

MID YEAR REVIEW 2019-2020

Gyrostat Absolute Return Income Equity Fund

Retiree income always with protection - 'highly-defensive'

There is an increasing demand for retirement income products with protection and an acknowledged lack of product.

Our solution is for retiree investors to simply add our highly **defensive fund** that provides regular equity income (minimum BBSW90 + 3%) higher than cash and term deposits, and addresses sequencing risk (the risk of major market falls 'late cycle').

The distinctive features are 'hard' protection always in place and a track record of returns increasing with market volatility.

The Fund

Gyrostat has operated for 36 consecutive quarters within a 'hard' pre-defined risk parameter (no more than 3% capital at risk with our **maximum draw-down 2.2% in any circumstances**) always in place, 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 shares with **lowest cost protection always in place** with upside. It is a **conservative** asset allocation.

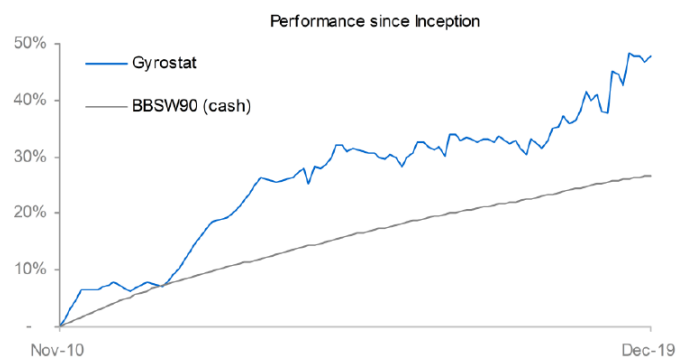
Gyrostat Absolute Return Income Equity Fund

Retiree income with protection always: 'defensive' fund, track record of returns increasing with market volatility

Buy and hold ASX20 shares with lowest cost 'hard' protection **always** in place with upside; No more than 10% may be invested in international assets

Investment objectives:

- **Returns:** 6% - 8% pa in trending markets, greater than 8% pa in volatile markets, BBSW + 3% in stable markets
- **Income:** Minimum BBSW 90 + 3% (currently 4.0% pa) from pass through of dividends
- **Protection:** 36 consecutive quarters operated within 'hard' pre-defined risk parameter with no quarterly NAV drawdown exceed 3%; maximum capital draw-down - 2.2%



Sequencing risk: Includes a 'tail hedge' for gains on large market falls

Returns low correlation to market: 0.30

<https://www.gyrostat.com.au/news/presentation-gyrostat-absolute-return-income-equity-fund-3/>

Outlook

Interest rates are currently at historical lows with further cuts anticipated. Rates are expected to stay low for the next decade or more, given the record levels of global debt. Within stock markets we agree with the consensus view of increasing levels of 'late cycle' market volatility with geopolitical, historically high debt levels, and valuations elevated.

We are now in the longest bull market since WW2. Most large correction occurs within 8 years, we are now at year 12, with the longest on record 13 years.

We prefer changing markets (more trending and volatile conditions, particularly large 'one off' market falls.)

External review

Our Fund was reviewed by McGregor Asset Consulting Pty Ltd for the Filtered Research Committee of the Association of Independently Owned Financial Professionals at June 2019 making the following assessment:

"McGregor Asset Consulting has developed a **solid level of confidence in the manager's ability to successfully execute on their investment strategy**. They have a long history, spanning more than 8 years, and have performed as expected during the various market conditions, **in particular volatile markets, where the Fund has protected capital and delivered solid absolute returns. This is the environment where the Fund is expected to perform**, and has been the case, providing diversification benefits to long-only equity funds.

To our knowledge, there are no other conservative funds available in Australia with 'hard' protection always in place and more than an 8 year track record of no quarterly NAV draw-downs exceeding -3%, regular equity income, and demonstrated returns increasing with volatility levels (with tail hedge in place for large gains on large market falls)."

Strategic initiatives

Further details on the post retirement market products within Australia, public policy since 2010, and our strategic initiatives are available at:

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

Thank you for your support for our Fund. We are very appreciative of the 'follow on' investments from existing investors and referrals we have been receiving. For ease online applications are now available at

<http://www.gyrostat.com.au/application-forms/>

If you require any additional information please do not hesitate to contact me.

Yours sincerely



Craig Racine