

# GYRATIONS – Feb 2022



## Volatility is our friend – risk managed investing

### MANAGE UNCERTAINTY THROUGH PORTFOLIO CONSTRUCTION

**Gyrostat Risk Managed Equity Fund (GRME Fund):** The GMRE Fund aims to deliver **retiree income with downside protection** through risk managed investing. We believe adding our fund to an investment portfolio addresses sequencing and portfolio drawdown risk while delivering quarterly equity income. Returns have low correlation with stock markets. 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.

Gyrostat class A has operated for 45 consecutive quarters with no losses exceeding 3%, our pre-defined risk tolerance.

### 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 GRME Fund.

Major market falls are a regular and hazardous feature of the investment cycle.

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

The speed of the previous two major falls and recoveries have been amongst the quickest since 1929.

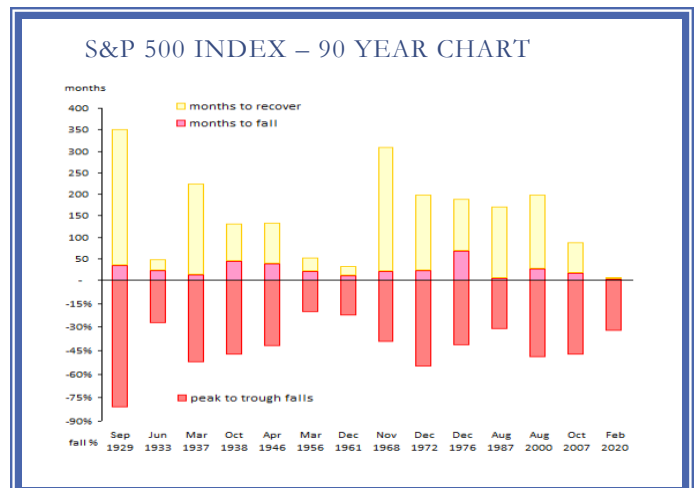
A more detailed analysis on market conditions:-

Stan Druckenmiller

<https://www.youtube.com/watch?v=rq2lGZyW2yA>

Jeremy Gratham

<https://www.youtube.com/watch?v=JIEGU2ypr1Q>



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

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.

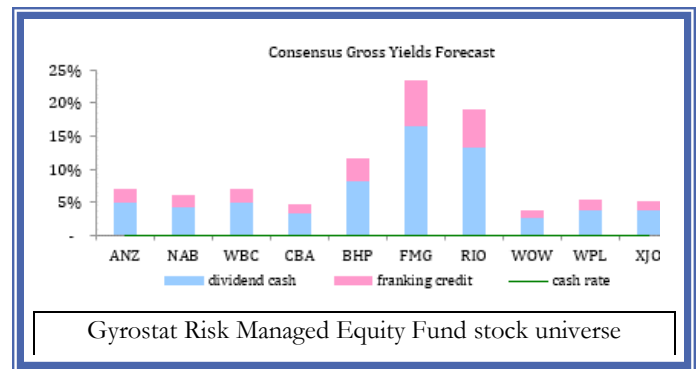
The strategy is “peculiar” in that it does not invest in fixed income securities, but it has fixed income like characteristics.

**Income:** Materials and commodities offer the highest yields

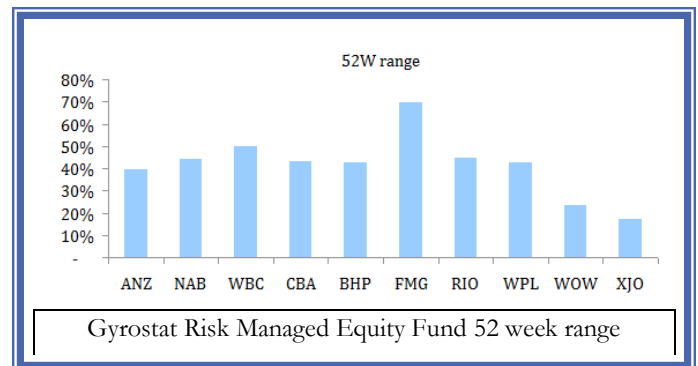
**Returns:** Commodity stocks are more volatile. Our track record of returns increasing with volatility as measured by market range from low to high; gaps at open exceeding 2%; re-sets within +2% range from stock price movement

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

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). Positions in Fortescue and BHP Returns are well positioned for strong returns into dividend capture in February and March.



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. 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>.

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. 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 February 2, 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.

Pricing of risk has increased significantly over the past month as stock markets have corrected.

Date	ASX 200 Index	Portfolio Value (AUD)		
2-Feb-22	7,097	100,000,000		
<b>Customer Risk Tolerance - % risk / excess customer willing to accept</b>				
Risk / Excess Level		5.0%	7.5%	10.0%
Index levels at the % risk / excess level		6,742	6,565	6,387
note: Index falls greater will be protected.				
<b>Potential payouts (AUD) on various market fall scenarios based on accepted risk</b>				
Market Falls	ASX 200 Index	5.0%	7.5%	10.0%
8%	6,529	3,000,000	500,000	-
15%	6,032	10,000,000	7,500,000	5,000,000
30%	4,968	25,000,000	22,500,000	20,000,000
<b>Costs (AUD) of protection at various Risk / Excess Levels on February 02, 2022</b>				
Expiry Date	No of Days	5.0%	7.5%	10.0%
17-Feb-22	15	666,632	599,969	533,306
	% Cost of Portfolio	0.67%	0.60%	0.53%
17-Mar-22	43	1,883,960	1,695,564	1,507,168
	% Cost of Portfolio	1.88%	1.70%	1.51%
21-Apr-22	78	2,688,267	2,419,440	2,150,613
	% Cost of Portfolio	2.69%	2.42%	2.15%
19-May-22	106	3,362,145	3,025,930	2,689,716
	% Cost of Portfolio	3.36%	3.03%	2.69%

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.

All of the commentary, statements of opinion and recommendations concerning the proposed Dynamic Fund 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.

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