

GYROSTAT

RISK MANAGED EQUITY FUNDS

Gyrostat Investment Management Strategies and product structures: “alternatives”

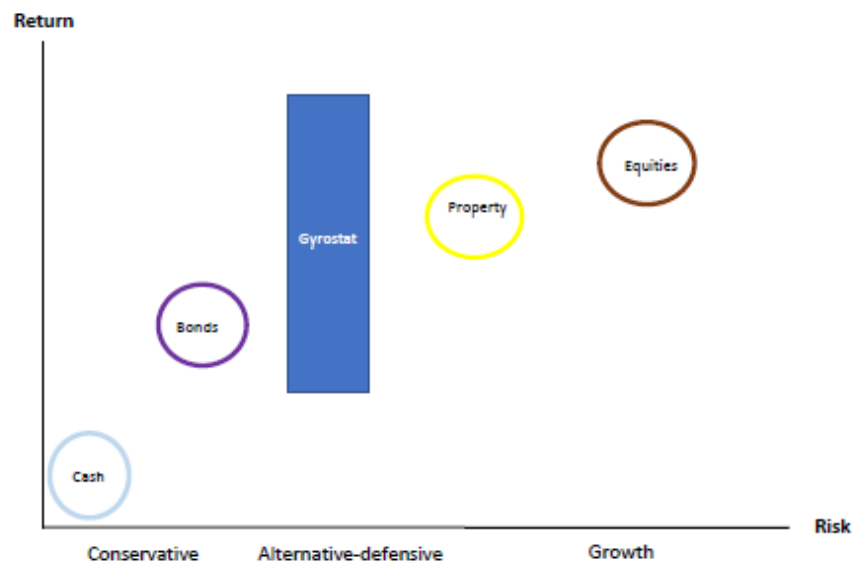
The two key global investment issues today are:

- Achieving a regular and stable income stream in a low interest rate environment with capital security - “defensive” assets.
- Elevated risk of major market corrections in a ‘late cycle’ environment of stock market volatility impacting capital returns - “growth” assets.

Our solution is to buy equities, always protected to a defined ‘hard’ risk tolerance. The underlying asset and ‘hard’ risk tolerance is varied depending upon the need being addressed.

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 12, with the longest on record 13 years.

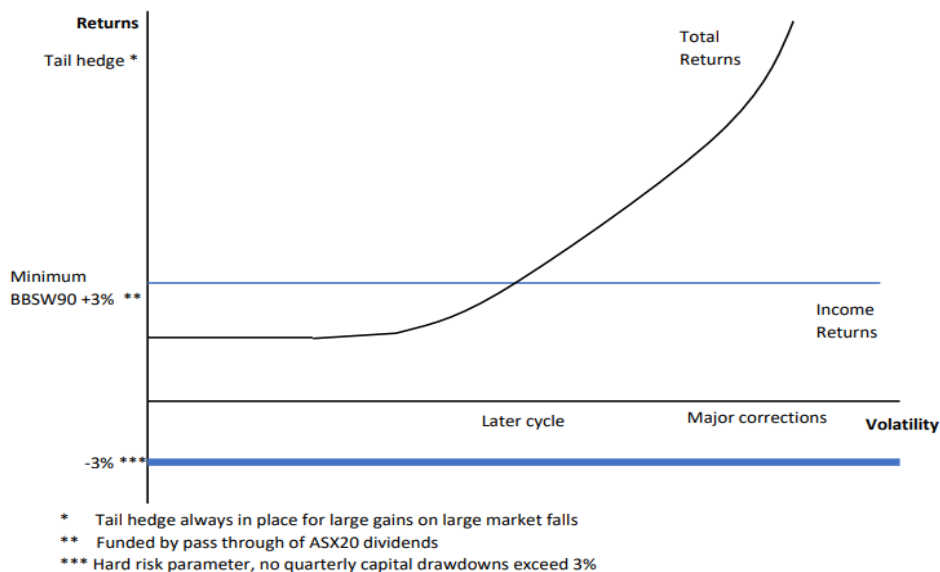
- “Late cycle” asset allocations to “alternatives - defensive” (~ 7 pc - 8.8 pc) can increase portfolio returns and reduces risk



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

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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.

Explaining our 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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Applying established risk management approach

These techniques are not new, in fact they have often been employed by Investment Banks and Market Makers in order to balance their trading books. There are many reasons why they have not been more widely adopted within the Investment Management industry, mainly to do with allocation of proprietary systems resources and the lack of apparent need except in exceptional market conditions.

A 2014 Russell Research document titled “Dynamic Downside Protection” concluded:

“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.

Russell has successfully implemented such Downside Protection strategies for a growing number of clients over the past three years. The performance history illustrates the performance pattern you would expect from such strategies, whilst also showing the potential relative attractiveness of the strategies over 100% cash investments, standard derivative protection strategies and alternative trading programs (e.g. CPPI).

Over the last three years, Russell has extended and improved such strategies, by carefully managing the level of risk being undertaken depending on the market environment, as well as improving the trading efficiency. Russell believes these enhancements can provide a much greater degree of confidence in capturing the Holy Grail of what every investor is looking for; downside protection and upside participation.”

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

Gyrostat has been successfully operating these strategies since 2011 and, as the Russell Report suggests, have found that the performance pattern has conformed much as expected.

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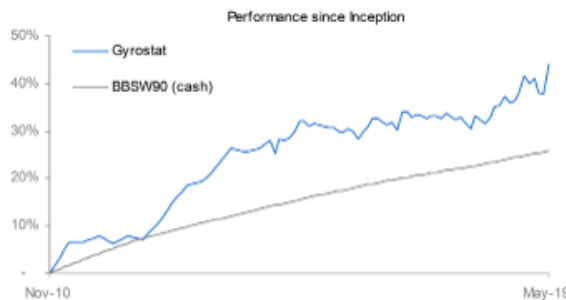
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Opportunities

1. Absolute Return Income Equity Fund - combines income, returns, protection at 'hard' 3% quarterly
2. Investment mandates - Domestic
3. Investment mandates - International
4. Partner for growth index fund

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 44% and regular income.



Returns: 9.2% pa (12M); cumulative 44% (8 years)

Income: 5.0% pa

Protection: No quarterly draw-downs exceed 3%

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

See brief 30 second explanatory video.

<http://www.gyrostat.com.au/news/video-alternative-defensives/>

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.

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).

We have sought investor feedback on our product positioning and value to their portfolio. This process included a review of current and expected future market conditions, past and expected future returns, and income distributions. We continue to be committed to providing a 'hard' risk parameter, and the value of this approach was well recognised. **It is our belief that a modest increase to our risk parameter is warranted, to a 'hard' quarterly 3%. This should generate higher returns to our investors.** Monthly NAV performance will be more variable, with enhanced returns in more volatile market conditions but lower returns in flat markets.

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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. Gyrostat will rebate 50% of management fees to the designated charity.

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

2. Domestic investment mandates

- 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**)

The Gyrostat investment risk management systems identify lowest cost alternatives to protect against market falls.

The lowest cost protection is analysed for a defined period of time, adjusting 'excess' in increments of [2.5%] from [0%] to [10%].

Our approach can be applied where there are highly liquid exchange traded options. Within Australia, this is the ASX200 index and ASX20 stocks.

Mandate features:-

- Protection has a defined maximum upfront cost with compensation dollar for dollar if the asset is below a pre-defined "excess" level.
 - Lowest cost upside capture can be added – this gives greater flexibility for protection to be actively managed with market moves at a maximum pre-defined upfront cost
- Active management for no additional investment delivers:-
 - Market rises: Raise protection level in [2.5%] increments if market conditions permit at a pre-defined fee (say 0.15%)
 - Market rises: Extend duration in monthly increments if market conditions permit at a pre-defined fee (say 0.15%)
 - Market falls: Return all protection establishment costs if market conditions permit and lower strike price [5.0%] in the same time period

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- Large falls: Lower protection level in [2.5%] increments if market conditions permit at a pre-defined cash extraction (say 1.75% to 2.00%) or 70 - 80c in the dollar
- At any time the mandate can be liquidated with protection sold at the current market value, generating cash to be re-deployed.

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

We operate under mandate in Hong Kong and have back tested our approach since 1 July 2006 for a number of major markets.

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 (Eg. 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

4. Partner for growth index fund

Most pre and post retirees' growth assets currently have no protection in place. Gyrostat strategies could provide a risk management overlay to limit drawdowns to a 'hard' 10% quarterly.

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

We have back-tested our approach for a number of major markets since 1 July 2006.

We currently operate under mandate in the Hong Kong market.

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Appendix A: 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

BCom, LLB, MAppFin, PGDip (Int Fin), University of Melbourne

Craig Racine has held senior executive positions based in Australia and Hong Kong in asset management, private equity, investment banking, equity research, and industry. He commenced his career in the chartered accounting industry with KPMG.

In Hong Kong, his senior management experience included 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. During that time he held Board positions in multi-national companies in China (China Unicom), India, Indonesia, The Philippines, Pakistan, and globally. He was a Managing Director and Head of Sector Research at ING Barings (Asia) and Peregrine Investment Bank.

Upon returning to Australia he founded boutique asset management firm Gyrostat Capital Management.

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

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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.

Craig Racine

Founder, CEO, Portfolio Manager - Gyrostat

0407633307

Peter Donnellon

Institutional sales

MBA

Peter Donnellon has over 29 years' experience in the banking stockbroking and investment management industries. He was the chief investment officer and chairman of the asset allocation committee for an international hedge fund of funds business for nine years. In 2008 he was awarded "Winner Best Fund of Funds" at the AIMA Australia Hedge Fund Awards ceremony. He has worked in the equity capital markets, investment trust and derivative structured products divisions of some of the leading international banks. In 2005 he moved from London to Australia to oversee the Asian operations of the fund management business. He holds an MBA from the University of Edinburgh.

Independent research reports:-

Available upon request