

**ABSOLUTE RETURN INCOME EQUITY FUND**

**30 Jun 2020**

APIR code: GYC6212AU

**Retiree income risk managed to protect and grow capital – ‘highly defensive’ - track record of returns increasing with volatility**

The Fund is designed for retiree income, risk managed to protect and grow capital. Addresses sequencing risk (the risk of major market falls). The distinctive features are ‘hard’ protection always in place and a track record of returns increasing with market volatility.

Gyrostat has operated for 39 consecutive quarters within a ‘hard’ pre-defined risk parameter which is always in place (**maximum draw-down since inception being 2.2%**), delivering regular income by passing through ASX-20 dividends, and meeting returns guidance based upon market conditions (demonstrating increasing returns with market volatility). The Fund buys and holds ASX-20 and international assets with **lowest cost protection always in place** with upside. It is a ‘highly - defensive’ **conservative** asset. Further background is provided in our recent Inside Network interview:

<http://www.gyrostat.com.au/news/inside-network-interview/>

**Fund performance – Total Return**

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
Fund net	1.59	0.63	9.91	12.45	6.87	4.39	5.20
RBA cash rate	0.03	0.08	0.31	0.86	1.55	1.75	2.52

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

**Investment Objectives**

- **Returns:** 6% - 8% pa in trending markets, greater than 8% pa in volatile markets, BBSW + 3% in stable markets
- **Income:** Minimum **cash rate + 3%** paid quarterly (FY20 5.8% p.a.) from dividends and franking credits
- **Protection:** No quarterly NAV draw-downs exceeding 3%. Also includes a ‘tail hedge’ for gains on large market falls

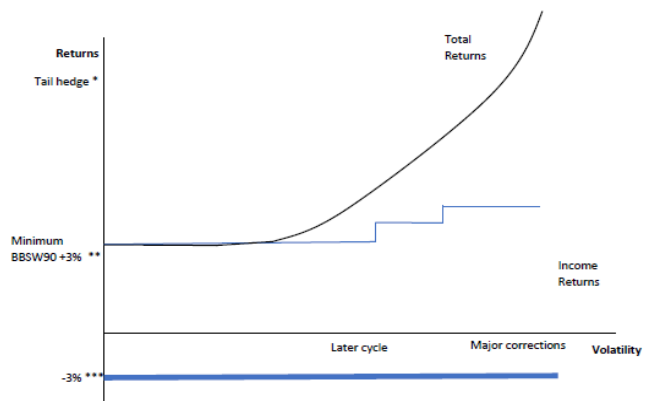
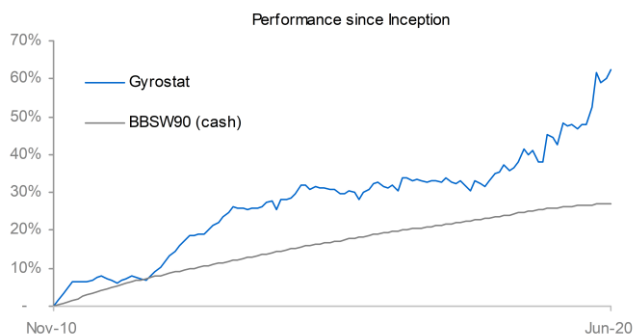
Further details can be found in our Information Memorandum

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

**Fund performance – Return by Month**

FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
2020	-1.30	3.97	-0.45	0.12	-0.78	0.80	-0.11	3.27	5.88	-1.70	0.77	1.59	12.45
2019	0.19	1.54	-1.07	0.39	1.14	2.60	-1.06	0.63	-2.07	-0.09	5.29	-0.42	7.09
2018	-0.38	0.75	-0.71	-0.37	0.52	-1.11	-0.84	2.18	-0.75	-0.43	0.97	1.56	1.35
2017	-0.70	-0.31	0.38	-1.20	2.85	0.06	-0.84	0.29	-0.12	-0.41	0.36	0.09	0.41
2016	-0.05	-0.21	0.01	-0.79	-0.12	0.73	-0.44	-1.41	1.38	0.63	1.32	0.15	1.16
2015	0.71	0.59	-2.07	2.25	-0.11	0.33	1.06	1.74	0.03	-0.80	0.33	-0.22	3.82
2014	0.84	0.84	0.84	1.08	1.08	1.08	-0.19	-0.19	-0.19	0.21	0.21	0.21	5.96
2013	1.04	1.04	1.04	1.26	1.26	1.26	1.11	1.11	1.11	0.21	0.21	0.21	11.41
2012	0.43	0.43	0.43	-0.55	-0.55	-0.55	0.58	0.58	0.58	-0.31	-0.31	-0.31	0.44
2011	-	-	-	-	-	1.59	1.59	1.59	1.59	0.00	0.00	0.00	6.54

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



\* Tail hedge always in place for large gains on large market falls  
 \*\* Funded by pass through of ASX20 dividends  
 \*\*\* Hard risk parameter, no quarterly capital drawdowns exceed 3%

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

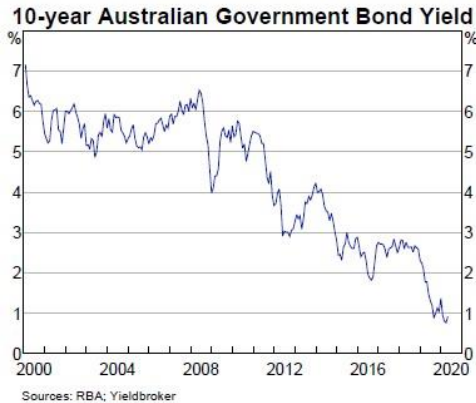
**Commentary**

- The Fund NAV at 30 Jun was \$0.91096, a distribution was declared of \$0.03131 with a post distribution NAV of \$0.87965. Returns increased consistent with our guidance for trending markets.
- The market conditions in June enabled us to enter additional positions for more elevated returns on any uplift in market volatility. Our investment Strategy allows up to 15% of the Fund’s assets to be invested in international assets with positions in SP500, Nasdaq, Hang Seng, MSCI Developed and Emerging markets (amongst others). We anticipate returns in all market environments of at least BBSW 90 + 3% (enabling investors to receive income and capital growth.) with ‘left’ tail in case of large market falls.
- We anticipate increasing levels of ‘late cycle’ market volatility with geopolitical, historically high debt levels, and valuations elevated.

**Why Gyrostat? Increasing income and returns from your 'highly defensive' assets.**

The unexpected happens. Gyrostat is a highly defensive non correlated asset to fortify your portfolio in an uncertain world

Generate higher income from your 'highly defensive' assets.



10 year bond rates are at historical lows, and expected to stay low for the next decade.

<https://www.bloomberg.com/markets/rates-bonds>

The Australian Government 30 year bond is priced at 1.775% (May 11, 2020).

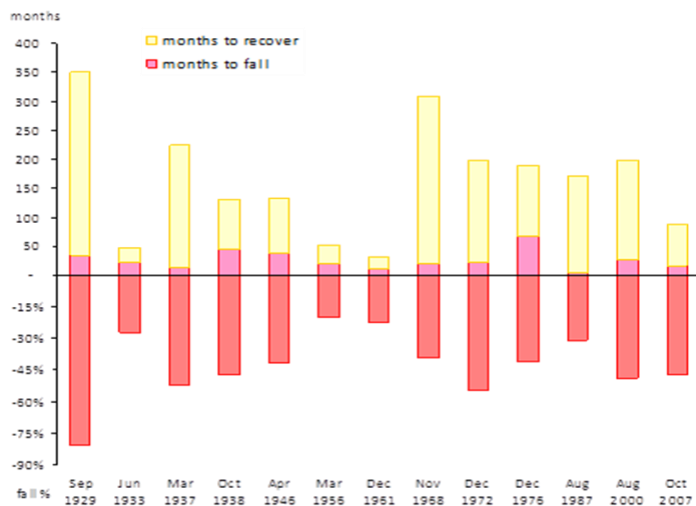
<http://www.worldgovernmentbonds.com/country/australia/>

Increasing income and returns from your 'highly defensive' assets.

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

**Avoid regret – hold non correlated assets in your portfolio**

**SP500 index: 90 year historic chart. Peak to trough falls > 20, duration of falls, time to recover**



Major Corrections are a regular and hazardous feature of the market cycle. Predicting the future in an uncertain world can threaten your future when predictions are wrong

An approach that has been well recognised to work for all market conditions is to construct a portfolio with diversified non-correlated assets

The graph shows the extent of falls from peak to trough, the duration of the fall, and time taken to recover to pre fall. Most corrections occur within 8 years, now at year 13, longest on record is 13 years.

There are 8 instances of market corrections exceeding 40% within a 6-12 month timeframe.

**Base rate: Stock market will re-test previous falls**

Market	High 19 Feb 2020	50% decline level	Market 16 June 2020	50% fall peak to trough scenario	March 23, 2020 lows	Re-test falls
SP500	3386	1693	3124	-46%	2237	-28%
Nasdaq	9817	4808	9895 *	-51%	6860	-31%
ASX200	7163	3581	5942	-40%	4546	-23%
Hang Seng	29056 *20 Jan	14528	24344	-40%	21696	-11%

\* Nasdaq has exceeded 19 February 2020 previous high

*How to deal with uncertainty? Base rate*

In a world of such uncertainty, Kahneman and Tversky suggest that you start with a 'base' rate.

**The base rate is that stock markets will re-test previous falls. "... in 19 of 19 post-war instances of a 15% uninterrupted decline (excluding the current one), the stock market ended up re-testing the waterfall low in some fashion. Basically, markets tend to rally after "waterfall" declines. Until recently, test case #20 (Q4 2018) was the outlier. That low has now been re-tested."**

<http://www.gyrostat.com.au/news/feature-article-portfolio-structure-and-uncertainty/>

**Platforms**

**Mason Stevens**

**Netwealth**

**Powerwrap**

**Disclaimer**

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