

SEPTEMBER 2020 QUARTERLY UPDATE

Manage uncertainty through portfolio construction

We are experiencing the most uncertain environment since the 1930's. Whilst no one can predict the outcomes in these highly uncertain times, you can plan for all eventualities. This is possible through portfolio construction.

Our objective is to be that defensive piece of your portfolio that reliably increases in value on large markets falls, whilst providing a regular income and returns through the complete investment cycle (given zero bound interest rates most defensive liquid assets generate very low income so there's no opportunity cost to add these features).

Major market falls are a regular and hazardous feature of the investment cycle. Most corrections of > 30-50% occur within 6-12 months and typically within an 8 years cycle. We are now at year 13 which is the longest since 1929.

We don't focus on catalysts, we consider the general environment - historically high debt levels, evaluated valuations, and geopolitical uncertainty, along with Covid-19.

Above all else, our objective is to enable you to preserve your lifestyle when the inevitable large market sell-offs do come. Whilst we performed well during February and March we think we can do better, particularly as many of our investors either have or intend to have around 10% – 20% of their defensive portfolio with Gyrostat.

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| 1 Feb 2020 to 31 March 2020: ASX – 26.8% , Gyrostat + 9.1% , Cash +0.02% |
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We have made the following product refinements within our pre-defined parameters:

- additional protection always to 'protect and benefit' on major market falls
- protection also applied to international markets (particularly SP500, Nasdaq QQQ) given the increasing 'long only' exposures in many portfolios

The consequence of these changes is that there will be more variability in month to month net asset value with higher returns in more volatile markets. For instance, during the July to September period volatility levels were low by historic standards – the ASX200 was in a very narrow range. Our September edition of Gyration – risk managed investing page 9 provides more details – volatility by the numbers.

<http://www.gyrostat.com.au/news/gyrations-sep-2020/>

Our 12 month return to 30 September was + 7.2% pa where the ASX accumulation index fell – 10.2% pa, an outperformance of + 17.4%. Our quarterly return was – 2.62% in accordance with our guidance of no quarterly capital draw-down losses to exceed 3.0%. We have achieved this objective for 40 consecutive quarters since in our inception in 2010.

When explaining portfolio construction to your children or grandchildren children, we consider it **analogous to The Three Little Pigs** – is your portfolio built of straw, wood, or bricks!?

A more detailed explanation of our role in portfolio construction, including industry comparisons of other risk management approaches, is available at:

<http://www.gyrostat.com.au/news/gyrostat-corporate-presentation-at-30-september-2020/>

What are the capital loss exposures embedded in your portfolio when the inevitable large correction happens? This is relatively easy to check – how did your portfolio perform 1 February to 31 March 2020?

Portfolio design - master uncertainty

The times are a changin' with interest rates low,
With late cycle markets risks continue to grow,

Diversify, diversify the cries they are loud,
But how to diversify with no income from cash?
Yet move it to shares and there could be a crash,
And dividends in future could further be slashed.

Add non correlated assets and all shall be well,
It goes up when markets fall when they ring the bell,
With regular quarterly income even if dividends are cut,
And protection always for when the going gets rough

When markets wash out, Gyrostat walks in
Uncertainty is our friend

The Fund net asset value at 30 September was \$0.85663, a distribution was declared of \$ 0.00714 with a post distribution net asset value of \$ 0.84949. In response to investor demand we now pay quarterly distributions at a minimum of cash rate + 3% which will either be paid into your nominated account or additional re-investment of units depending upon your preference.

Please find attached your personalized statement. If at any stage you wish to discuss your investment with me please don't hesitate to contact me.

Kind regards



Craig Racine

Chief Investment Officer

ABSOLUTE RETURN INCOME EQUITY FUND

30 September 2020

APIR code: GYC6212AU

Retiree income risk managed to protect and grow capital – ‘highly defensive’ manage uncertainty through portfolio design

Gyrostat complements existing portfolios as a defensive allocation to reduce portfolio risk, increase income, and increase returns. Funds invested reliably increase in value on market falls with the extra protection always in place whilst providing higher income.

Gyrostat has operated for 40 consecutive quarters within a 'hard' pre-defined risk parameter always in place, delivering regular income by passing through ASX-20 dividends and profits from risk management overlay, 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 | 0.73 | -2.62 | -2.00 | 7.20 | 6.05 | 3.89 | 4.78 |
| RBA cash rate | 0.01 | 0.03 | 0.11 | 0.58 | 1.42 | 1.64 | 2.46 |

* 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 risk management profits
- **Protection:** No quarterly NAV draw-down exceeding 3%
Also includes a 'tail hedge' for gains on large market falls

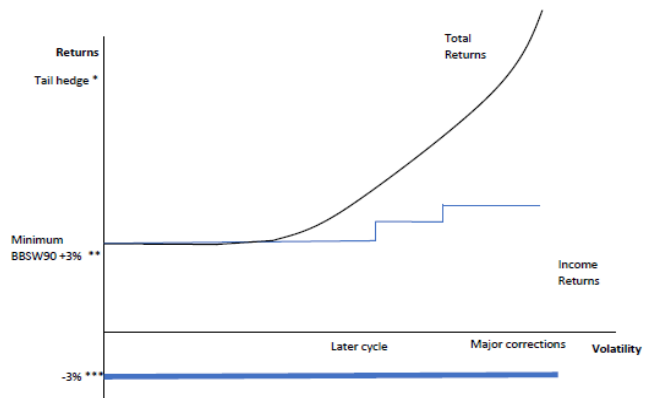
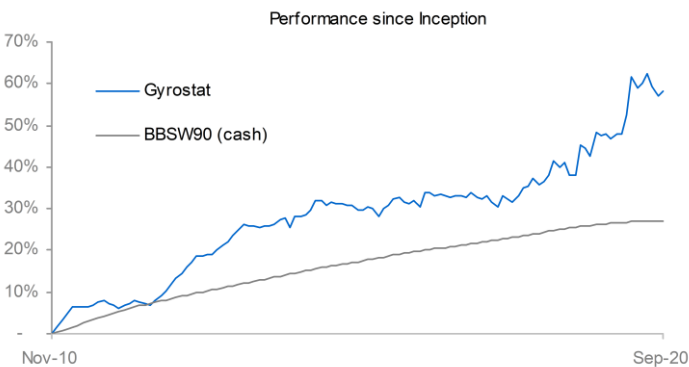
Further details can be found in our Information Memorandum

| | |
|-------------------------------|----------------------|
| 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 quarterly) | ≥ BBSW 90 + 3% |

Fund performance – Return by Month

| FY | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Total |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 2021 | -2.07 | -1.27 | 0.73 | | | | | | | | | | -2.62 |
| 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 ** Highest returns on large market falls and rallies (low correlation with market)



* 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 September was \$0.85663, a distribution was declared of \$0.00714 with a post distribution NAV of \$0.84949.
- The market conditions in September enabled us to enter 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? Manage uncertainty through portfolio construction

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

Manage uncertainty through portfolio construction

Gyrostat is a highly defensive fund to reduce portfolio risks, increase income and returns



Portfolio construction checklist – the unexpected happens

What is the capital loss drawdown exposes embedded in your portfolio?

Gyrostat is a highly defensive fund with maximum draw down of -3.3% in any circumstances over a 10 year period

How many assets in your portfolio reliable increase in value on market falls (ie: diversified non-correlated.)?

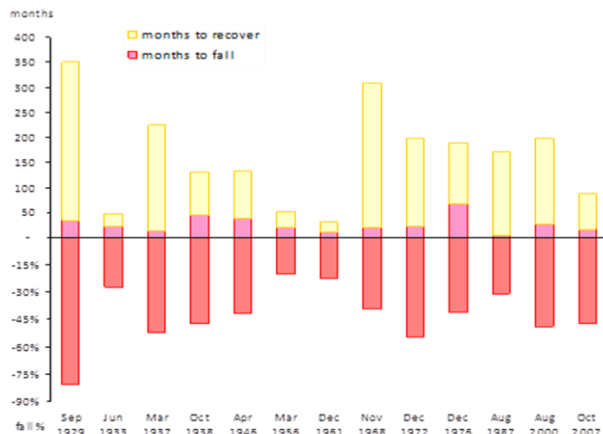
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Is your income fragile to dividend cuts?

Gyrostat’s risk management overlay has additional protection providing additional income in the event dividends are cut from greater stock price movement (eg. Banks during 2020)

Avoid regret –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 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.

Our biggest regrets are often our inactions, not our actions, particularly where the consequences of failing to act threaten your lifestyle as is the case with major market falls.

Product refinements past few years – investor feedback

- Additional protection always to ‘protect and benefit’ major market falls given ‘late cycle’ market conditions

- Protection piece also applied to international markets given the trend of increasing international and technology exposure ‘long only’ in many portfolios

Extra lowest cost protection in always in place to ‘protect and benefit’ from market falls – **the trade-off is there will be more variability in month to month NAV with anticipated overall higher returns in more volatile markets.**

Gyrostat has significant positions in international markets including SP500, Nasdaq QQQ, Hang Seng designed to increase in value on major market falls.

Platforms

Mason Stevens

Netwealth

Powerwrap

Disclaimer

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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