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## *Gyrostat – The journey to compelling value*

*Regular income with downside protection always in place  
Track record of returns increasing with volatility*

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Gyrostat has been driven by a fundamental belief that for investors *portfolio structure* is the path to excellence. In seeking to provide unique value to investors, we looked at the assumptions implicit in traditional portfolio design and identified fragilities which have arisen from changes to market conditions.

We then designed our Fund to create an ‘add on piece’ to typical portfolios to address these known weaknesses.

### *Portfolio fragility – lack of non-correlated assets*

Traditional portfolio theory was based upon investing in diversified non-correlated assets, which became shortened to “diversified assets”. During the past 40 years or so stocks and bonds were generally non-correlated ie: if stocks rose and economic conditions were accelerating, interest rates would rise (and hence more appeal to bonds), and vice versa.

This doesn’t work in zero bound or historically low interest rate environments, a consequence of being ‘late cycle’ in the long-term debt cycle, with debt at historically elevated levels. In recent financial crises the value of both stocks and bonds have moved together.

Through its design Gyrostat has a low correlation with the Australian equity market.<sup>1</sup>

### *Portfolio fragility – lack of income producing conservative assets*

Our view was that to be a genuine ‘highly defensive’ asset, protection must always be in place. The general industry perception was this wasn’t possible – it was simply too expensive.

We focussed on creating a ‘highly defensive’ product offering with our specialist knowledge in cost effectively having ‘hard’ protection always in place providing regular income by passing through the dividends

As in any industry development there was a variety of risk management approaches proposed and tested. Many others have focussed on a risk management overlay for growth assets, often using predictive approaches to when to have protection in place and how much. This is not what we do.

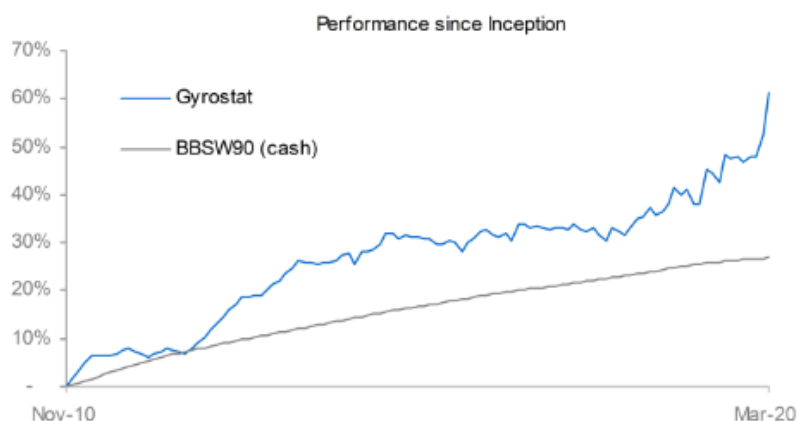
We developed an approach that would be cost effective – identifying the lowest cost alternatives at the protections inception, and then re-setting this protection with market moves.

Our sense was that returns would increase with levels of market volatility, as this provided the opportunity to move actively manage and re-set the protection with market moves.

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<sup>1</sup> McGregor Asset Consulting Investment Review June 2019 p4

Gyrostat has a 10 year track record of no downside exceeding -2.2% in any circumstances. And our returns have increased with levels of market volatility (both up and down), consistent with our guidance.



We are a conservative asset allocation providing regular income with downside protection always. We have a track record of returns increasing with market volatility.

#### *Developing additional Fund elevated return features*

After consulting extensively with our investors and industry participants, we have further refined our Fund features to add more value to investors' portfolios.

We were asked whether we could diversify the market conditions under which our returns would be more elevated, while leaving our protection and income features unchanged.

#### **Make money on 'large' market falls – the 'left' tail.**

Many investors were concerned about the risk of major 'late cycle' market corrections.

*We have added additional protection (always in place) to make gains on large market falls as a permanent feature of our Fund.*

#### **Make money on large stock gains – the 'right' tail.**

There is likely to be a continuing news-flow of very poor economic data and company results, which may lead to increasing levels of Government stimulus and Central Bank liquidity, which may drive the stock market higher.

*We have added a series of underlying assets with non-correlated returns to make gains on large market gains. We adjust the stock and index specific pay-off profiles (eg. some have more upside, some more downside, whilst all are within very strict 'hard' risk parameters). Of our top 8 months of returns, 4 have been in rising markets.*

#### **Increase Fund exposure to include a broad range of international assets**

We were asked whether we could expand our investment universe and apply our approach to include 'overseas' equities. This would add more value to investors through a broader range of diversified non-correlated assets.

*We can apply our investment risk management approach to any liquid markets (exchange traded for counterparty risk). Our Fund now includes international assets such as SP500, Nasdaq, FANGS, Hang Seng, Nikkei, MSCI Developed and Developing markets.*

## The Gyrostat Absolute Return Income Equity Fund product offering today

Retiree income with protection always: 'defensive' fund, track record of returns increasing with market volatility

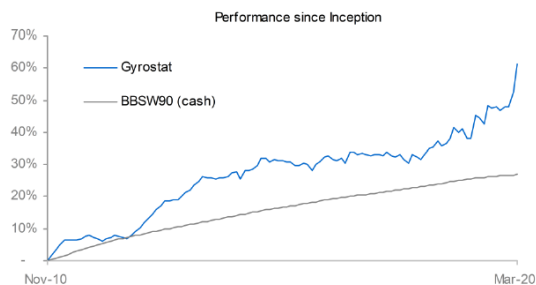
Buy and hold ASX20 and international assets with lowest cost 'hard' protection always in place with upside; No more than 15% may be invested in international assets

### Investment objectives:

•**Returns:** 6% - 8% pa in trending markets, greater than 8% pa in volatile markets, BBSW + 3% in stable markets

•**Income:** Minimum BBSW 90 + 3% (currently 4.0% pa) from pass through of dividends

•**Protection:** 37 consecutive quarters operated within 'hard' pre-defined risk parameter with no quarterly NAV drawdown exceed 3%; maximum capital draw-down - 2.2%



**Sequencing risk:** Includes a 'tail hedge' for gains on large market falls

**Returns low correlation** to market: 0.30