GYRATIONS – July 2023

Capital growth and income whilst hedging equity market risk

Portfolio construction: Lower beta with alpha brings diversification benefits

Gyrostat Risk Managed Equity Fund (GRME Fund): The GMRE Fund is a lower risk fund with capital <u>always</u> protected, reliable income, positive returns in rising and falling markets including in a market crash.

Portfolio construction can reduce both undesirable volatility and large negative shocks by including diversified non correlated assets. Gyrostat class A has generated non correlated beta returns since inception in 2010. Gyrostat class A has operated for 52 consecutive quarters with no losses exceeding 3%, our pre-defined risk tolerance.

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.

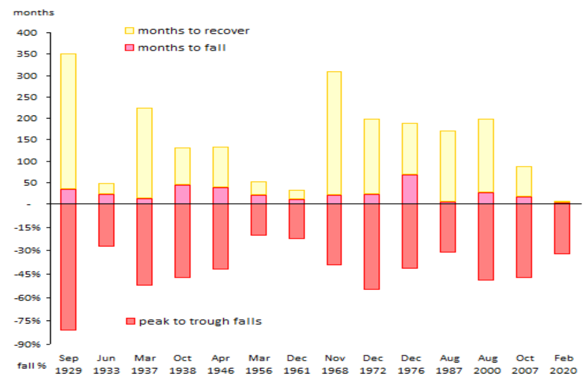
The speed of the previous two major falls and recoveries have been amongst the quickest since 1929.

A more detailed analysis on portfolio contruction:-

Ray Dalio
https://www.youtube.com/watch?v=Nu4lHaSh7D4

Mark Spitznagel
https://www.youtube.com/watch?v=gGpt8VNpCxw

S&P 500 INDEX – 90 YEAR CHART



THIS MONTH

BIG PICTURE SUMMARY

Times are uncertain.

- We're seeing high stock market valuations.
- The RBA has raised rates from 0.1% to 4.1% since May last year. Tightening liquidity.
- We believe we are in or very near a recession. Stocks usually decline more than 30% in a recession.
- We're at the end of an 80-year long-term debt super-cycle. Global debt to GDP is approx 350%

MANAGE UNCERTAINTY THROUGH PORTFOLIO CONSTRUCTION

There have been significant advances in risk management for conservative investors, enabling them to protect and grow capital with reliable income through the complete investment cycle. Volatility is near record lows so now is the time to act. This is traditionally handled by adjusting asset allocation by combining the two approaches outlined below:

- Diversifying risk- varying the allocation of 'conservative and 'growth' assets.
- Protection sometimes in place using a predictive risk management overlay. The benchmark for investment performance is typically an industry equity index. The variety of approaches includes:
  - Buy underlying asset, write call options (Buy-write income funds)
  - Long/short funds (market neutral, 130/30)
  - Buy underlying asset, using predictive approach has the ability to sell futures contracts
  - Buy underlying assets, buy put options (sometimes) using predictive approaches
  - Buy put options and hold cash (volatility as an asset class)

Gyrostat manages this uncertainty by ensuring protection always in place using dynamic hedging – protection adjusted with market moves (not set and forget). Proprietary software systems and processes with direct stock exchange feeds to identify lowest cost protection

The investment performance of the three approaches varies across the investment cycle. By combining the three and adjusting asset allocation now while volatility is low, it is possible to benefit with capital growth in volatile markets (including large 'one off' share price falls).

Strategy	Attributes	Falling market (trending)	Volatile market (including 'one off' large falls)	Stable market	Rising market (trending)
Diversify risk - allocation of 'conservative and 'growth' assets	Requires a range of beta correlation coefficients to be effective	Unfavourable	Unfavourable – capital losses	Favourable	Favourable
Protection sometimes in place using predictions	Requires correct market timing to be effective	Unfavourable	Unpredictable – capital gains and losses	Favourable	Favourable (possibly mitigated)
Protection always in place -absolute return (Gyrostat)	Reliable non-correlated beta as put protection increased on market falls. Prefers more volatile markets.	Favourable (mitigated)	Very favourable – capital growth potential	Less favourable (lower returns)	Favourable (mitigated)

PORTFOLIO CONSTRUCTION CHECKLIST

1. What type of investor are you – in particular what is your 'risk' appetite?

Psychologists have noted that loss aversion increases if the consequences of possible loss can be ruinous to your lifestyle. This is particularly true of many retirees as reflected in the concept of sequencing risk. This is why the defensive asset allocation is higher depending upon your level of risk aversion. Gyrostat is a defensive asset allocation.

2. What are the capital losses drawdown exposures embedded in your portfolio?

Performance Class A compared with worst 5 quarters from the ASX accumulation index (since Fund inception December 2010).

Stock specific protection reliably increases in value on share price falls.

Period	ASX accumulation return	Gyrostat Class A return
Apr - Jun 2022	-11.90%	8.70%
Jan - Mar 2020	-23.10%	9.22%
Oct - Dec 2018	-8.24%	4.18%
Jul - Sep 2015	-6.58%	-0.26%
Jul - Sep 2011	-8.17%	1.29%

3. How many assets in your portfolio reliably increase on market falls? (ie: non correlated diversified assets)

Investment performance as at 30 June 2023

Class A	1Y	2Y(PA)	3Y (PA)	5Y(PA)	SI (PA)
Return (%)	9.11	10.68	3.46	5.93	4.79
Beta XJT	-0.19	-0.19	-0.20	-0.22	-0.08

Summary:

Our biggest investment regrets are often our inactions, not our actions, particularly where the consequences of failing to act threaten your lifestyle as is the case with major market falls.

GENERAL INVESTMENT CLIMATE

Valuations: We are seeing high stock market valuations with low buy and hold returns over the coming decade. CMG, a leading US analyst monitors a wide range of valuation metrics:

Factor	Start Date of Data	End Date of Data	Most Recent Value	Most Recent Tile
Median Price to Earnings	03/31/1964	06/30/2023	26.0	Extremely Overvalued
Price to GAAP Earnings	03/31/1926	06/30/2023	24.7	Extremely Overvalued
Price to Shiller Earnings	12/31/1925	12/31/2022	27.9	Extremely Overvalued
Price to Shiller Operating Earnings	01/31/1995	06/30/2023	27.5	Moderately Overvalued
Price to Shiller Operating Earnings (GAAP Earnings Prior to 1994)	02/29/1936	06/30/2023	27.5	Extremely Overvalued
Total Market Value to Shiller Total NIPA Earnings	02/28/1957	06/30/2023	29.4	Extremely Overvalued
Total Market Value to Total NIPA Earnings	03/31/1952	06/30/2023	29.5	Extremely Overvalued
Price to Cash-Adjusted Earnings	12/31/1973	06/30/2023	20.5	Moderately Overvalued
Price to Operating Earnings	12/31/1984	06/30/2023	21.6	Moderately Overvalued
Price to Forward Earnings	02/28/1983	06/30/2023	18.7	Extremely Overvalued
Price to 4Y Trailing & 1Y Forward Earnings	02/29/1988	02/28/2023	21.3	Moderately Overvalued
Price to 1Y Trailing & 1Y Forward Earnings	02/28/1987	02/28/2023	18.6	Moderately Overvalued
Price to Sales	01/31/1972	06/30/2023	2.5	Extremely Overvalued
Price to Book	12/31/1925	06/30/2023	4.1	Extremely Overvalued
Price to Cash Flow	01/31/1967	06/30/2023	15.5	Extremely Overvalued
Dividend Yield	12/31/1925	06/30/2023	1.5	Extremely Overvalued

We are here
Red is bad

S&P 500 INDEX TOTAL RETURN BY DECILE
10 Year Periods Ending 1909 - 2022 (114 periods)

DECILE	TOTAL RETURN BY DECILE RANGE FROM	TO	RETURN DECILE AVG	AVG BEGIN P/E	AVG END P/E
1	-1.8%	3.6%	1.3%	27.0	14.8
2	3.7%	5.4%	4.7%	16.3	9.5
3	5.4%	6.5%	6.0%	17.3	12.2
4	6.5%	7.6%	7.2%	20.6	19.6
5	7.6%	8.9%	8.2%	16.4	14.2
6	9.0%	10.9%	9.6%	17.4	18.3
7	11.0%	13.4%	12.0%	15.0	20.2
8	13.7%	14.7%	14.2%	12.6	20.9
9	14.7%	16.2%	15.5%	11.2	20.7
10	16.3%	19.2%	17.2%	11.4	23.4

We are here

We'd be better off here

Notes: Total Return Includes Dividend Yield; P/E is CAPE P/E10

https://www.cmgwealth.com/ri/on-my-radar-2023-mid-year-market-valuation-update/

MACRO ECONOMIC

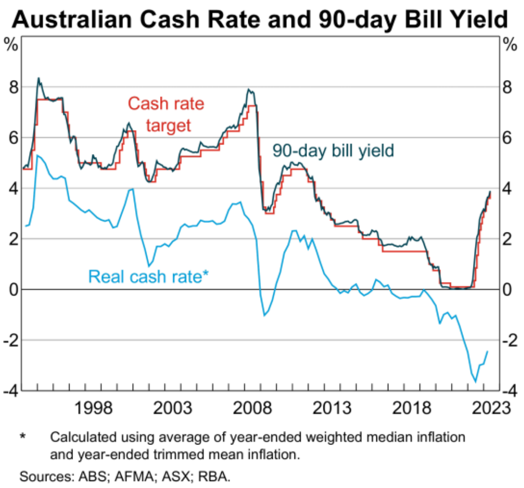
Interest rates

The RBA has raised rates from 0.1% to 4.1% since May last year. Tightening liquidity. However real interest rates are still negative.

We believe we are in or very near a recession. Stocks usually decline more than 30% in a recession.

https://www.rba.gov.au/chart-pack/interest-rates.html

https://www.rba.gov.au/statistics/cash-rate/



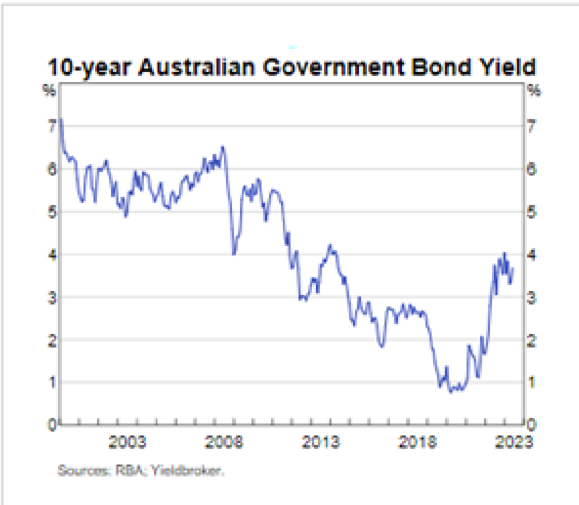
Bond Yields

10 year bond rates have risen significantly since the RBA raised target rates 0.25 bp in May 2022.

http://www.bloomberg.com/markets/rates-bonds

The Australian Government 10 year bond is priced at 4.016% (July 1, 2023)

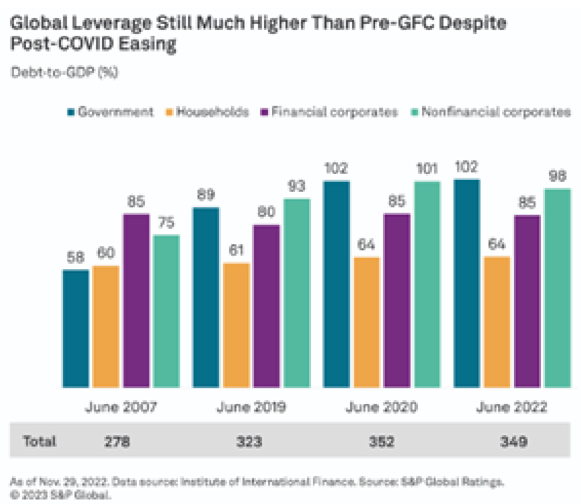
http://www.worldgovernmentbonds.com/country/australia/



Debt – 'late stages' long term debt cycle

Global debt levels are at a record 349% of world GDP and rising (Institute of International Finance)

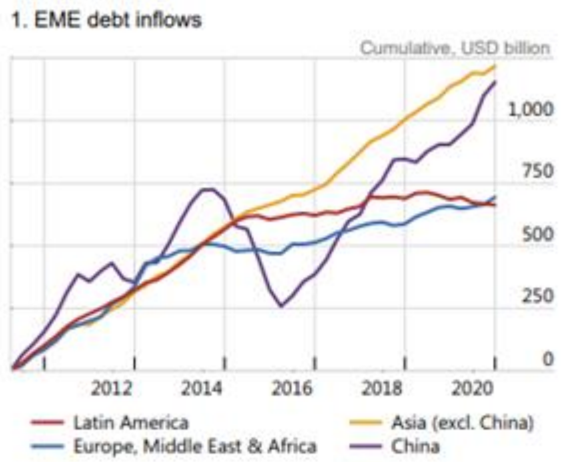
https://www.spglobal.com/en/research-insights/featured/special-editorial/look-forward/global-debt-leverage-is-a-great-reset-coming



Debt - emerging markets

External financing makes emerging market economies (**EME**s) sensitive to sudden tightening in global financial conditions. In times of stress, investors may seek to sell emerging market (**EM**) assets and the resulting increase in spreads raises the cost of new funding. US dollar-denominated borrowings by EM corporations have increased rapidly in recent years according to Bank of International Settlements raising concerns about possible currency mismatch risk, debt defaults, and capital flight from those countries subject to currency devaluations. See exchange rates below.

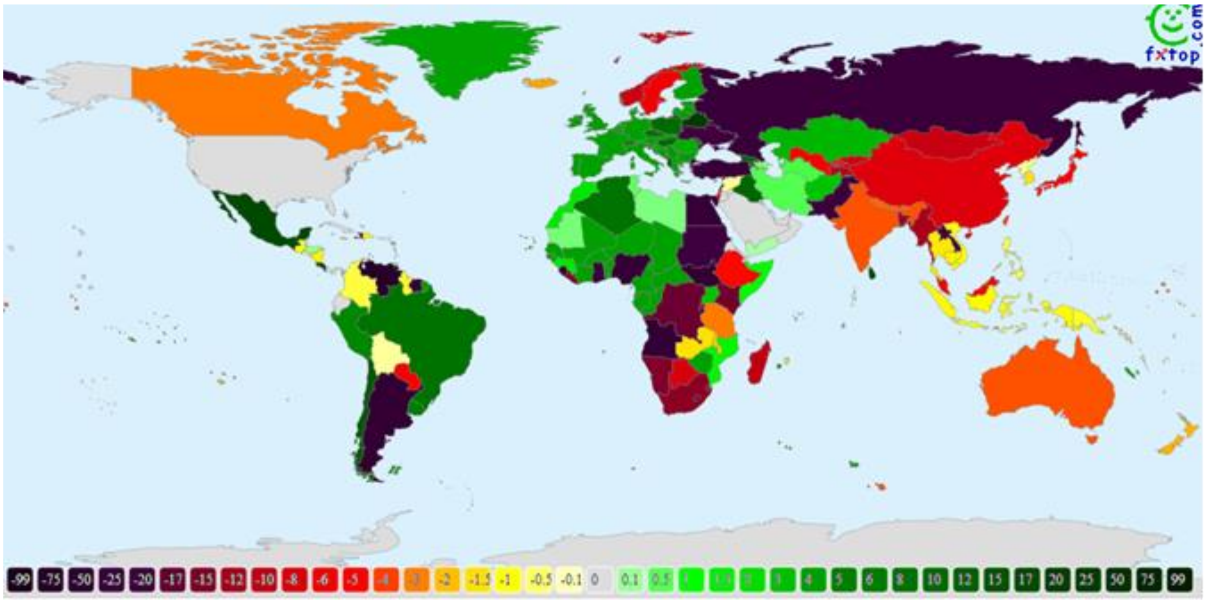
https://www.fsb.org/wp-content/uploads/P260422.pdf



Exchange rates

Over the past 12 months, movements of currencies relative to the US dollar are shown below. In green is shown those countries with increases, in purple and red those with devaluations. A rising US dollar increases the risk of debt defaults and capital flight in those countries with unhedged borrowings and domestically generated revenues.

http://fxtop.com/en/forex-map.php



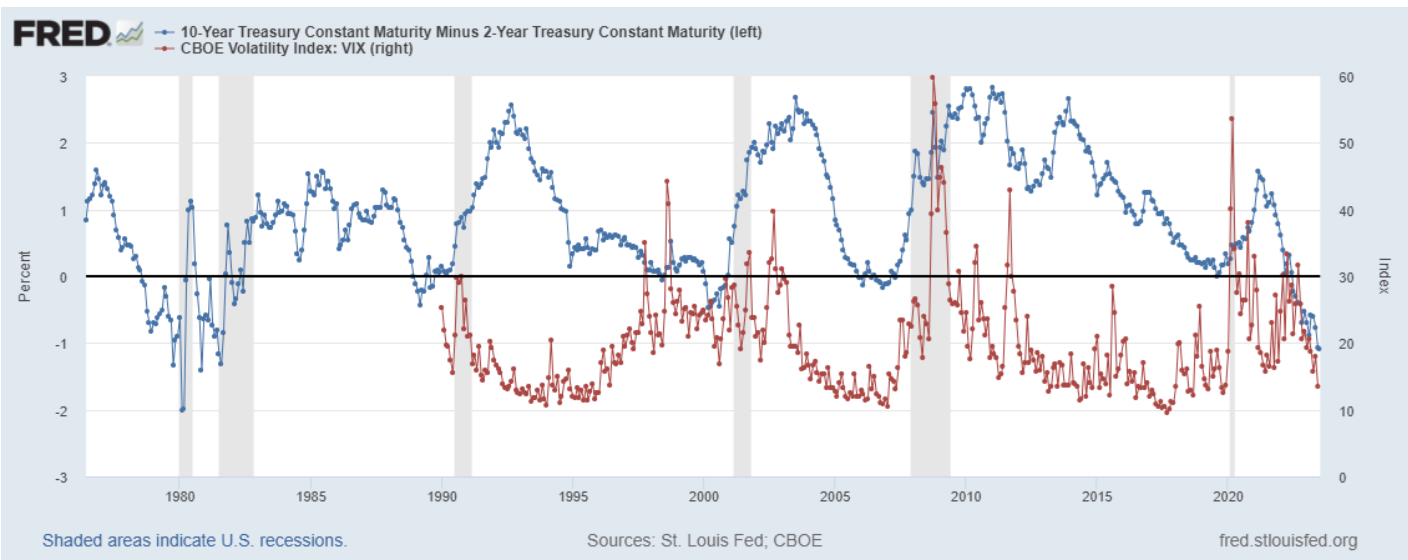
PRICING OF RISK

The USA Federal Reserve Economic Data publishes the VIX volatility index. Derived from the index prices of SP500 options it provides a measure of market risk and investor sentiment.

Since October 2022 there has been a significant reduction in market volatility – significantly reducing the cost of protection. It is our expectation that volatility will increase as valuations, macro economic and geopolitical considerations result in more volatile conditions.

Federal Reserve Economic Data VIX (shown in red) RH axis

10 year US Treasury bond rate LH axis



Source: https://fred.stlouisfed.org/graph/?g=k1bn

FURTHER INFORMATION

https://www.gyrostat.com.au/

Performance reports:

https://www.gyrostat.com.au/investment/performance/

Disclaimer

Gyrostat Risk Managed Equity Fund (GRME Fund)

The responsible entity for the Gyrostat Risk Managed Equity Fund (ARSN 651 853 799) (**Fund**) is One Managed Investment Funds Limited ACN 117 400 987 AFSL 297042 (**OMIFL**). 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) (AFSL 452917) (**GCM)**.

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