

GYROSTAT

CAPITAL MANAGEMENT

Gyrostat Risk Managed Equity Fund

Web: gyrostat.com.au

Tel: 03 8678 1742

ARSN

651 853 799

Eligibility

Investors who qualify as 'Wholesale Clients'

Responsible
Entity

Columbus Investment Services Ltd
(ACN 095 162 931) (AFSL221183)

Investment
Manager

Gyrostat Capital Management Advisers Pty Ltd
(ACN 168 737 246)

Gyrostat Risk Managed Equity Fund

Gyrostat Absolute Return Income Equity Class - Class A Units

Retiree income with downside protection
Volatility is our friend – risk managed investing

- Income paid quarterly from dividend pass through and dynamic hedging risk managed overlay
- Returns designed to increase with market volatility (including large market falls)
- Protection always in place (dynamically hedged as per global best practice)

Gyrostat has consistently delivered income to investors and delivered 45 consecutive quarters with no losses exceeding its pre-defined 3% risk tolerance

Competitive advantage: Risk managed investing - dynamic hedging – proprietary software systems and processes

Gyrostat Risk Managed Equity Fund

Why did Gyrostat develop the Gyrostat Risk Managed Equity Fund (**Fund**)?

The Fund was developed to meet retiree financial risk management needs.

There have been 10 years of Government retirement income reviews in Australia to encourage the development of capital protected retiree income products.

The Financial System Enquiry, commissioned by the Australian Government concluded in their final report:

“The retirement phase of superannuation is underdeveloped and does not meet the risk management needs of many retirees.”

The various reviews have listed the criteria to be satisfied as follows: regular income, capital protection , no lock in periods for investors, transparent pricing, strong counterparty and no credit default risks .

Gyrostat meets all these requirements.

Investment Objectives:

Returns: 6% - 8% p.a. in trending markets, greater than 8% p.a. in volatile markets, BBSW3M + 3% p.a. in stable markets

Income: Minimum cash rate + 3% from dividends and risk management profits paid quarterly

Protection: No quarterly NAV draw-down exceeding 3%. Also includes a ‘tail hedge’ for gains on large market falls.

Gyrostat Risk Managed Equity Fund

Who is in the Gyrostat team and what is their background?

The Gyrostat team has extensive experience domestically and globally, as investors, as non-executive directors, and as senior management in funds management, private equity, industry, investment banking, financial services law and equity research.

The organisation has been very stable:

- Craig Racine and Leo Tang from inception – December 2010
- Peter Clifton and Andrew Smith from 2014
- David Barwise from 2018
- Peter Keating from 2021

Key skills are as follows:

Craig Racine:	investment, business development
Leo Tang:	investment, systems, IT
Peter Keating:	investment operations, finance
Peter Clifton:	governance, strategy
Andrew Smith:	compliance, strategy
David Barwise:	legal, compliance

Gyrostat Risk Managed Equity Fund

What is the product positioning of the Fund?

The Class A Units aim to deliver **regular and stable retiree income with downside protection.**

The strategy aims to deliver a stable source of income by investing in high dividend paying stocks (largely Australian) and overlaying derivative strategies that will (a) provide a floor on the capital value of the investment and (b) provide opportunistic upside when warranted by market conditions.

The strategy looks and feels like a fixed income strategy as it provides:

- liquidity (for a portion of the allocation);
- a stable and reliable source of income; and
- an offset to losses incurred in adverse equity market conditions (sequencing draw-down risk)

Retiree investment portfolio considerations:

Gyrostat should be considered as an integral component of a diversified portfolio aimed at enhancing a retiree's fixed income. We believe it adds value, as the Class A units may generate positive returns in a market crash which is a diversifying offset to any credit strategy that is likely to underperform in this scenario.

Gyrostat Risk Managed Equity Fund

What are the expected returns of the Class A units under different market conditions?

Investment Objectives:

Returns: 6% - 8% p.a. in trending markets, greater than 8% p.a. in volatile markets, BBSW3M + 3% p.a. in stable markets

Income: Minimum cash rate + 3% from dividends and risk management profits paid quarterly

Protection: No quarterly NAV draw-down exceeding 3%. Also includes a 'tail hedge' for gains on large market falls.

Expected returns are based upon stock price changes, option pricing, and dividends.

In falling markets, profits are achieved from options trading as these profits exceed losses on stock. Our portfolio structure always has more bought puts than underlying assets – as a result we can meet our 'hard' risk criteria and sell any additional put options on market falls (providing a source of income for distributions). This is what happened in February and March 2020 when banks fell 50% and dividends were nil, yet we had a record year and met our distribution targets.

In rising markets, profits are achieved from stock price gains exceeding falls in the value of the options protection. In some instances, bought call options also generate additional profits.

In stable markets, returns depend upon the frequency of market re-sets (i.e. stock price realized volatility +/-3% approximately during the period, and the number of gaps at the open in stock price.) The higher the volatility, the higher the returns . Gaps occur when the price of a stock, or another asset, opens above or below the previous day's close with no trading activity in between.

Gyrostat Risk Managed Equity Fund

What are the approaches to financial risk management? What is best practice?

A summary of the risk management approaches is as follows:

- Vary asset allocation between stocks and bonds (diversification)
- Buy underlying asset, write call options (Buy-write income funds)
- Long/short funds (market neutral, 130/30)
- Buy underlying asset, using a predictive approach to sell futures contracts at some times
- Buy underlying assets, buy put options at selected times using predictive approaches
- Buy put options and hold cash (volatility as an asset class)
- Dynamic risk managed protection overlays: buy underlying assets, buy put options (always in place 'hard' risk parameter) – the Gyrostat approach

Gyrostat has 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

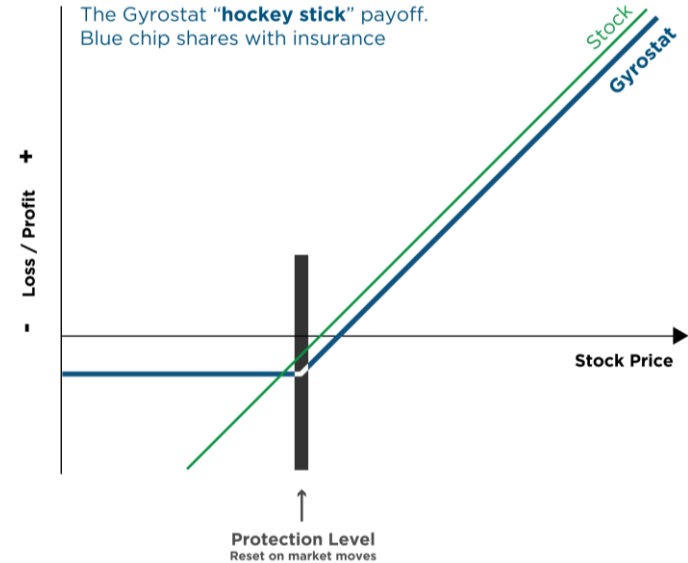
These best practice key themes are incorporated in our investment methodology for the Fund.

Gyrostat Risk Managed Equity Fund

How does Gyrostat construct its Portfolio?

There are 3 steps in our risk management investment approach:

- a. **Buy** stock [approx. 95% capital deployed in stock]
- b. **Set** risk management overlay [approx; 5% capital]
- c. **Re-set** dynamic risk managed overlay with market moves



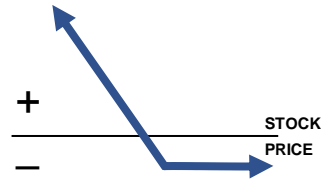
At any point in time the portfolio holds about 15 “positions. A “position” is comprised of an exposure to a stock complemented by a derivatives’ overlay. The components of each position are actively traded to keep the derivatives overlay in line with the underlying stock.

A quantitative/qualitative screening is applied to the eligible securities to determine which are then entered into to support a position. The quantitative/qualitative screens bias the selection to names that provide attractive valuations but are unlikely to exhibit a “value” trap. The screens include using forward earnings estimates in a residual income model (fundamentally based) as well as a variety of technical price driven signals (relative market performance, performance over time, resistance levels). A qualitative assessment of the business is undertaken to mitigate value traps.

Gyrostat Risk Managed Equity Fund

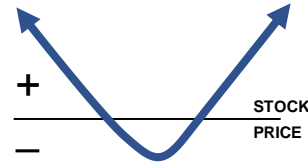
How we make money – ‘position’ payoffs from investment view

Varying the investment recipe between ‘core’ and ‘tail’ protection to adjust risk-return payoff



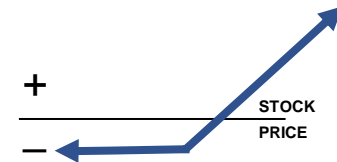
Large falls

- Options extra protection sold
- ‘Conviction’ short at a defined cost with large upside



Range bound

- Option trading from re-setting protection levels
- Buy options ‘low’ and ‘sell’ high



Rising trend

- Stock price gains
- Re-set protection level high to ‘lock in’ gains

Stocks are ranked based on fundamental and technical analysis

Stock risk-return profile is re-set to match view

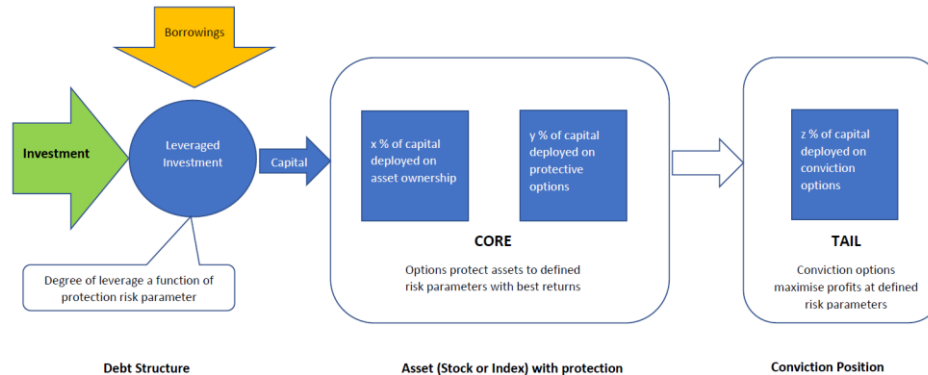
Gyrostat Risk Managed Equity Fund

Portfolio construction -What is 'global best practice' for dynamic risk managed investing?

Gyrostat uses proprietary software to identify options series with the greatest profit potential for a defined cost, exploiting differing levels of implied volatility in the options market.

It is important to note that the overlay is not a set and forget strategy. Rather, it is actively monitored and trades follow large market or stock specific moves. Hence trading is intensified around corporate events. The strategy achieves its highest returns on market 'gaps' from the previous days close to market open.

Gyrostat Investment Risk Return Variables



Gyrostat Risk Managed Equity Fund

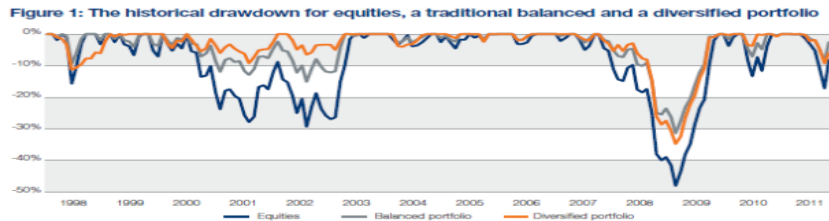
Why consider risk managed investing?

Our flagship class A has a track record exceeding 10 years with no quarterly drawdown greater than a pre-defined 3% limit and returns increasing with volatility. Class A is designed to increase in value on major Australian market falls. For instance:

1 Feb 2020 to 31 March 2020: Gyrostat + 9.1% ASX200 - 26.8%

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

- Many portfolios are no longer diversified non correlated as a result of zero bound or negative interest rates
- Stock markets are 'late cycle' and expensive by most valuations metrics. Most corrections of >30%-50% occur within 6-12 months and typically within an 8 year cycle; we are now at year 13 which is the longest since 1929
- Historical drawdown losses with traditional balanced and diversified portfolios did not protect as well as expected



Diversification out of equities into the asset classes did not protect portfolios as well as expected

Gyrostat Risk Managed Equity Fund

Investment cycles – major sell offs a regular and hazardous part of the investment cycle

S&P 500 Index - 90 Year Historical Chart: Peak to trough falls > 20%, duration of falls, time to recover to pre fall levels

The graph shows the extent of falls from peak to trough SP500, the duration of the fall, and time taken to recover to pre fall highs.

Source: <http://www.macrotrends.net/2324/sp-500-historical-chart-data>

Mar 18, 2022: Where we are in the investment cycle – historical perspective

<https://www.cmgwealth.com/ri/on-my-radar-what-current-valuations-tell-us-about-probable-future-returns-and-mauldins-recession-call/>



Gyrostat Risk Managed Equity Fund

Competitive advantage – dynamic hedging through proprietary systems

The Fund's distinctive feature is having downside protection, through options hedging, in place at all times.

“Cost effective” protection from:

- Identification of lowest cost alternative for a defined risk (implied volatility alpha)
- Adjust /Re-set risk-return payoffs with market moves (underlying stock/ETF and option markets) – “dynamic hedging”

Proprietary systems have:

- Detailed understanding of the current term structure and volatility smile of options market (enabled by technology - direct interface with the ASX and international exchange options market) – ability to adjust ‘options overlay’ depending upon current term structure and volatility smile of options
- Analyse the data in real time and combine stock with ASX (and international exchange) options to meet class investment objectives
- Strategies to implement throughout the investment cycle and changing conditions in the level of implied volatilities within the options market
 - Bought put options
 - Put option spreads
 - Collars (partial)
 - Bought and written call options
 - Put spread collars (partial)

Gyrostat Risk Managed Equity Fund

Suitable wholesale investors

- Pre and post retirees
- Lower and moderate risk 'model' portfolios –asset consultants and dealer groups
- Wholesale platform availability: Netwealth, Powerwrap, Mason Stevens
- Accounting practices with own AFSL - private label
- Managed Discretionary Account advisers
- Philanthropic investors: cash rebates directly to your designated charity
- SMSF

The Fund is offered under Product Disclosure Statement dated 15 February 2022. It converted to a registered scheme from July 2021.

Gyrostat Risk Managed Equity Fund

To summarise

- Portfolio construction to address uncertainty and avoid regret
- Specific solutions can be tailored depending upon the composition of your existing portfolio
- Adapt to the changing 'late cycle' investment climate -highly indebted - historic low interest rates - heightened geopolitical uncertainty

"You've spent so much time putting it all together – what's the point if it is going to fall apart on major market falls.

"You can do *nothing*, or you can do *something*" – Ben Feldman

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, and equity research.

Craig Racine- Managing Director, Chief Investment Officer

BCom, LLB, MAppFin, PGDip (Int Fin)

Craig Racine has over 25 years' experience, at senior executive and directors' roles, within finance and business development. He has been an investor for the past 12 years, and is the founder of Gyrostat Capital Management. Previously his senior management experience includes 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. He was a Managing Director at ING Barings (Asia). He has extensive domestic and international experience, having held senior executive positions in private equity, investment banking, equity research and industry. He began his career in the chartered accounting industry. He has held Board positions in multi-national companies in China, India, Indonesia, The Philippines, Pakistan, and globally.

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 Chairman of Aobo Environmental Technology Ltd, Responsible Manager (ASIC) Goal Advisory Pty Ltd; and Dennis AFSL Pty Ltd.

In his former executive roles he was 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 has also held non-executive directorships for a variety of listed and non listed companies.

David Barwise • LLB, LLM, MAICD, FGIA, FCIS

Director

David Barwise has over 25 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.

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 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).

The information provided in this document was not prepared by CISL but prepared by other parties. All of the commentary, statements of opinion and recommendations contain general advice only. This information does not take into account your investment objectives, particular needs or financial situation. You should seek independent financial advice.

The content of this document does not constitute an offer or solicitation to subscribe for units in the Funds or an offer to buy or sell any financial product. Accordingly, reliance should not be placed on this document as the basis for making an investment, financial or other decision.

Past performance is not a reliable indicator of future performance. Performance comparisons are provided purely for information purposes only and should not be relied upon. The information included in this document may include information that is predictive in character which may be affected by inaccurate assumptions or by known or unknown risks and uncertainties and may differ materially from results ultimately achieved.

Whilst all care has been taken in preparation of this document, neither CISL nor the Investment Manager give any representation or warranty as to the reliability, completeness or accuracy of the information contained in this document. Neither CISL nor the Investment Manager accepts liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information.

You should obtain and carefully consider the Product Disclosure Statement (**PDS**) for the Fund before making any decision about whether to acquire, or continue to hold, an interest in the Fund. Applications for units in the Fund can only be made pursuant to the application form relevant to the Fund. A copy of the PDS (dated 15 February 2022) and relevant application form may be obtained from:

<https://www.gyrostat.com.au/application-forms> or <https://www.oneinvestment.com.au/gyrostat>.