

GYROSTAT CAPITAL STABILITY INCOME FUND

Higher income than cash and term deposits

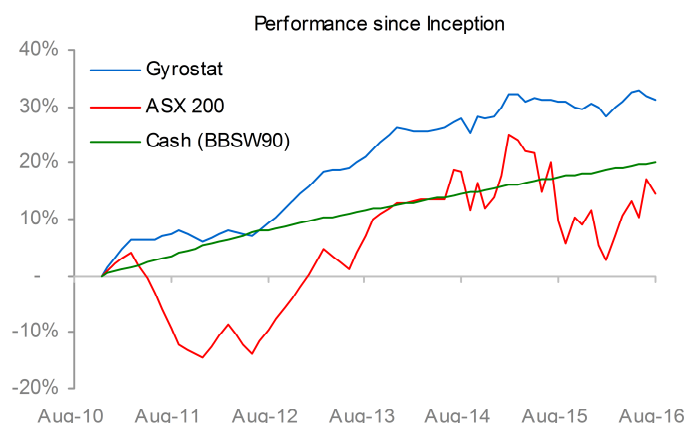
31 AUGUST 2016

Always protecting and growing capital

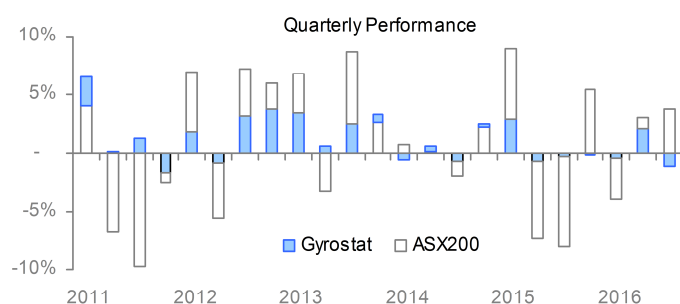
We are a 'risk managed equity income fund'. We are always fully invested in blue chip high yielding shares and insure downside with lowest cost alternatives on the ASX. Gyrostat's unique offering is the ability to have a **"hockey stick"** risk-return profile at all times, **participating in share price upside with minimal capital at risk**. We pass on dividends and franking credits to our investors. Our strategy **benefits** from increasing stock market **volatility**. Investor funds and stocks are held in custody by Australia's largest independent custodian One Investment Group. Brief video on our approach: www.gyrostat.com.au/investment/

Key Features

- Minimum distribution **cash rate + 3%** paid semi-annually (currently 5.0% pa)
- Growing your investment on market rises or large 'one off' falls
- Protecting your investment when markets fall
- Compound returns of **31%** since inception in December 2010
- 22 consecutive quarters of no downside exceeding 2%



* Gyrostat compounded returns are net of fees and include franking credits, cash (BBSW90) includes re-investment of interest.



Further details can be found in our Information Memorandum

Portfolio Inception	December 2010
Minimum Investment	AUD 50,000
Management Fee	1% per annum
Performance Fee	15% of excess return
Hurdle Rate	BBSW 90 + 3%
High Water Mark	quarterly
Distribution (paid semi-annual)	≥ BBSW 90 + 3%
Access	Wholesale Investors

4 broad investment cycles since inception:

Period	Conditions	Gyrostat	BBSW 90
Dec10 - Sep11	Large market falls	+ 8%	+ 4%
Sep11 - Apr15	Large market rises	+ 18%	+ 12%
Apr15 - Feb16	Large market falls, ASX20 more	- 2%	+ 2%
Feb16 - Aug16	Stock rises, volatility falls	+ 2%	+ 1%

* Total return is compound annual growth rate as defined by Financial Services Council

Performance	Gyrostat	BBSW 90	ASX 200
1 Month	-0.4%	0.2%	-2.3%
3 Months	-1.0%	0.5%	1.0%
1 Year	0.3%	2.2%	4.3%
3 Years	7.3%	7.4%	4.1%
5 Years	21.6%	15.4%	30.5%
Inception	31.2%	20.1%	14.5%

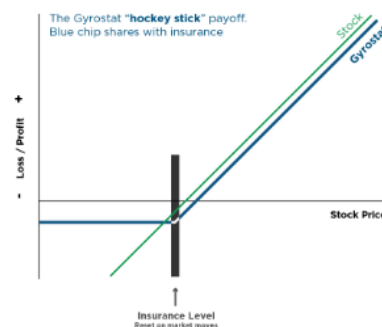
* ASX 200 is shown for illustrative purposes – risk managed equity fund protecting the downside, participate in the upside

Commentary

- The Fund NAV at the end of Aug was **\$0.87121**. Our minimum distribution is **3% above the cash rate** (currently 5.0% p.a.). Our investors typically move maturing term deposits to our Fund, as we deliver a minimum \$ 3,000 p.a. higher income for each \$100,000 investment while always protecting and growing investment capital.
- Our unique approach is always a 'hockey stick risk-return pay off' profile. The amount of insurance is set to always participate in the upside with minimal capital at risk. On market moves we re-set the insurance level.
- During August the market value of our protection fell as costs fell to near historical lows. Whilst this has impacted this month's performance, it has provided the opportunity to cost effectively extend the protection duration to benefit from any future volatility.

Risk managed funds 3 step approach:

1. **Buy and hold blue chip shares with insurance** on the Australian Stock Exchange
2. The amount of **insurance is set to always participate in the upside with minimal capital at risk.**
3. **On market moves we re-set the insurance level.** If the share price rises, we buy more to 'lock in' the gains, on falls we sell some that is no longer required.

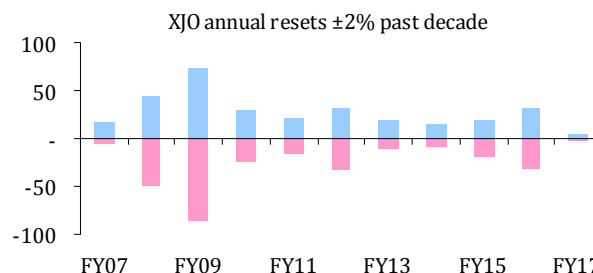
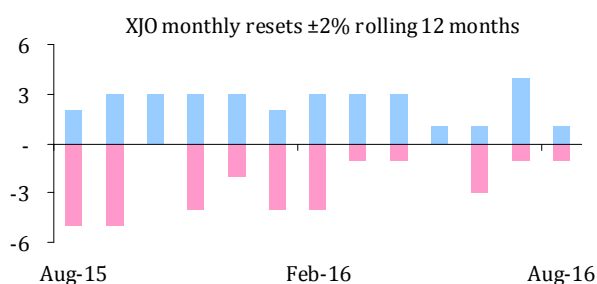


Key drivers – Gyrostat investment performance

The key drivers of investment performance for Gyrostat are:

- Upside price movement and gaps on open
- Franking credits
- Market volatility - prefer more volatile market conditions
- Changes in the price of protection (“implied volatility”)
- “One off” large stock falls beneficial

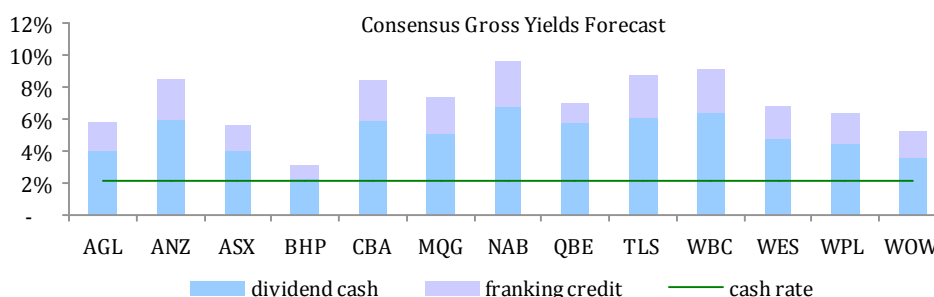
The current market conditions (past 12 months) and historical context are shown in the graphs below.



The price of protection (“implied volatility”) is currently near historical lows.



Consensus dividend yield and franking credits investment universe41



Fund positioning – Why Gyrostat?

The challenge

Our view, which is shared by many other commentators, is that in this macro environment, both 'income' and 'growth' asset classes have fragilities. "Income" assets such as cash and term deposits provide insufficient income with no prospect for any capital growth. "Growth" assets, investing directly in blue chip high yielding shares, or equity funds, leave investors exposed to falls in the value of investments in this highly indebted global environment. The traditional portfolio approach is to blend 'income' and 'growth' assets, which will produce portfolios with insufficient income and substantial fluctuations in capital value.

With this view, there is a need to **expand the range of 'income' and 'growth' assets to include risk managed equity funds.**

The solution

A 'risk managed equity income fund' manages the risk return profile of an equity portfolio by using ASX options. Traditionally protecting your portfolio was expensive. Gyrostat has overcome this issue by actively managing ASX options, utilising proprietary software and taking advantage of reduced broker costs due to deregulation. We are always fully invested in blue chip high yielding shares and insure downside with lowest cost alternatives on the ASX. Gyrostat's unique offering is the ability to have a **"hockey stick"** risk-return profile at all times, participating in share price upside with minimal capital at risk.

Our team

Craig Racine has held Board positions in multi-national companies in China, India, Indonesia, The Philippines, Pakistan, and globally as Executive Director Asian Infrastructure Fund (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).

Andrew Smith, as Chairman of our Risk & Compliance Committee has extensive experience acting as an ASIC Responsible Manager under four Financial Services Licences for a diverse range of firms with operations in the financial markets in Australia and the Asia Pacific. Andrew is also Chairman of ASX listed XPD Soccer Gear Group Ltd.

Peter Clifton was a Board member with ASX listed Amcom from 1999 until its recently completed merger with Vocus, and has extensive experience in governance having served on Boards in Asia, the Middle East, and Europe.

Leo Tang has extensive experience within investment banking, private equity and industry.



CRAIG RACINE
Managing Director
Chief Investment Officer



PETER CLIFTON
Chairman
Board of Directors



ANDREW SMITH
Compliance & Risk Management



LEO TANG
Senior Investment Officer



SHELLEY RACINE
Company Secretary



GEMMA MALONE
Office Manager

Disclaimer

This information is limited to information about the Fund, is general advice only and does not take into account your particular circumstances, your personal investment or financial planning objectives, your investment knowledge, needs and requirements, including taxation implications that may result from investing in the Fund.

There are references to past performance in this document. Past performance is no guarantee of future performance. Gyrostat or any of its officers, advisers, agents or associates do not in any way guarantee the performance of the Fund.

Investors should download and review the Information Memorandum available at www.gyrostat.com.au before making an investment in the Fund.