

Equity income in retirement – investment risk management approaches

There are a variety of investment risk management approaches with the objective to meet the equity income needs of retirees and defend against losses in declining markets.

Typically, the investment generates dividends from a diversified portfolio of Australian shares with an investment risk management overlay that aims to reduce the volatility of returns, in particular defending against losses in declining markets.

A brief summary of the approaches:

- Vary asset allocation between stocks and bonds (diversification)
- Buy underlying asset, write call options (Buy-write income funds)
- Long/short funds (market neutral, 130/30)
 - Bennelong Absolute Equity Performance Fund¹
 - Watermark Market Neutral Fund Limited²
- Buy underlying asset, using predictive approach has the ability to sell futures contracts
 - Beta Shares Australian Dividend Harvester Fund (managed fund)³
 - Beta Shares Managed Risk Australian Shares Fund⁴
 - Plato Australian Shares Income Fund (Managed Risk)⁵
 - Sanlam Private Wealth Australian Equity Fund⁶
- Buy underlying assets, buy put options (sometimes) using predictive approaches
 - Wealth Defenders Equity –protection strategies using puts, calls and futures⁷
 - Ironbark Denning Pryce Australian Tailored Income Fund⁸
- Buy put options and cash (volatility as an asset class)
 - Grant Samuels Triple3 Volatility Advantage Fund⁹
- Buy underlying assets, buy put options (always in place ‘hard’ risk parameter)
 - Gyrostat Absolute Return Income Equity Fund¹⁰

¹<https://www.aepfund.com.au/performance/>

² <http://wffunds.com.au/fund/watermark-market-neutral-trust/>

³ <https://www.betashares.com.au/fund/australian-dividend-harvester-fund/#performance>

⁴ <https://www.betashares.com.au/fund/managed-risk-australian-share-fund/#performance>

⁵ <https://www.plato.com.au/retail-funds/fundprofiles/>

⁶ <http://sanlamprivatewealth.com.au/sanlam-private-wealth-australian-equity-fund/>

⁷ <http://wealthdefenderequities.com.au/Home/>

⁸ <http://ironbarkam.com/performance/>

⁹ <https://www.gsfn.com.au/our-funds/triple3-volatility-advantage-fund/>

¹⁰ <http://www.gyrostat.com.au/investment/performance/>

Gyrostat Absolute Return Income Equity Fund

The Gyrostat objective is to generate stable and rising returns with regular income through all stages of the investment cycle.

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.

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%; Includes 'tail hedge' for gains on large market falls

