GYROSTAT
RISK MANAGED EQUITY FUNDS

Six years of stable and rising returns with regular income

In the beginning….

The Gyrostat journey began by asking:

> "We insure our home, our lives, our cars – why not shares?"

We buy and hold blue chip shares with insurance on the ASX, using our innovative risk management approach.

This has enabled us to deliver stable and rising returns with regular income. Since our inception in December 2010 we've achieved compounded returns of 35% with no quarterly downside ever exceeding 2%.

Gyrostat Capital Stability Fund provides a solution for investors seeking "protected equity" (downside protection always in place as distinct from other risk management approaches) and/or "cash plus" (higher income than cash and term deposits by passing through dividends and franking credits.)

We participate in share price upside, protect on market falls, and benefit from increasing levels of volatility.

Risk managed equity funds have both "cash plus" and "protected equity" characteristics.

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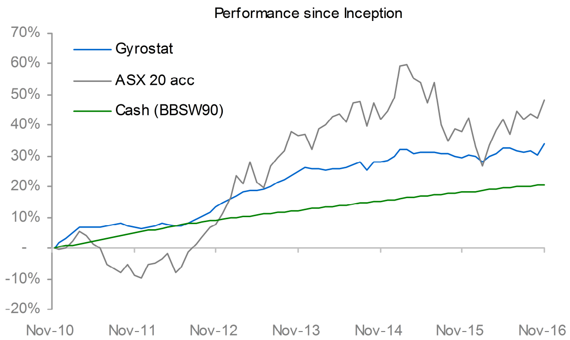
Six years of performance….



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There have been two distinct market phases:-

1) December 2010 to March 2015 (market high): Our annual returns ranged between 5.5% pa to 7.9% pa (with compounded returns of 32%).

2) April 2015 to December 2016 (market falls and partial rebound): The ASX20 accumulation index (blue chip shares with dividend) has fallen - 5%. Gyrostat has risen + 3% and protected investors' capital at all times despite the market falls.

For the times they are a-changing….

Risk management becoming more important as a result of an ageing population

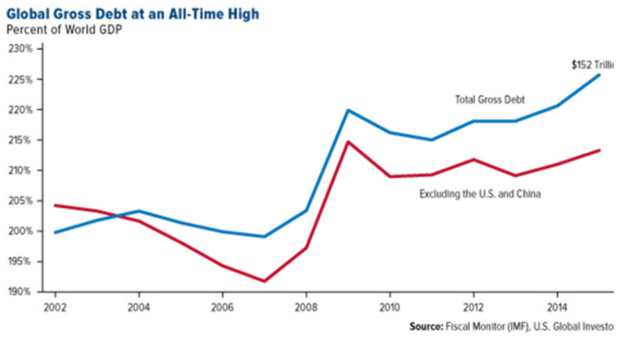
Risk managed equity funds address **sequencing risk** – the impact of investment losses in retirement.

Risk managed equity funds are more important than ever with an ageing population and highly indebted world. Income assets are generating insufficient income with interest rates at or near historical lows. Growth assets valuations are 'high' by historical standards has been rising for over 7 ½ years without a significant correction.

Global debt as a % of GDP is at historic highs.

Dow Jones up 280% since Feb 2009

Global gross debt at all time high



Gigantic Debt

Stock market 'bear markets' since 1929 have occurred every 4 ½ - 5 ½ years and have ranged for 25% to 90%. Geopolitical developments are resulting in changes to macro-economic policies.

Gyrostat risk management approach….

We are always fully invested in blue chip high yielding shares and insure downside with lowest cost alternatives on the ASX. The risk return profile of an equity portfolio is managed by using ASX options. 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.

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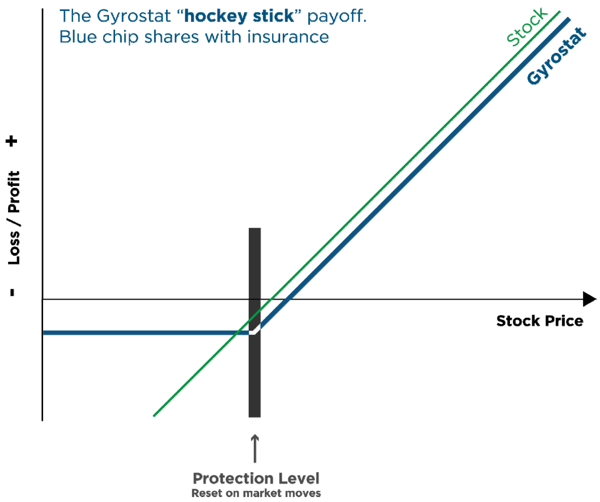
Risk managed funds 3 step approach:

1. **Buy and hold blue chip shares with downside protection** on the Australian Stock Exchange

2. The amount of **protection is <u>set</u> to always participate in the upside with minimal capital at risk.**

3. **On market moves we <u>re-set</u> the protection level.** If the share price rises, we buy more to 'lock in' the gains, on falls we sell some that is no longer required.



To achieve this objective requires a risk-return profile <u>at all times</u> to **participate in share price upside with minimal investment capital at risk** (**"hockey stick" pay-off)**.

Other risk management approaches….

A brief summary of existing risk management techniques, and acknowledge deficiencies are:

- **Diversification of stocks**: exposed to the risk associated with investing in the markets generally (as distinct from stock specific) risks. Capital investment rises and falls with market cycles.
- **Non-correlated asset allocation** with both 'growth' and 'income' assets: produces portfolios with lower income (historical low interest rates) and substantial fluctuations in capital value (highly indebted world). Reduced effectiveness with higher correlation in times of market stress.
- **"Stop loss"** approach may not be effective in large market downside gaps, and requires prediction and the identification of 'exit' and 'entry' levels. Exposure to losses when predictions are wrong.
- **"Predictive" techniques:** protection sometimes, but not always in place using derivatives such as 'futures' and 'options' to adjust risk-return profiles. Exposes investors to large potential losses if protection not in place, or foregoes upside unless a 'hockey stick risk-return profile' in place.

To address the deficiencies in risk management for post retirement investors, there is a need to **expand the range of 'income' and 'growth' assets to include risk managed equity funds.** Such funds trade off some of the upside to insure against downside risk. It is possible to manage the risk profile of such funds by varying the underlying assets and the risk-return parameters

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Drivers of Gyrostat 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

Our investment view is that stock market volatility will increase. During 2012-2016 the level of volatility was low. Historically volatility has remained low for periods of 4 years - 1992-1996, 2002-2006, and 2012-2016. Volatility briefly spiked post Brexit but has again returned to near historic lows.

Our expectation is that volatility will increase, with "risk-on", "risk-off" investing occurring only distantly related to fundamentals. Relying on market predictions, as is the traditional approach, with a ‘straight line’ pay-off leaves investors exposed to large capital losses.

Click here for a brief video: : https://youtu.be/70uZ-JtfIkI