

Gyrostat Corporate Expertise

Risk managed solutions for accumulation to retirement phase

Our approach is to have **protection always in place** to maximise returns for a 'hard' defined risk parameter.

To minimise costs:

- Our proprietary software systems identify options series with the greatest profit potential for a defined cost, exploiting differing levels of implied volatility in the options market.
- "Active management" by buying or selling options with market movements.

Executive summary: -

- Solutions are required for capital risk management and equity income.
- Risk management against large equity falls can be achieved by adding a small downside protection allocation to the portfolio. Protection is always in place (not relying on forecasts), with large cash distributions available for re-investment on major market falls.
- A portfolio with a 20% allocation to Australian equities could be protected against large losses by adding a 1% allocation to the **Gyrostat Downside Protection Australian Equities Fund**.
- Equity income can be delivered through all phases of the investment cycle (including large market falls) by including in the conservative asset allocations an absolute return income equity fund. These funds hold a 'hard' defined risk tolerance (say no more than 2% capital at risk). The fund holds a diversified portfolio of higher yielding stocks, delivering regular income by passing through dividends. Protection is always in place at the stock specific level. Returns are designed to increase as volatility levels increase, as this provides more opportunities to lower protection costs.
- The **Gyrostat Absolute Return Income Equity Fund** has an 8 year track record of delivering returns, income and protection for investors wanting minimal capital at risk at all times.
- Under **investment mandate** we identify the lowest costs of protection available in the market for a defined period of time. The protection delivered is full compensation for losses beyond a pre-defined 'excess' level.
- In the USA the approach has been successfully applied for nearly 20 years and is also applied by large investment banks.
- Our approach can be applied to any listed stock or ETF which has a liquid traded options market. There are a wide number of possible applications. It is proposed to launch additional downside protection funds on other world indices, such as the Hang Seng.
- The senior management team of Gyrostat Capital has extensive experience domestically and globally, as investors, as non-executive directors, and as senior management in funds management, private equity, industry, investment banking, corporate law and equity research.

Corporate Profile

Our purpose is to assist you to **protect and grow your investments** and **benefit from times of uncertainty**.

- Protection is always in place with upside
- Riding out the storm
- Making money when others don't

If you act now, you won't be at risk of large losses on share market falls.

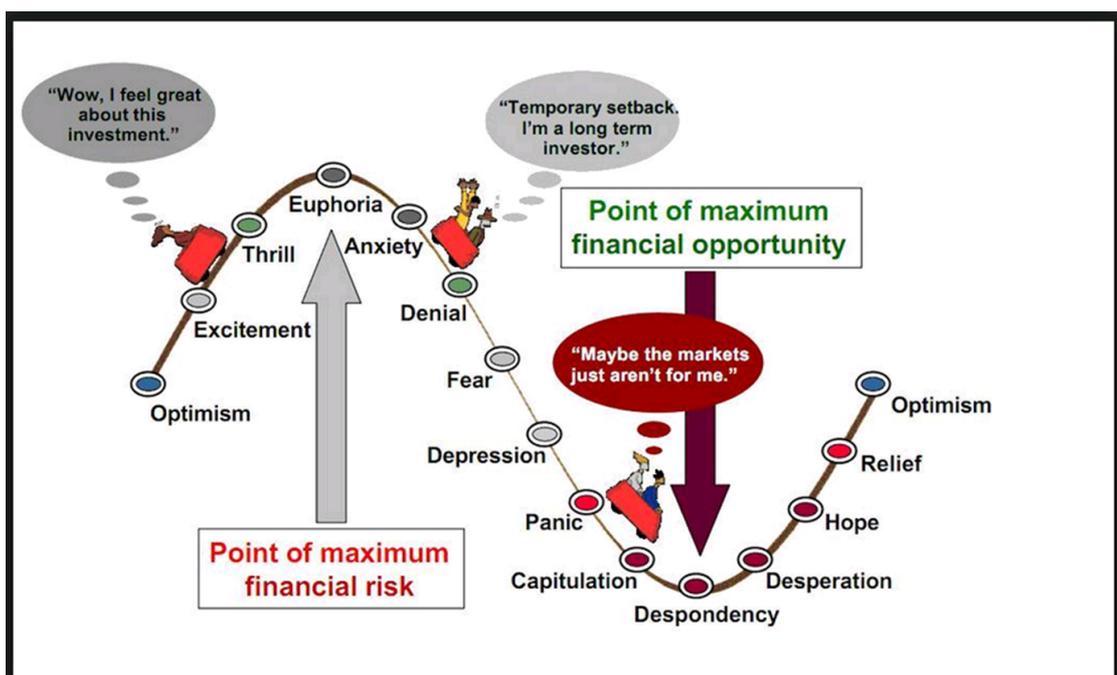


We offer risk managed investing products that can be added to a portfolio to benefit from volatile markets - including large market falls - where traditional asset allocation approaches don't work.

By adding Gyrostat, your portfolio is transformed to include protection. This is particularly important to those investors who cannot afford the consequences of large capital losses, such as retirees. You protect your home, car, life - why not shares?

Our products are specifically designed to benefit in volatile markets. It is our view that stock markets have now entered a more volatile phase. This is consistent with historical cycles of approximately 5 years of stable, then 5 years of more volatile market conditions.

Major market falls are a regular and hazardous feature of the investment cycle. The Gyrostat products complement existing approaches and enable an investment solution across the complete investment cycle - addressing the unscripted drama of large losses when markets fall.



We have two specific Funds which address particular needs:

Equity Income in Retirement

Pre and post retirees require a 'conservative' asset combining protection, returns and regular income through all stages of the investment cycle. Traditional 'income funds' have experienced substantial capital losses in market corrections. Advances in risk management enable cost effective protection to always be in place.

Gyrostat Absolute return Income Equity Fund

Gyrostat buys and holds ASX 'Blue chip' shares with *lowest cost protection always in place with upside.*

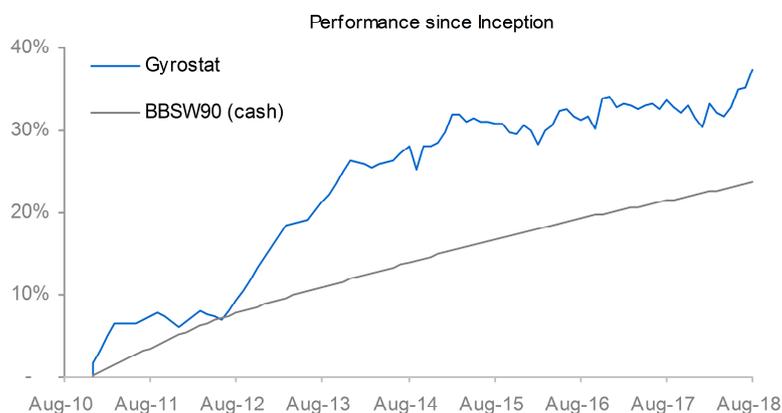
Investment Objectives:

- **Returns:** 6% - 8% pa in trending markets, greater than 8% pa in volatile markets, short term bond returns in stable markets
- **Income:** Minimum **cash rate + 3%** paid semi-annually (currently 5.0% p.a.) from dividends and franking credits
- **Protection:** No quarterly NAV draw-downs exceeding 2%

Throughout the complete investment cycle income is paid at a minimum of BBSW + 3% by pass-through of blue chip dividends. Protection is always in place with minimal capital at risk (8 year track record of no quarterly losses not exceeding 2%). Returns vary through the complete investment cycle with greater profits in more volatile markets (including large market falls.)

A video outlining our investment approach and track record is available at:

<http://www.gyrostat.com.au/news/gyrostat-absolute-return-income-fund-in-depth-guide/>



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

Equity risk management

Risk management against large equity falls can be achieved by adding a small downside protection allocation to the portfolio.

In the USA the approach has been successfully applied for nearly 20 years and is also applied by large investment banks. A brief explanation of the approach and how a small asset allocation to downside protection can deliver higher returns with lower risk is available at:

<https://www.youtube.com/watch?v=LyGtiiGBEc8>

A more detailed explanation designed for asset consultants/investment committees is as presented by Mark Spitznagel -tail risk hedge pioneer is available at:

<https://www.youtube.com/watch?v=gGpt8VNpCxw>

Gyrostat Downside Protection Australian Equities Fund

This fund uses our established investment approach and is designed to increase in value with ASX200 market falls, particularly large market falls, whilst not capping upside should the markets continue to rise. Profits are distributed promptly on large market falls.

A portfolio with a 20% allocation to Australian equities could be protected against large losses with a 1% allocation to this Fund. (ie: a \$ 1 M portfolio would add \$ 50,000 to Gyrostat.) This is designed to provide full protection in the event of 'one off' 10% market fall.

The level of protection is set at the current market level and is moved as the market moves. On market falls profits are made - selling some protection re-sets the protection level to the new lower market level. These profits are promptly distributed to investors in cash.

A brief video explanation along with a brief summary of our fund is available at our web site.

<http://www.gyrostat.com.au/news/you-protect-your-home-cars-and-life-why-not-protect-shares/>

You protect your home, cars and life - why not protect shares?

Gyrostat Downside Protection Australian Equities Fund

History shows us that equities worth \$1 M today are likely to see \$300,000 - \$500,000 wiped off its market value in a period of less than 12 months, and take 12-17 years to get back to previous levels. **You can protect yourself.**

Major market falls are a regular and hazardous feature of the investment cycle - 10 times in the past 90 years losses of 30% or more within a year, often much quicker, have occurred.

[Download PDF for more information](#)

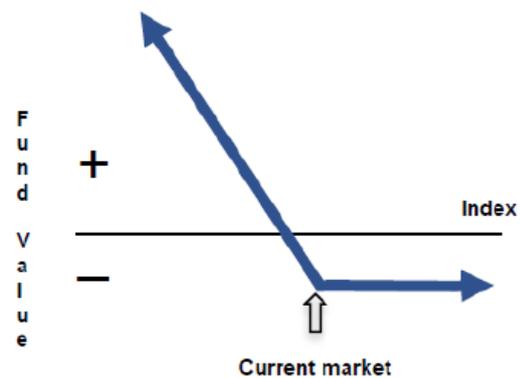


The key investment features are:

- Designed to increase in value on market falls without capping upside on market rises
- Protection is always in place
- A financially strong counter-party - the ASX - for hedging activities
- Transparent mark to market valuations from ASX valuations
- Lower protection costs than existing approaches through option series selection and actively managing the options with market moves (enabled by technological advances and deregulation)
- Cash is promptly returned to investors for re-investment on market falls

Downside fund is designed to increase in value on market falls, especially large one off falls, without capping the upside in rising markets.

- Maintain existing growth investment.
- Add 5% of asset value to Gyrostat.
- The Gyrostat risk management approach identifies the least cost protection alternatives in the market.
- To minimise costs the "options" component is actively managed, and reset to current market levels.
- On large market falls Gyrostat takes profits by selling some protection.
- Profits are promptly distributed for reinvestment.



Protection is always reset to current market levels

Investment Management Services – customised risk-return profiles

We also offer investment mandates identifying the lowest costs of protection available in the market for a defined period of time, adjusting 'excess' in increments of [2.5%] from [0%] to [10%].

The protection delivered is full compensation for losses beyond a pre-defined 'excess' level. By actively managing options we lower the cost of protection whilst maintaining it always in place.

Gyrostat Investment Management Services – Investment Mandate

Australian ASX200 index – protection costs for market falls

The Gyrostat investment risk management systems obtain live pricing to identify lowest cost alternatives to protect against market falls. The protection will deliver a defined level of compensation at expiry.

Our approach exploits the differing levels of implied volatility in the options market.

Protection costs are shown for a defined period of time, adjusting ‘excess’ in increments of [2.5%] from [0%] to [10%].

The protection delivered is full compensation for losses beyond a pre-defined ‘excess’ level.

Underlying portfolio to protect: \$100 M		AUD	000's					
Date today:			100,000					
ASX index level:			24-Sep-18					
			6187					
Excess		-	2.5%	5.0%	7.5%	10.0%		
Index level		6,187	6,032	5,878	5,723	5,568		
Minimum intrinsic value - expiry		000's						
5,692	8% falls	8,000	5,500	3,000	500	0		
5,259	15% falls	15,000	12,500	10,000	7,500	5,000		
4,640	25% falls	25,000	22,500	20,000	17,500	15,000		
Current market costs of protection								
	Expiry	Days						
	18-Oct	24	Cost 000's	385	264	159	139	119
			%	0.38%	0.26%	0.16%	0.14%	0.12%
	15-Nov	52	Cost 000's	1,135	780	468	309	265
			%	1.13%	0.78%	0.47%	0.31%	0.27%
	20-Dec	87	Cost 000's	1,883	1,295	841	588	504
			%	1.88%	1.29%	0.84%	0.59%	0.50%
	17-Jan	115	Cost 000's	2,273	1,563	1,064	762	653
			%	2.27%	1.56%	1.06%	0.76%	0.65%

For example: A\$ 100 M protected
 Index at inception: [6,187]
 Excess selected: [5.0% or 5,878 level]
 Expiry: [87 days –Dec 20]

At expiry, using a [5.0%] excess at [5,878] index level, there is an intrinsic protection, dollar for dollar below this index ‘excess’ level.

Maximum Cost: [0.84%] for 87 days. (Investment of \$841,000 protects an underlying portfolio of \$ 100 M.) This may be reduced through active management.

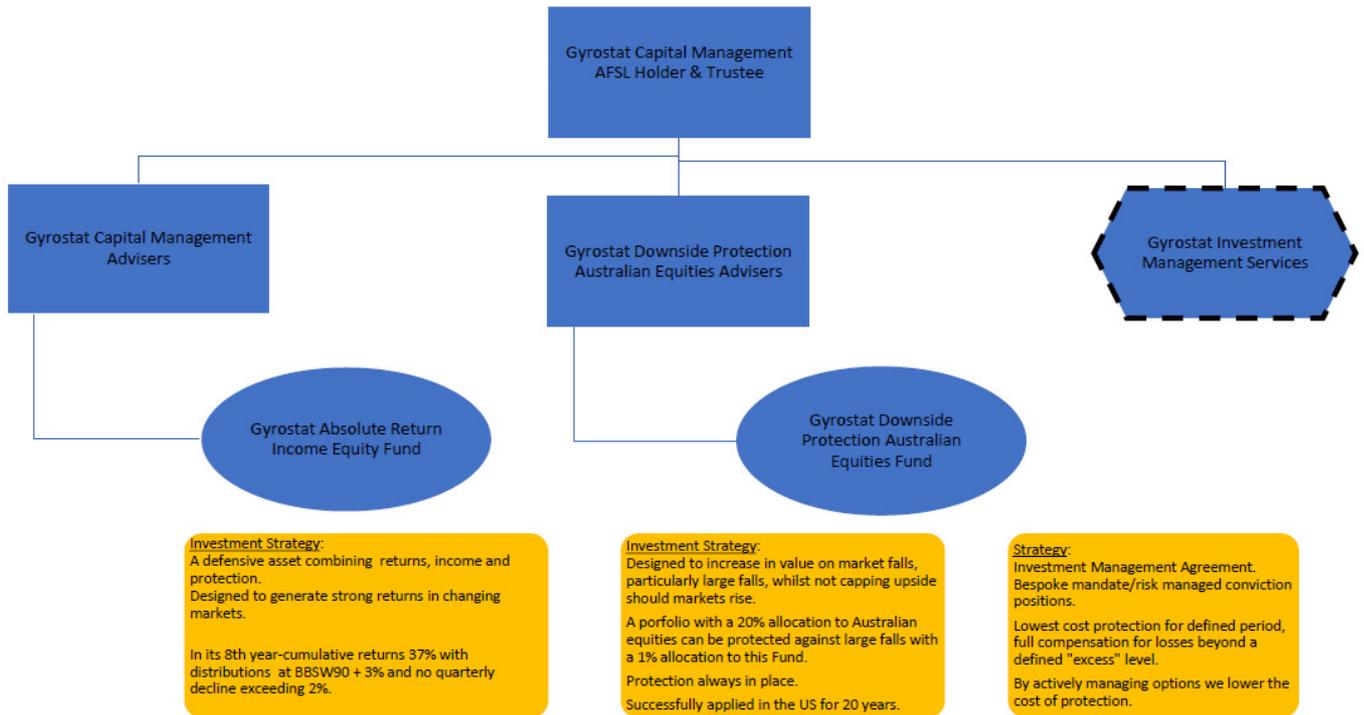
The portfolio has protection in place against large ‘one off’ or rapid falls. At a [15%] fall to [5,259] the intrinsic value of protection would be \$ 10.0 m, a [25%] fall to [4,640] would be \$ 20.0 m.

It is likely that with large ‘one off’ falls implied volatility would spike significantly, and that market valuations may be higher than intrinsic valuations shown (due to the additional time value given the period to expiry.)

Gyrostat Investment Management Services – Investment Mandate

Investment template

Investment Horizon	Defined protection period which can be extended as required
Investment Strategy	To buy lowest cost options to protection against market falls on Australian Securities Exchange (ASX). Value of protection increases on market falls.
Investment Objectives	<p>The investment objectives are:</p> <ul style="list-style-type: none">▪ Exploit Australian option market conditions to provide downside protection for the underlying investment.▪ Utilise financially strong counter party (ASX Clear) with transparent market valuations. Transactions can be entered either directly through the ASX or over the counter.▪ <u>Initial investment:</u>▪ Enter option positions of differing maturities or within the same maturity across a different range of strike prices to best meet investment objectives. Option selection will utilise Gyrostat investment risk management software and process related intellectual property to exploit current market ‘implied volatility’.▪ <u>Ongoing management:</u>▪ With market movements, the options will be actively managed to minimize protection costs and maximize returns.▪ <u>Protection:</u>▪ At inception to provide no more than an agreed level, say [5%] capital at risk for the underlying investment protected.▪ <u>Taxable income.</u> There may be taxable income from options trading at the end of the financial year.



Major market falls are a regular and hazardous feature of the investment cycle

Rates are rising, volatility is increasing, liquidity is being withdrawn, and geopolitical risks are increasing.

Risk managed investing is particularly important during high PE periods/late stage bull markets. We are now in the longest bull market since WW2. Most large correction occur within 8 years, we are now at year 11, the longest on record is 13 years.

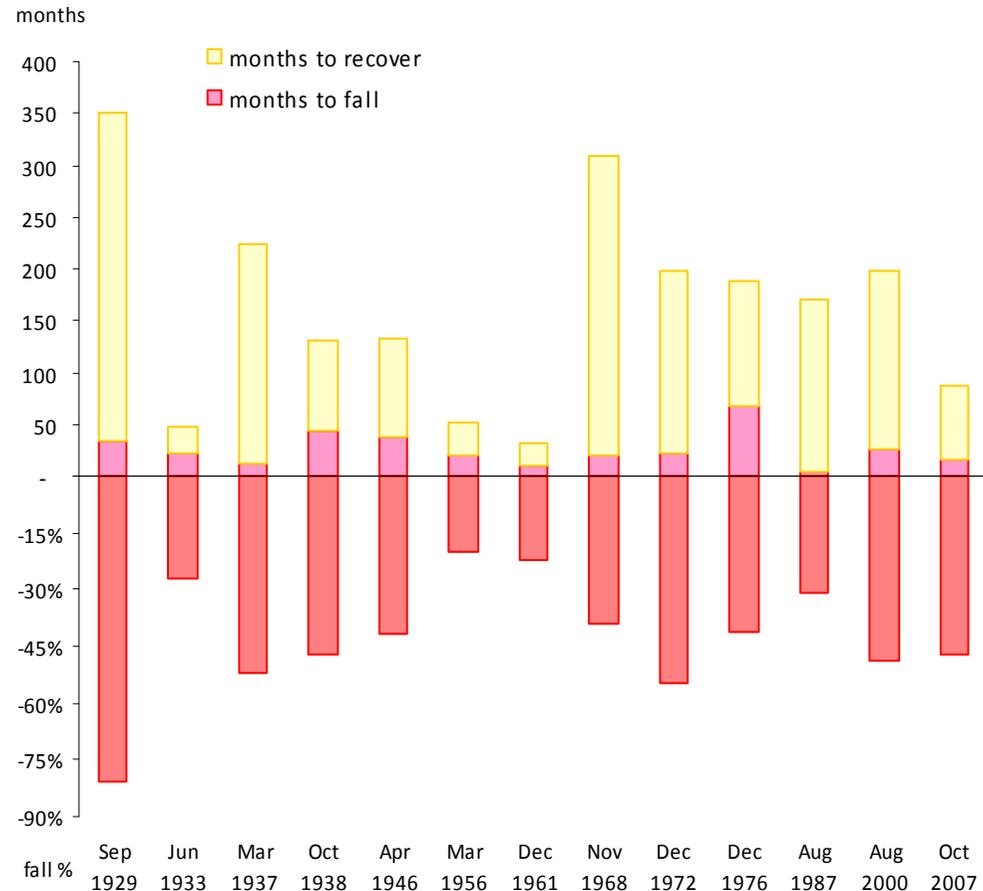
The graph shows the extent of falls from peak to trough, the duration of the fall, and time taken to recover to pre fall highs.

History shows us that equities worth \$1 M today are likely to see \$300,000 - \$500,000 wiped off its market value in a period of less than 12 months, and take 12-17 years to get back to previous levels.

Further explanation – brief video:

<http://www.gyrostat.com.au/news/you-protect-your-home-cars-and-life-why-not-protect-shares/>

S&P 500 Index - 90 Year Historical Chart:



Source: <http://www.macrotrends.net/2324/sp-500-historical-chart-data>

Limitations of traditional investment risk management

The large portfolio losses suffered by most investors in 2007, demonstrated the limitation of the traditional approach of managing risk through diversification,

The Gyrostat approach, with protection always in place with upside, enables investors to ride out the storm and make money when other strategies don't.

The investment performance of the two approaches varies across the investment cycle.

	Approach	Falling market (trending)	Volatile market (including 'one off' large falls)	Stable market	Rising market (trending)
Diversify risk	Asset allocation 'conservative' and 'growth' assets	Unfavourable	Unfavourable – capital losses	Favourable	Favourable
Downside Protection Fund	Protection always in place Active management of options lowers costs	Favourable (mitigated)	Very favourable – capital growth potential	Objective minor loss in value downside protection fund	Objective no loss in value of downside protection fund

“The retirement phase of superannuation is underdeveloped and does not meet the risk management needs of many retirees.”

Financial System Inquiry Australia

Applying established option strategies used in global markets to address large market losses in Australia

The proposal is to apply strategies with uncapped profit potential on large market falls and a defined cost (lowest cost alternative) through buying options, and taking advantage of the historically low volatility levels and option pricing.

There are large gains when the underlying stock/index makes significant moves.

These strategies are known as **long strangles** or straddles (buying out the money put and call options). By adjusting the ratio of bought put and bought call options the pay-off profile can be more bearish - **the strip variant** (adjusts the ratio for more bought puts to give a bearish bias) without losing money if the stock/index rallies.

A brief overview of these established strategies is available at:-

<http://www.theoptionsguide.com/long-strangle.aspx>

In the USA the approach has been successfully applied for nearly 20 years and is also applied by large investment banks. A brief explanation of the approach and how a small asset allocation to downside protection can deliver higher returns with lower risk is available at:

<https://www.youtube.com/watch?v=LyGtiiGBEc8>

A more detailed explanation designed for asset consultants/investment committees is as presented by Mark Spitznagel -tail risk hedge pioneer is available at:

<https://www.youtube.com/watch?v=gGpt8VNpCxx>

At least 3 leading investment banks have adopted similar strategies for their clients in global markets:

“Dynamic downside protection or option replication strategies provide access to a pay-off profile that has the potential to provide sufficient downside protection without removing too much upside potential. “

https://russellinvestments.com/-media/files/au/campaigns/cps/r_rpt_res_protection_v1ff_1402.pdf?la=en-au

“Put options are often the first defense that comes to mind for investors. These are an explicit insurance contract, guaranteeing protection if market prices fall below the strike price.”

<https://www.ssga.com/na/us/institutional-investor/en/our-insights/publications/as-the-cycle-lengthens-investors-look-to-hedge-tail-risk-but-at-what-price.html>

“In a bear market or a painful correction, astute investors in these mutual funds will find a refuge from the storm and a greater chance of substantial profits.”

<https://www.investopedia.com/articles/investing/020616/3-best-downside-protection-equity-mutual-funds.asp#ixzz55oXufVWr>

Gyrostat Investment Risk Management Expertise

The Gyrostat investment risk management approach utilises a unique set of investment software and process related intellectual property. Our strategy exploits the differing levels of 'implied volatility' in the option market from differing maturities, or within the same maturity across a different range of strike prices. This has been observed by academics and market participants for many decades.

Technology enables our proprietary software systems to construct a volatility term structure and identify the 'least cost' call and put option alternatives available in the market at that time. There are many series to choose from. This is reflected in differing levels of 'implied volatility' across time periods and within a range of strike prices within the same time period. Gyrostat uses a variety of bought option and other strategies typically ranging from duration of 3–15 months, depending upon the prevailing option market conditions.

With market movements, the "options" component needs to be re-set or actively managed to ensure that the risk-return parameters meet the investment charter. This involves the buying or selling of options.

The key investment risk management features are:

- Protection is always in place to a specified absolute risk parameter (eg. no more than 2% at risk)
- Lower protection costs than existing approaches through option series selection and actively managing the options with market moves (enabled by technological advances and deregulation)
- For a given risk parameter, returns are maximised and re-set with market movements
- A financially strong counter-party - the ASX - for hedging activities
- Transparent mark to market valuations from ASX valuations

This has been tested and refined over the past 8 years through a specific wholesale fund – the Gyrostat Absolute Return Income Equity Fund at a risk tolerance of no more than 2% at risk per quarter.

Our approach can be applied to any listed stock or ETF which has a liquid traded options market. There are a wide number of possible applications. It is proposed to launch additional downside protection funds on other world indices, such as the Hang Seng, S&P500 and FTSE100.

A video outlining our investment approach and track record is available at:

<http://www.gyrostat.com.au/news/gyrostat-absolute-return-income-fund-in-depth-guide/>

GYROSTAT

RISK MANAGED EQUITY FUNDS

Key Personnel

The senior management team of Gyrostat Capital has extensive experience domestically and globally, as investors, as non-executive directors, and as senior management in funds management, private equity, industry, investment banking, corporate law and equity research.

Craig Racine - Managing Director, Chief Investment Officer
BCom, LLB, MAppFin, PGDip (Int Fin)

Craig Racine has over 25 years experience, at senior executive and directors roles, within finance and business development. He has been an investor for the past 12 years, and is the founder of Gyrostat Capital Management. Previously his senior management experience includes Executive Director at The Asian Infrastructure Trust (Hong Kong) with lead investors International Finance Corporation, Asian Development Bank, Soros Funds Management, Frank Russell Investments, and AMP Capital. He was a Managing Director at ING Barings (Asia). He has extensive domestic and international experience, having held senior executive positions in private equity, investment banking, equity research and industry. He began his career in the chartered accounting industry. He has held Board positions in multi-national companies in China, India, Indonesia, The Philippines, Pakistan, and globally.

**Peter Clifton BE, MBA, MIEAust, MAICD-
Chairman, Board of Directors**

Peter Clifton has over 30 years experience, both within Australia and internationally, at senior executive and director roles, primarily in the information technology and telecommunications field. He has advised a wide range of companies including Leightons, KPMG, the Asian Infrastructure Trust (Hong Kong), ING Barings (Hong Kong) and the Victorian Government. He has helped establish a number of start-up companies and was on the Board of the ASX 300 listed company Amcom Telecommunications 1999 - 2015. Previously he has held Board positions in companies in India, Sri Lanka, the Philippines, Saudi Arabia and Poland.

Andrew Smith • B.Ec.
Director and Chairman Compliance Committee

Andrew's business career has focussed on finance and the financial markets in the Asia Pacific and the United Kingdom. Utilising the experience gained in his working career, he now holds a number of non-executive and consulting positions. Andrew is also a non executive Director of Eagle Health Holdings Ltd; Responsible Manager and Chairman of the Project Control Group of Goal Property Group Pty Ltd; and Responsible Manager of Dennis AFSL Pty Ltd.

He was formerly the Managing Director and Chief Executive of the Stockbroking and Corporate Finance group Intersuisse Ltd (now Phillip Capital) between 2000 to 2010. Prior to that, Andrew was Chairman of the Sedgwick Group in the Asia Pacific between 1995 to 2000 and a member of the Group Executive Committee in London. Andrew was also Chairman of XPD Soccer Gear Group Ltd (ASX: XPD) and on the Boards of Elk OrthoBiologics Ltd, Zheng He Global Capital Ltd and on the Board of Advice of Aon Risk Services.

David Barwise • LLB, LLM
Director

David Barwise has over 20 years legal, regulatory and compliance experience within the legal industry in Australia, Europe and Asia (with a focus on managed funds, structured finance, capital markets, banking, asset management and trust and agency services). He was a partner in a leading global law firm for 15 years, a member of its European management board, held a variety of product, client and regional management positions and acted as the relationship partner for a number of global investment and regional banks. He has worked in Australia, London and Singapore. He also holds a variety of post graduate qualifications in law, business, accounting, finance and corporate governance.

Leo Tang, BEng, MSc
Senior Investment Officer

Leo Tang has extensive experience within investment banking, private equity and industry. Previously, he worked as regional analyst in equity research with ING Barings Securities Asia, and in the investment deal team with Asian Infrastructure Fund Advisers, as well as strategic planning specialist with Motorola Asia Pacific. He is skilled in business analysis, financial modelling, and operational management.

Further Fund information:

➤ <http://www.gyrostat.com.au/>

Contact

Craig Racine, MD and CIO of Gyrostat Capital Management Pty Ltd.

Phone : 0407 633 307

Email: craig.racine@gyrostat.com.au

Disclaimer

This information is limited to information about Gyrostat and its Funds, 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.

There are references to past performance in this document. Past performance is no guarantee of future performance. Gyrostat or any of its officers, advisers, agents, employees or associates do not in any way guarantee the performance of the Fund.

This information is only made available to persons who are wholesale clients within the meaning of section 761G of the Corporations Act 2001.