GYROSTAT
RISK MANAGED EQUITY FUNDS

Gyrostat Absolute Return Income Equity Fund

Frequency Asked Questions

1. Investors

How will your fund improve my lifestyle?

With historically low interest rates expected for many years, many 'conservative' assets are generating very low returns (such as cash, term deposits, short term bonds).

Gyrostat has for 34 consecutive quarters operated within a 'hard' defined risk parameter (no more than 3% capital at risk) always in place, delivered regular income by passing through ASX20 dividends, and demonstrated increasing returns with market volatility.

We offer the ability to increase your portfolio returns without the risks associated with investing more in unprotected 'growth' assets which exposes your capital to major losses in stock market corrections.

Most analysts anticipate 'late cycle' market conditions with rising volatility levels and elevated risk of major market corrections. Most major corrections occur within 8 years, we are now at year 12, with the longest on record since 1929 being 13 years.

This is important to all investors – for those in accumulation phase it enables a higher return from your conservative assets, whilst for retirees it offers a stable equity income stream with peace of mind from protection always in place.

2. Advisers

What are the key attributes of investment performance?

We track the number of re-sets where the asset value has varied +- 2%, and also the number of gaps at market open exceeding 2%. Our returns have increased the greater the market volatility.

We have a non-linear pay off profile always in place that is 2 dimensional (as distinct from the traditional 1 dimensional payoff).

The shape of the pay off profile is re-set with market moves to match the investment view on each particular stock.

3. Asset consultants

How are you generating alpha in your Fund and why does the Sharpe ratio increase with market volatility?

If you graph our investment performance with returns on the horizontal axis, and standard deviation on the vertical axis, you can see a 9 year history of extremely low standard deviation. This is because there is a 'hard' protection always in place.

It has been long observed that the implied volatility in options varies within the same time period (volatility smile) and over differing time periods (volatility duration).

Our proprietary investment systems have direct feeds to the ASX exchange and instantaneously identify the lowest cost protection available. We have a 3 step process to buy the underlying asset, set the level of protection, and re-set with market moves (whilst meeting our taxation net delta requirements.)

4. Multi managers

Why should we add your Fund as distinct from other risk managed investment approaches?

The correlation of our investment returns to market moves is approximately 0.3 (from recently completed McGregor Consulting Report.).

In addition, with a 'tail hedge' always in place, we anticipate large gains on large market falls.

Implied volatility levels in the options market are nearing historic lows – this provides the opportunity to benefit from volatility spikes as they occur.

5. Distribution partners

What are your business expansion plans?

We currently operate under a wholesale information memorandum. We are in discussions or on the approved product list of a number of wholesale groups.

It is our intention to offer a retail offering on product disclosure statement, with our fund available on investment platforms. We are offering discounted management fees in return for pre-commitments and will then appoint a Responsible Entity (quotations received and all is in place to be implemented.)

6. Family offices/industry super funds

Do you operate under investment mandate, and can you protect our existing assets without triggering capital gains tax liabilities?

Yes. With markets at or near historic highs, and protection costs near historic lows (with low implied volatility levels) the protection only component of our strategy is offered under mandate. We offer a solution that does not trigger the capital gains tax associated with selling the underlying asset.

Our proprietary systems identify the lowest cost protection available for a defined period of time at a 'hard' defined risk tolerance (for instance, no more than 5% at risk.) We actively manage the portfolio within defined parameters set within the mandate (to raise the protection level at a defined cost, lower protection levels for minimum cash receipt, and extend duration for a pre-defined cost.)

7. Product developers/structured product groups

Can we engage Gyrostat to develop products specific to our geographic market at a risk-tolerance we define?

Yes. Our approach is available on any asset with a liquid options market. We operate through the relevant stock exchange (rather than over the counter) for counter party and market determined option pricing.

We have for instance back-tested our approach at a 'hard' 5% monthly/10% quarterly risk tolerance for all major markets. We have operations in the Hong Kong market with this parameter.

We propose our partner own the Fund and meets local regularly and distribution needs, with an investment management agreement to Gyrostat Capital Management.

Naming rights would be with our partner. The markets we have back-tested include Hong Kong, China, Canada and major European markets.

8. Philanthropic

Why should donors invest with Gyrostat?

For donors the cash component of our distribution can be directed to their nominated charity. The investor maintains the franking credits and any changes in capital value.

Gyrostat will rebate half our management fee directly to the nominated charity.

9. Partners

The Financial System Inquiry noted the absence of product for equity income in retirement. Our objective is to more fully commercialize our existing fund (capacity estimates at A$ 2 b ++) as an 'alternative defensive' asset.

We then propose to launch additional funds as an 'alternative – growth' and with geographic expansion.

We will expand our investment expertise (including our sophisticated proprietary investment systems available through technological advancements).

The Financial System Inquiry envisaged closer alliances between boutique managers and larger established wealth groups (including life insurance companies and foreign players in the Australian market.)