

ABSOLUTE RETURN INCOME EQUITY FUND

31 January 2021

APIR code: GYC6212AU

Non correlated fund to address uncertainty through portfolio construction (for retirees income and sequencing risk)

Gyrostat is a highly defensive global non correlated income fund that reliably increases in value on large markets falls. (10YR, max quarterly drawdown <3%). Adding Gyrostat as a defensive allocation reduces portfolio risk, increase income, and increase returns.

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. 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	0.64	-1.54	-2.52	5.04	5.96	3.61	4.42
RBA cash rate	0.00	0.02	0.04	0.29	1.23	1.50	2.38

* 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

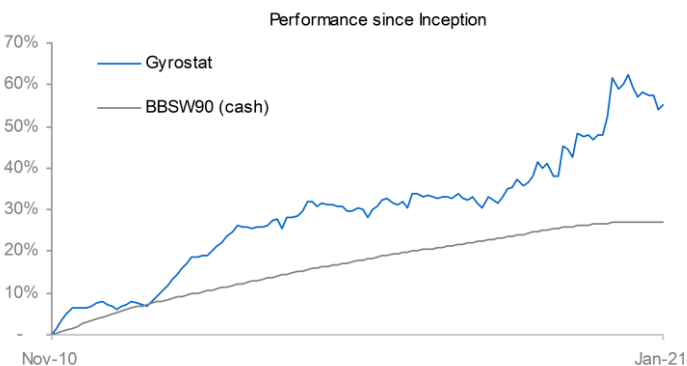
Portfolio Inception	December 2010
Minimum Investment	AUD 50,000
Management Fee	1% per annum
Performance Fee	15% of excess return
Hurdle Rate	BBSW 90 + 3%
High Water Mark	quarterly
Distribution (paid quarterly)	≥ BBSW 90 + 3%

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	-0.44	-0.12	-2.05	0.64						-4.54
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)



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

Commentary

- The Fund NAV at 31 January was \$ 0.82605 an increase of 0.64% consistent with our guidance for stable markets.
- The Australian market traded in a narrow range of 3.2% in January (lows 6607 on Jan 6; high 6824 on Jan 25). Our investment strategy is designed for returns to increase the larger the market range (in either trending falling or rising markets)
- Market volatility was low to moderate for most of January (as measured by the VIX and A-VIX) – the increasing volatility level from Jan 27 to Jan 31 was the major contribution to the fund returns for the month. Our investment strategy is designed for returns to increase with market volatility including large market falls with a 'tail hedge' for gains always in place.

Return Analytics		Portfolio Analytics	
Compound Annual Return	4.4%	Number of Stocks	25
Monthly Volatility	1.3%	Average Positive Months	1.0%
Sharpe Ratio	0.51	Average Negative Months	(0.7%)
Drawdown	5.1%	Beta (ASX200)	(0.05)
Sortino Ratio	1.14	% of Positive Months	58.7%

Compound Annual Return – since inception 4.42%
Compound Annual Return – from Jul 1, 2018 5.51% *

* Quarterly risk tolerance increased to 3% on 1 July 2018

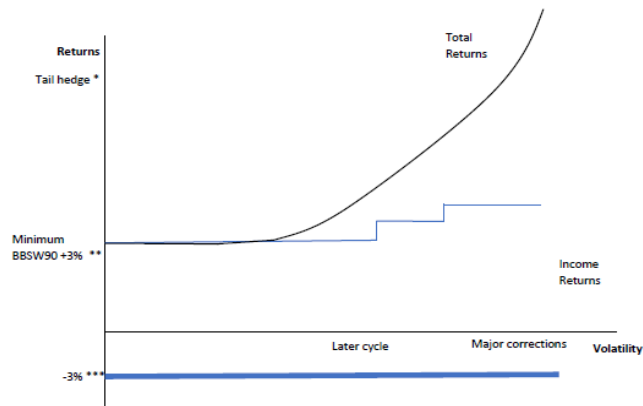
** On 16 November 2020 until 21 December 2020 the ASX suffered a major outage to its ASX Trade system caused by a software issue identified following a system upgrade relating to the trading of combination orders creating inaccurate market data. The Fund promptly altered its normal trading strategy to prevent losses although this meant that the Fund could not capture as much upside as in previous market rallies.

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



* 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%

Portfolio construction checklist – the unexpected happens

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

Gyrostat is a highly defensive fund with a 10 year track record of no quarterly downside exceeding 3%

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

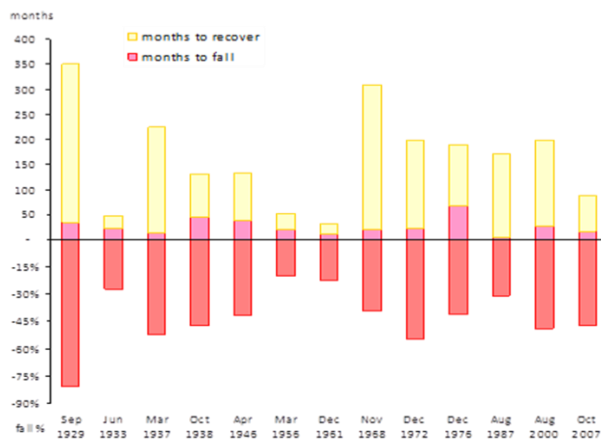
1 Feb 2020 to 31 March 2020. ASX200 – 26.8%; Gyrostat + 9.1%

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



The ‘mystery’ of the unprecedented Central Bank and Federal Government stimulus measures in response to Covid continues to unfold. Will markets continue to be supported and rise, or will the sharply deteriorating earnings and economic fundamentals see the completion of this extended investment cycle from ‘peak’ to ‘trough’?

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.

More importantly, is your lifestyle fragile to the outcome? It doesn’t need to be through portfolio construction.

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 in place to ‘protect and benefit’ in 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 is always in place to ‘protect and benefit’ from market falls – **the trade-off is that 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.

Distribution partner: Mantis Funds Head of Distribution - Mr Damien Hatfield

Platforms

Mason Stevens

Netwealth

Powerwrap

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