

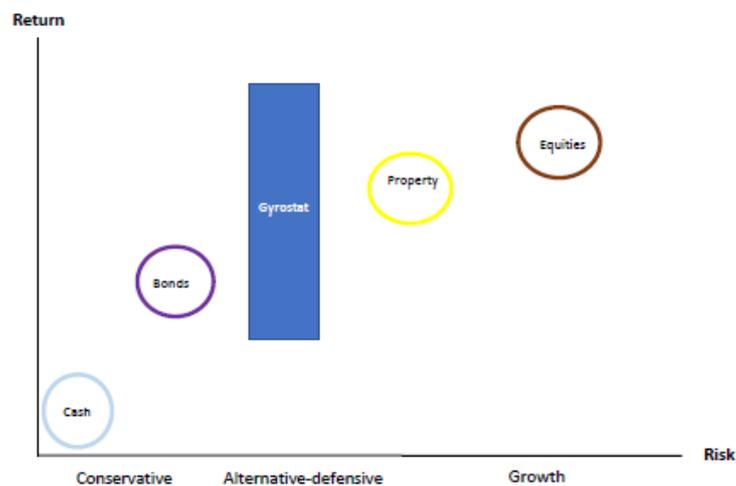
# GYROSTAT

## RISK MANAGED EQUITY FUNDS

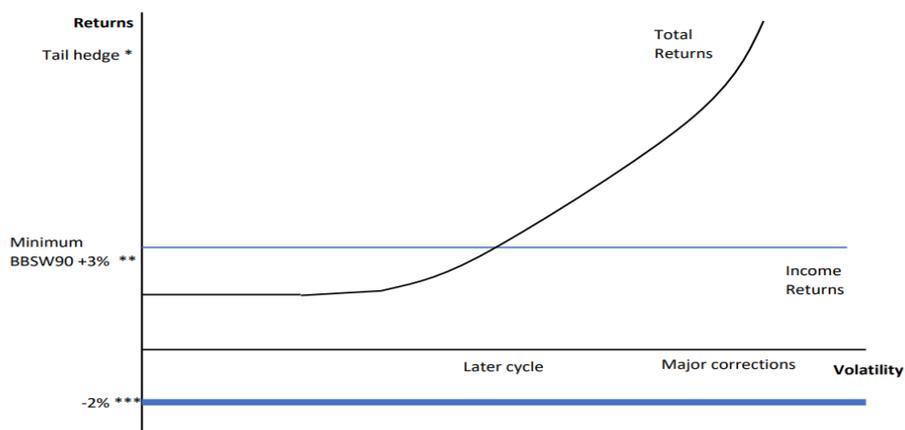
### Gyrostat Investment Management Strategies and product structures: “alternatives – defensive”

Risk managed investing is particularly important during high PE periods/late stage bull markets. The risk of a major correction is elevated - we are now in the longest bull market since WW2. Most large correction occurs within 8 years, we are now at year 11, with the longest on record 13 years.

- “Late cycle” asset allocations to “alternatives - defensive” (~ 7 pc – 8.8 pc) can increase portfolio returns and reduces risk



- 8 year track record of delivering investment objectives - returns increasing with volatility levels with no quarterly capital draw-downs exceeding 2 pc.



- \* 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 2%

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## RISK MANAGED EQUITY FUNDS

Advances in investment risk management enable cost effective protection to always be in place for a 'hard' defined risk parameter (say no more than 2% capital at risk). Returns are designed to increase as volatility levels increase, as this provides more opportunities to lower protection costs.

To minimise costs and maximise profits:

- 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.

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### Opportunities

1. Absolute Return Income Fund - combines income, returns, protection at 2%
2. Investment mandates - Domestic
3. Investment mandates - International

### 1. Gyrostat Absolute Return Income Equity Fund

Our Absolute Return Fund buys and holds ASX 20 stocks with **lowest cost protection always in place with upside**. We have an 8 year track record of no quarterly draw-downs exceeding 2%, cumulative returns of 42% and regular income.



**Returns:** 7.7% pa (12M); cumulative 42% (8 years)

**Income:** 5.0% pa

**Protection:** No quarterly draw-downs exceed 2%

Also includes 'tail hedge' for gains on large market falls

**Returns have increased with the more volatile market conditions, consistent with our guidance.** We anticipate these **conditions will continue** during the coming years, with historical cycles of approximately 5 years volatile, and 5 years of stable conditions.

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## RISK MANAGED EQUITY FUNDS

We consider our solution a best in class for **equity income in retirement**, with our risk managed investing approach combining **protection, income** and **returns** through all stages of the investment cycle (including large market falls).

Suitable investors:

**Equity income in retirement:** regular income by pass through of dividends

**Accumulation phase investors:** higher returns than cash, fixed interest

**Philanthropic investors:** direct cash distributions to your designated charity whilst maintaining control of your capital investment.

**Significant investor visa/premium investor visa:** an investment in our Fund complies when funds under management exceeds \$ 100 M.

## 2. Domestic investment mandates

Growth assets can be re-allocated to “alternatives - growth” with a (say) hard 5 pc quarterly risk tolerance, with a capital gains tax solution funded by most recent dividend (under mandate).

- Equities are vulnerable to higher volatility and potential market falls
- Investors face a range of restraints on significant changes to tactical allocation but primarily tax implications (in particular **capital gains tax**)
- Protection can utilise Australian indices such as XJO or can be stock specific (largely with the ASX20).

### **Implementation:-**

- Define ‘hard’ maximum capital at risk. Eg no quarterly losses to exceed [5%].
- Gyrostat proprietary investment risk management software systems will identify lowest cost protection available in the market at that time. Protection delivered has a defined maximum up front cost. (typically funded with the most recent cash dividend)
- To lower costs there is “active management” of risk management overlay by buying or selling options with market movements at all times with no quarterly losses to exceed the pre-defined level.

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## RISK MANAGED EQUITY FUNDS

### Investment objectives:-

- Returns: Outperform underlying asset performance in falling and range bound market, upside capture around [70%] in rising markets
- Income: Yield from asset less protection costs
- Protection: Always in place using lowest cost options, with no quarterly losses to exceed [5%], no more than [10%] capital at risk at any time.

Can include a 'tail hedge' for gains on large market falls

### Set -up:

The 'options overlay' protection requires cash of approximately [3% - 5%] of the underlying asset value (typically funded by the most recent dividend).

### Tax.

There may be taxable income or allowable deductions from options trading at the end of the financial year. There is the ability to tailor our investment approach to meet your internal taxation requirements.

### **3. International investment mandates**

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.

### Process:

- Outline investment to protect and determine method. For example, utilising an index such as the SP500 index or stock specific options (for instance technology stocks)
- Utilise Gyrostat proprietary investment systems (with modification as required specific to the mandate)
- Gyrostat to demonstrate investment and returns available based upon current market conditions.
- 'Paper trade' and review investment performance within defined risk-return parameters.
- Establish investment mandate

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## RISK MANAGED EQUITY FUNDS

### Risk managed investing

Our approach is to **always have protection in place** and maximise returns within a 'hard' defined risk parameter while minimising costs.

- Gyrostat's systems identify options series with the greatest profit potential for a defined cost, taking advantage of differing levels of implied volatility in the options market
- "Active management" by buying or selling options during market movements

### Explaining the process

To assist with understanding our investment strategy please see the weblink to an explanatory video:

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

### Gyrostat Absolute Return Income Equity Fund - in depth guide

Current state of the market: "Incredible risks yet bullish trend persists"

Investment features:

- Protection **always** in place with upside (participate in the upside in rising market)
- Make money in changing markets (prefer more volatile conditions, especially if large 'one off' market falls)
- Proven strategy over 7 years – our innovation is the investment risk management of equities
- An Absolute return Income Equity fund is a conservative asset with the potential for capital growth in rising and falling markets

[Download PDF for more information](#)



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