rising stock market volatility from geopolitical developments and changes to macro economic policies. Our monthly report Gyration details the investment landscape (in pictures) with dates of key upcoming data releases. The Gyration risk model considers the implications of geopolitical, macroeconomic and company valuations on investor risk, with our views incorporated into our investment processes.

Gyrostat investment approach:

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

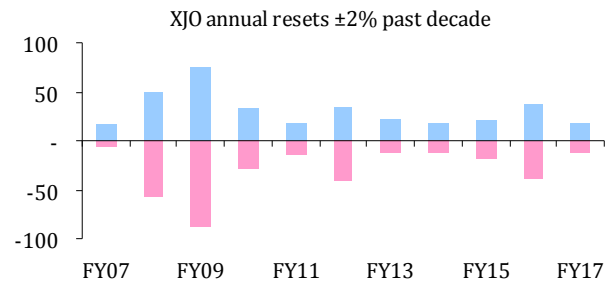
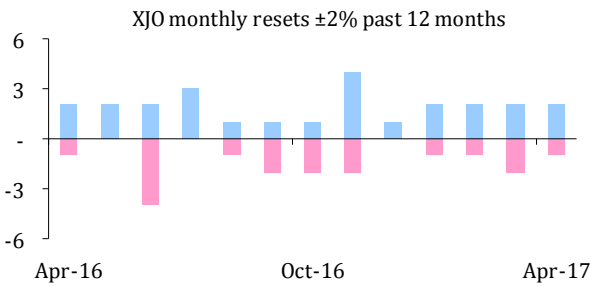


Key drivers – Gyrostat investment performance

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

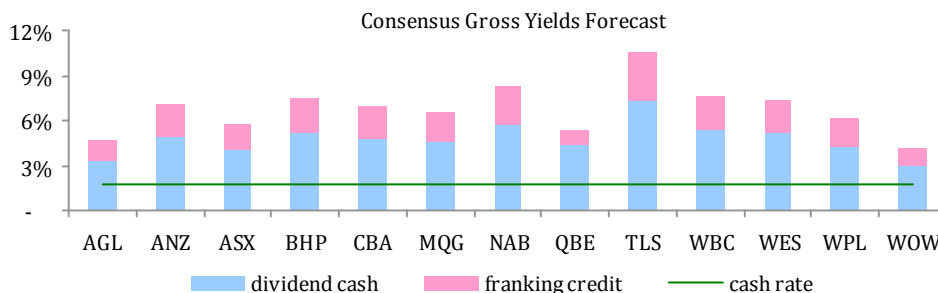
The current market conditions (past 12 months) and historical context are shown in the graphs below. The number of ‘blue’ upside resets, and upside gaps on open is a key driver of investment performance.



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 – the evolution of risk management approaches for conservative investors

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 shares, or equity funds, leave investors exposed to fluctuations in the value of invested capital.

To address this dilemma, there are now a **variety of risk management approaches** used by asset managers and investors. These include diversification of stocks, asset allocation, ‘stop loss’, and ‘predictive techniques’ use of derivatives such as ‘futures’ and ‘options’ with protection sometimes in place. These approaches typically benchmark performance against an equity index such as the ASX accumulation index as they are subject to downside ‘tail risk’ and prediction risk. These are considered an alternative ‘growth’ asset with fluctuations experienced in the value of investment capital (both up and down).

Our solution – stable and rising absolute returns with regular income

In contrast, our risk management approach has **protection always in place** with **absolute returns through the investment cycle**. With protection always in place we are considered an alternative to short term bonds and benchmarked against the BBSW90. Our expected returns vary with the stage of the investment cycle and prefer trending and volatile markets as this provides the opportunity to re-set protection levels and lowers the costs.

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.

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>

Gyrations: Insights into risk management of an equity portfolio for conservative investors

<http://www.gyrostat.com.au/news/>



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This information is limited to information about the Fund, is general advice only and does not take into account your particular circumstances, your personal investment or financial planning objectives, your investment knowledge, needs and requirements, including taxation implications that may result from investing in the Fund.

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Investors should download and review the Information Memorandum available at www.gyrostat.com.au before making an investment in the Fund.