

GYRATIONS – NOV 2021



Volatility is our friend – risk managed investing

MANAGE UNCERTAINTY THROUGH PORTFOLIO CONSTRUCTION

Gyrostat Risk Managed Equity Fund (GRME Fund): The GMRE Fund offers diversified low and non-correlated investment solutions which address sequencing and portfolio drawdown risk while delivering equity income. Our investment universe is a range of ASX200 large cap stocks with liquid options market, including the index, international listed equities and international exchange-traded derivatives.

Portfolio construction can reduce both undesirable volatility and large negative shocks by including diversified non correlated assets.

Risk managed investing has **protection** always in place (dynamically managed as per global best practise), with **returns** designed to increase with market volatility, and regular **income** through the complete investment cycle.

RISK MANAGED INVESTING “GLOBAL BEST PRACTICE”

We have reviewed five global papers on dynamic risk managed protection overlays and two best practice key themes emerge:

- Structure protection between ‘core’ and ‘tail’ protection
- Use Dynamic Downside Protection, not buy and hold protection

<http://www.gyrostat.com.au/assets/Uploads/2021-06-11-Risk-Managed-Investing-Supporting-Pack-v1b.pdf>

These best practice key themes are incorporated in our investment methodology for the GMRE Fund.

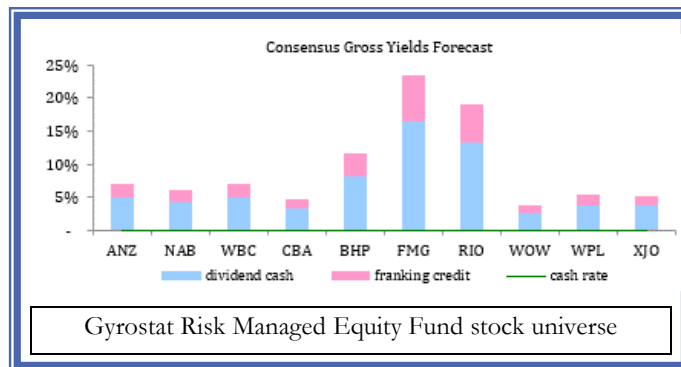
RISK MANAGED INVESTING MARKET OPPORTUNITIES (CLASS A & B UNITS) – LARGE CAP COMMODITY STOCKS

Income: Materials and commodities offer the highest yields

Returns: Commodity stocks are more volatile. Our track record of returns increasing with volatility as measured by market range from low to high; gaps at open exceeding 2%; re-sets within +-2% range from stock price movement

Protection: Risk managed investing always in place to mitigate losses in case of further share price falls

With large iron ore price falls, the commodities sector has become increasingly attractive to allocate capital to meet the GRME Funds’ objectives. Fully franked dividend income is the highest within our investment universe since GMRE Fund inception in 2010 (dividends based upon consensus with pricing from option markets dividends implied post ex dividend date). Returns are dependent upon the range and variability of stock and option prices which have historically been the widest within our large cap investment universe. This variability is anticipated to offset the higher protection costs within our ‘pre-defined hard risk parameters’ always in place – to mitigate against capital losses in case of further significant share price falls.



DYNAMIC HEDGING

Major market falls are a regular and hazardous feature of the investment cycle. Most corrections of > 30-50% have occurred within 6-12 months and typically within an 8 years cycle. We are now at year 13 which is the longest since 1929. Our analysis of why markets fall fast is available at: <http://www.gyrostat.com.au/assets/Uploads/2020-11-17-Gyrations-Nov-v1d-clean.pdf>. Also, refer to the recent article published by the USA Federal Reserve warning that stocks are vulnerable to significant declines: <https://www.zerohedge.com/markets/fed-issues-market-red-alert-warns-stocks-vulnerable-significant-declines>

In the first quarter of 2022, we intend to establish a new fund to be called the Gyrostat Dynamic Risk Managed Protection Fund (**Dynamic Fund**). The trustee of the Dynamic Fund will be Gyrostat Capital Management Pty Ltd ACN 138 219 002 AFSL 452917 and the investment manager of the Dynamic Funds will be Gyrostat Capital Management Advisers Pty Ltd ACN 168 737 246. The Dynamic Fund will be a closed end unregistered scheme and only offered to wholesale investors within the meaning of the Corporations Act 2001 (Cth) under an information memorandum. The Dynamic Fund will offer dynamic risk managed protection with pre-defined 'hard' protection.

A dynamic risk managed approach extracts cash on market falls to take advantage of market movements during the term of the closed end protection (typically 3 or 4 months). The 'hard protection' is always in place and can be moved within pre-defined parameters to extract cash (returned to the investor at the end of closed end fund). The Dynamic Fund will not hold underlying assets other than the options overlay. It is intended to offer a solution for:

- Portfolio construction: protection only piece that reliably increases in value on market falls
- Restraints on significant changes to stock holdings, primarily driven by capital gains tax

Dynamic hedging costs vary with the levels of implied volatility. These are currently at the lower end of historic ranges. The GRME Fund dynamically hedges with an options overlay to protect against capital losses (in the event of significant market falls below predetermined 'hard' protection levels) in respect of the underlying GRME Fund assets and to provide regular targeted income payments.

By way of illustration only, dynamic protection costs are shown at November 4, for a defined period of time and adjusting 'excess' in increments of 2.5% at 5.0%, 7.5% and 10.0%. Protection will be in place for the term against losses below protection levels.

Date	ASX 200 Index	Value of Portfolio AUD		
4-Nov-21	7,410	\$100,000,000		
Customer Risk Tolerance - What % risk / excess Customer willing to accept				
Risk / Excess Level		5.0%	7.5%	10.0%
Index Levels ¹ at the % risk / excess level		7,040	6,854	6,669
¹ Note: Index falls greater will be protected				
Potential payouts (AUD) on various market fall scenarios based on risk accepted				
Market Falls	ASX Index Level	5.0%	7.5%	10.0%
8%	6,817	\$ 3,000,000	\$ 500,000	\$ -
15%	6,299	\$ 10,000,000	\$ 7,500,000	\$ 5,000,000
30%	5,187	\$ 25,000,000	\$ 22,500,000	\$ 20,000,000
Costs (AUD) of protection at various Risk/Excess Levels as at 4 November 2021				
Expiry Date	No of Days	5.0%	7.5%	10.0%
16-Dec	42	\$ 783,063	\$ 463,398	\$ 368,010
	% Cost of Portfolio	0.78%	0.46%	0.37%
20-Jan	77	\$ 1,405,123	\$ 934,151	\$ 729,076
	% Cost of Portfolio	1.41%	0.93%	0.73%
17-Mar	133	\$ 2,700,470	\$ 1,963,923	\$ 1,597,024
	% Cost of Portfolio	2.70%	1.96%	1.60%

We will provide further information regarding the Dynamic Fund closer to its launch date in the first quarter of 2022.

Disclaimer

Gyrostat Risk Managed Equity Fund (GRME Fund)

The responsible entity for the Gyrostat Risk Managed Equity Fund (ARSN 651 853 799) is Columbus investment Services Limited (ACN 095 162 931) (AFSL221183) (**CISL**). The investment manager for the GRME Fund is Gyrostat Capital Management Advisers Pty Ltd (ACN 168 737 246), a duly authorised representative of Gyrostat Capital Management Pty Ltd (ACN 138 219 002) (**GCM**) and One Wholesale Fund Services Ltd (ACN 159 624 585).

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Gyrostat Dynamic Risk Managed Protection Fund (Dynamic Fund)

The trustee for the proposed Dynamic Fund will be Gyrostat Capital Management Pty Ltd ACN 138 219 002 AFSL 452917 (GCM) and the investment manager of the proposed Dynamic Fund will be Gyrostat Capital Management Advisers Pty Ltd ACN 168 737 246 (GCM and together with GCM, the GCM Entities). a duly authorised representative of GCM.

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