

## GYROSTAT CAPITAL STABILITY INCOME FUND

31 DECEMBER 2016

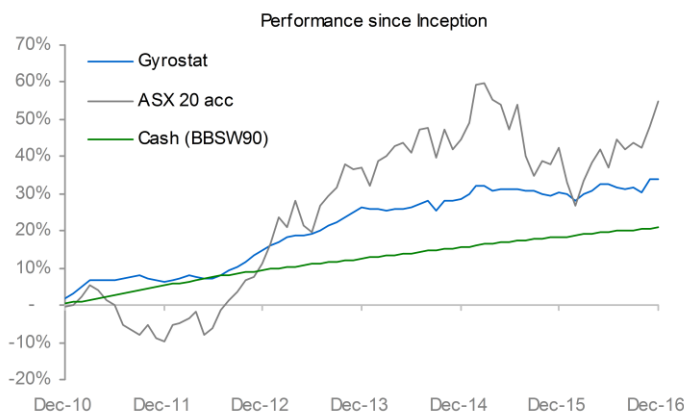
### Stable and rising returns with regular income

### Blue chip shares with protection on the ASX

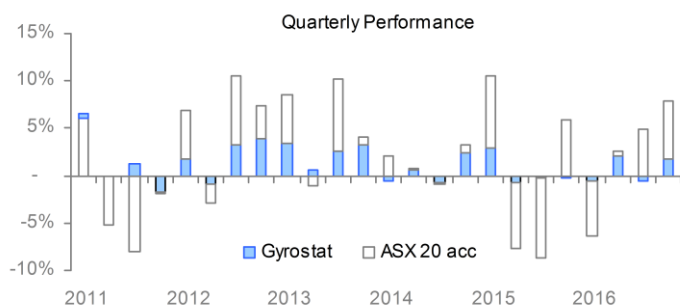
We are a 'risk managed equity fund', with a **six year track record** of delivering stable and rising returns with regular income. We address sequencing risk, the impact of investment losses in retirement, and are a "protected equity" and/or "cash plus" investment. Our **innovative risk management approach has at all times a risk-return profile to participate in share price upside with minimal capital at risk** ("hockey stick" payoff). We are always fully invested in blue chip high yielding shares and insure downside at the stock specific level with lowest cost alternatives on the ASX. Our strategy **benefits** from increasing stock market **volatility**.

#### Key Features

- Minimum distribution **cash rate + 3%** paid semi-annually (currently 4.7% p.a.)
- Growing your investment on market rises or large 'one off' falls
- Protecting your investment when markets fall
- Compound returns of **34%** since inception in December 2010
- 24 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.



ASX 20 accumulation index is shown to illustrate the fund's protection with ASX falls, and participation in ASX gains

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

2 distinct investment cycles since inception:

Period	Conditions	Gyrostat
Dec10 – Mar15	Annual returns ranged from 5.5% pa to 7.9% pa	+ 32%
Apr15 – Dec16	ASX20 accumulation index -1% returns with falls and rises	+ 2%

Performance	Gyrostat total return	ASX 20 accumulation index	
		total return	max down
1 Month	0.1%	4.4%	-2.1%
3 Months	1.7%	7.9%	-6.0%
1 Year	2.7%	8.8%	-11.9%
3 Years	2.0%	4.2%	-22.7%
5 Years	4.8%	11.4%	-22.7%
Inception	5.0%	7.5%	-22.7%

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

† maximum drawdown is the maximum loss from a peak to a trough during the period. Gyrostat maximum drawdown since inception is -3%.

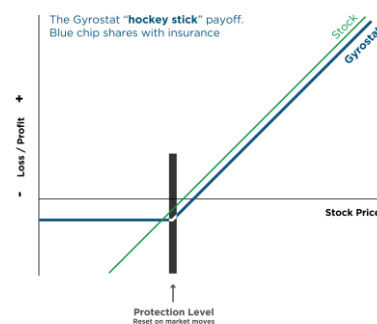
#### Commentary

- The Fund NAV at the end of December was **\$0.89004** before distribution. A distribution of 0.02111 was declared at 31 December 2016 resulting in a post distribution net asset value of \$ 0.86893. During the quarter the fund returned 1.7%.
- Since our inception in December 2010 we've achieved compounded returns of 34% with no quarterly downside ever exceeding 2%.
- During 2017 we anticipate rising levels of stock market volatility from geopolitical developments and changes to macro economic policies. Growth asset valuations are 'high' by historical standards and have been rising for over 7 1/2 years without a significant correction. With global debt at historical levels these are dangerous times for traditional investment approaches.

[www.youtube.com/watch?v=70uZ-Jtflkl](http://www.youtube.com/watch?v=70uZ-Jtflkl)

## Risk managed funds 3 step approach:

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

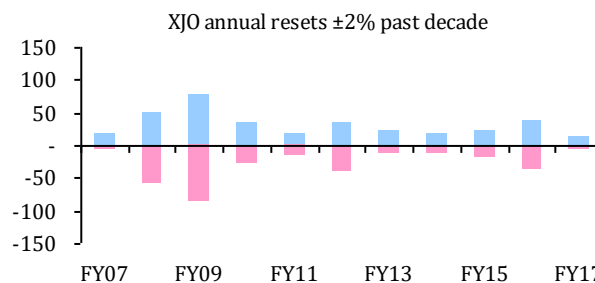
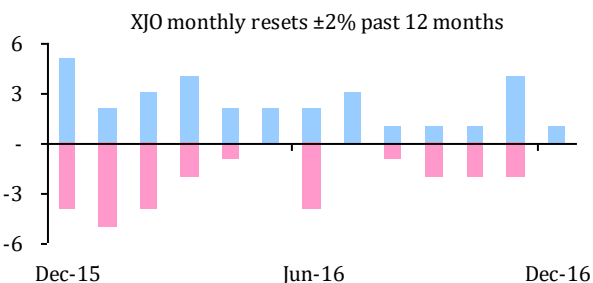


## Key drivers - Gyrostat investment performance

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

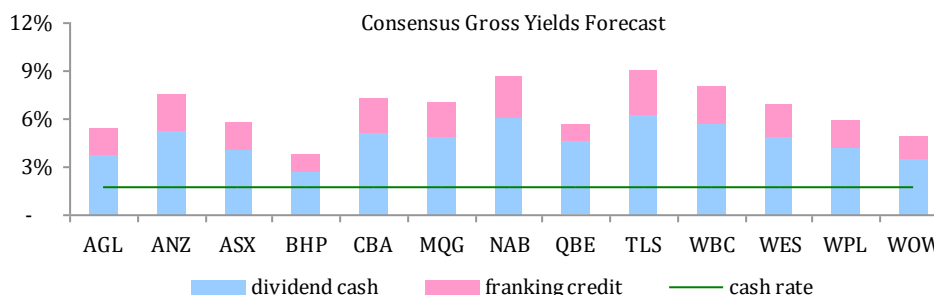
The current market conditions (past 12 months) and historical context are shown in the graphs below. The number of 'blue' upside resets, and upside gaps on open is a key driver of investment performance.



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



Consensus dividend yield and franking credits investment universe



## 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.**

### Our solution

A 'risk managed equity fund' is a revolutionary risk management technique with protection always in place provides a solution for investors sensitive to capital losses (sequencing risk), and desiring to grow investment capital (longevity risk). The risk return profile of an equity portfolio is managed 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.

### Recent articles

SMSF Association innovative retirement income products:

<http://trustees.smsfassociation.com/wp-content/uploads/2016/07/Innovative-retirement-income-products.pdf>

FS Super: The Journal of Superannuation Management:

<http://www.fssuper.com.au/comments/88279872>

Fairfax media: Retirement Planning

<http://www.theage.com.au/money/investing/end-of-sevenyear-rule-brings-a-new-ball-game-for-retirees-20150716-gidojh.html>



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Board of Directors



**ANDREW SMITH**  
Compliance & Risk Management



**LEO TANG**  
Senior Investment Officer



**SHELLEY RACINE**  
Company Secretary



**GEMMA MALONE**  
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### Disclaimer

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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](http://www.gyrostat.com.au) before making an investment in the Fund.