

GYROSTAT CAPITAL STABILITY INCOME FUND

31 JANUARY 2017

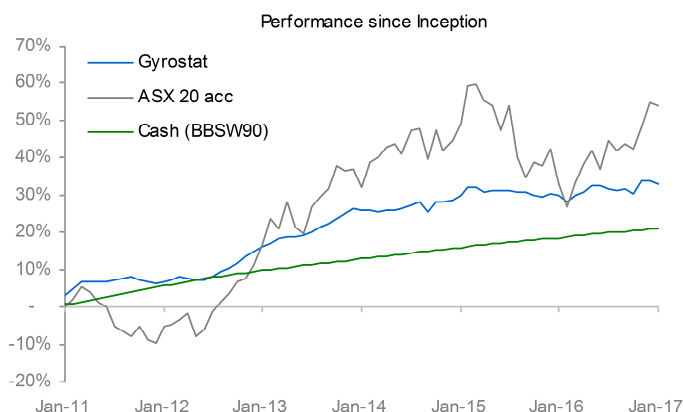
Stable and rising returns with regular income

For sequencing risk in retirement

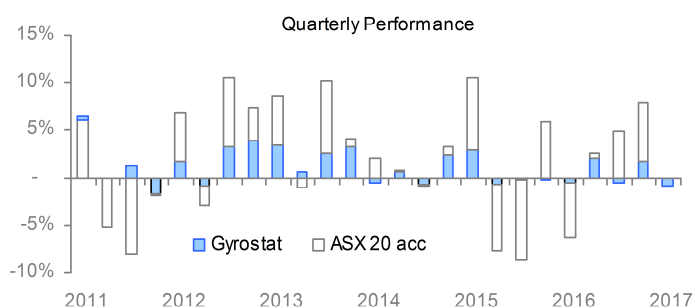
We are a risk managed equity fund ("protected equity") and address sequencing risk – the impact of investment losses - in retirement. We buy and hold ASX20 blue chip high yielding shares and insure downside at the stock specific level with lowest cost alternatives on the ASX. We have a **six year track record** of delivering stable and rising returns with regular income. 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). Our strategy **benefits** from increasing stock market **volatility**.

Investment Objectives

- **Returns:** 60-70% ASX20 accumulation index over a rolling 3 year investment horizon
- **Distribution:** Minimum **cash rate + 3%** paid semi-annually (currently 4.7% p.a.)
- **Protection:** 24 consecutive quarters of no downside exceeding 2%
- 6 year track record of delivering our investment objectives.



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 –Jan17	ASX20 accumulation index -1% returns with falls and rises	+ 2%

Performance	Gyrostat total return	ASX 20 accumulation index	
		Total return	max down
1 Month	-0.8%	-0.6%	-2.1%
3 Months	2.1%	8.4%	-6.0%
1 Year	2.2%	15.9%	-11.9%
3 Years	1.7%	3.8%	-22.7%
5 Years	4.5%	11.1%	-22.7%
Inception	4.7%	7.3%	-22.7%

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

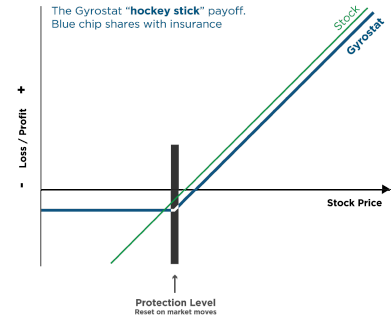
† maximum drawdown is the maximum loss from a peak to a trough during the period. Gyrostat maximum drawdown since inception is -3%.

Commentary

- The Fund NAV at the end of January was **\$0.86167**.
- Since our inception we have captured 64% of the ASX20 accumulation index upside with no quarterly downside ever exceeding 2%. Our objective is to capture 60-70% upside over a rolling 3 year period, with minimal capital at risk at all times and no quarterly downside exceeding 2%. We have a 6 year track record of delivering our investment objectives.
- 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.

Risk managed funds 3 step approach:

1. Buy and hold blue chip shares with protection 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.

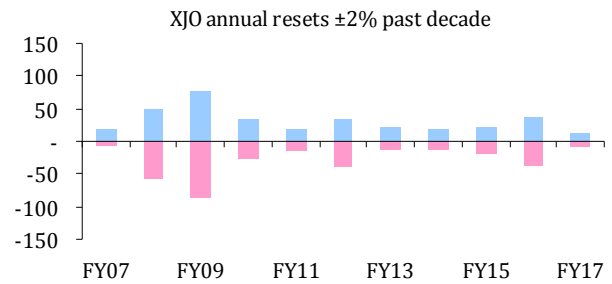
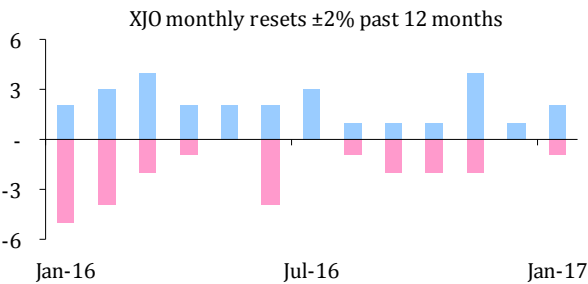


Key drivers - Gyrostat investment performance

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

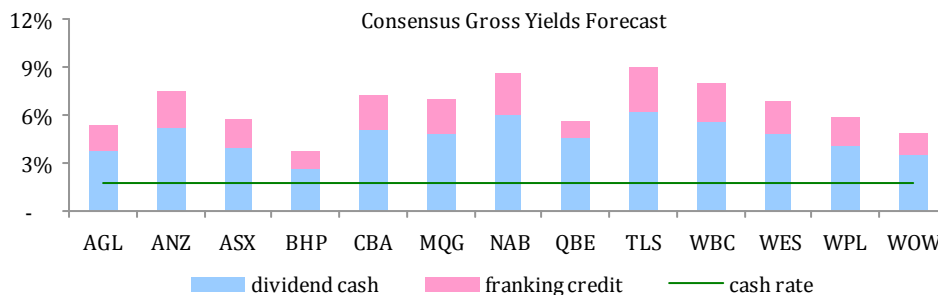
The current market conditions (past 12 months) and historical context are shown in the graphs below. The number of 'blue' upside re-sets, and upside gaps on open is a key driver of investment performance.



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