

## Monthly Performance Report October 2018 –Risk managed investing

Our purpose is to assist you to **protect and grow your investments** and **benefit from times of uncertainty**.

- Protection is always in place with upside
- Riding out the storm
- Making money when others don't

***If you act now, you won't be at risk of large losses on share market falls.***

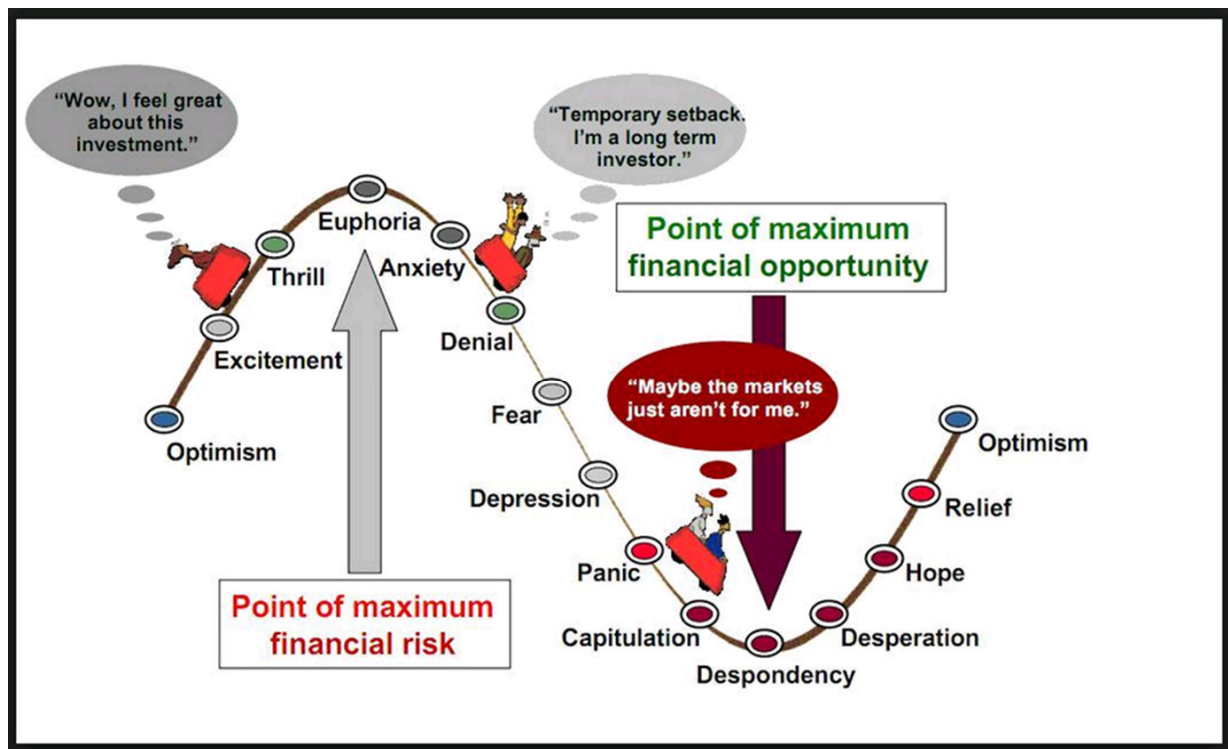


We offer risk managed investing products that can be added to a portfolio to benefit from volatile markets - including large market falls - where traditional asset allocation approaches don't work. Our approach is to have **protection always in place to maximise returns for a 'hard' defined risk parameter**.

By adding Gyrostat, your portfolio is transformed to include protection. This is particularly important to those investors who cannot afford the **consequences** of large capital losses, such as retirees. You protect your home, car, life - why not shares?

Our products are specifically designed to benefit in volatile markets. It is our view that stock markets have now entered a more volatile phase. This is consistent with historical cycles of approximately 5 years of stable, then 5 years of more volatile market conditions.

Major market falls are a regular and hazardous feature of the investment cycle. The Gyrostat products complement existing approaches and enable an investment solution across the complete investment cycle - addressing the unscripted drama of large losses when markets fall.



History shows us that equities worth \$1 M today are likely to see \$300,000 - \$500,000 wiped off their market value in a period of less than 12 months, and take 12-17 years to get back to previous levels.

Rates are rising, volatility is increasing, liquidity is being withdrawn, and geopolitical risks are increasing.

Risk managed investing is particularly important during high PE periods/late stage bull markets. We are now in the longest bull market since WW2. Most large correction occur within 8 years, we are now at year 11, the longest on record is 13 years.

Risk managed investing maximises returns for a specified absolute risk parameter. We apply to the Australian market established strategies with uncapped profit potential and a defined cost (lowest cost alternative).

At least 3 leading investment banks have adopted similar strategies for their clients in global markets.

This investment approach is possible on any listed index or stock with liquid options market.

We have two specific Funds which address particular needs:

### **Absolute return Income Equity Fund:- cash plus with big returns in more volatile markets**

Throughout the complete investment cycle income is paid at a minimum of BBSW + 3% by pass-through of blue chip dividends. Protection is always in place with minimal capital at risk (8 year track record of no quarterly losses not exceeding 2%). Returns vary through the complete investment cycle with greater profits in more volatile markets (including large market falls.)

Retirees can receive regular income with peace of mind through the complete investment cycle.

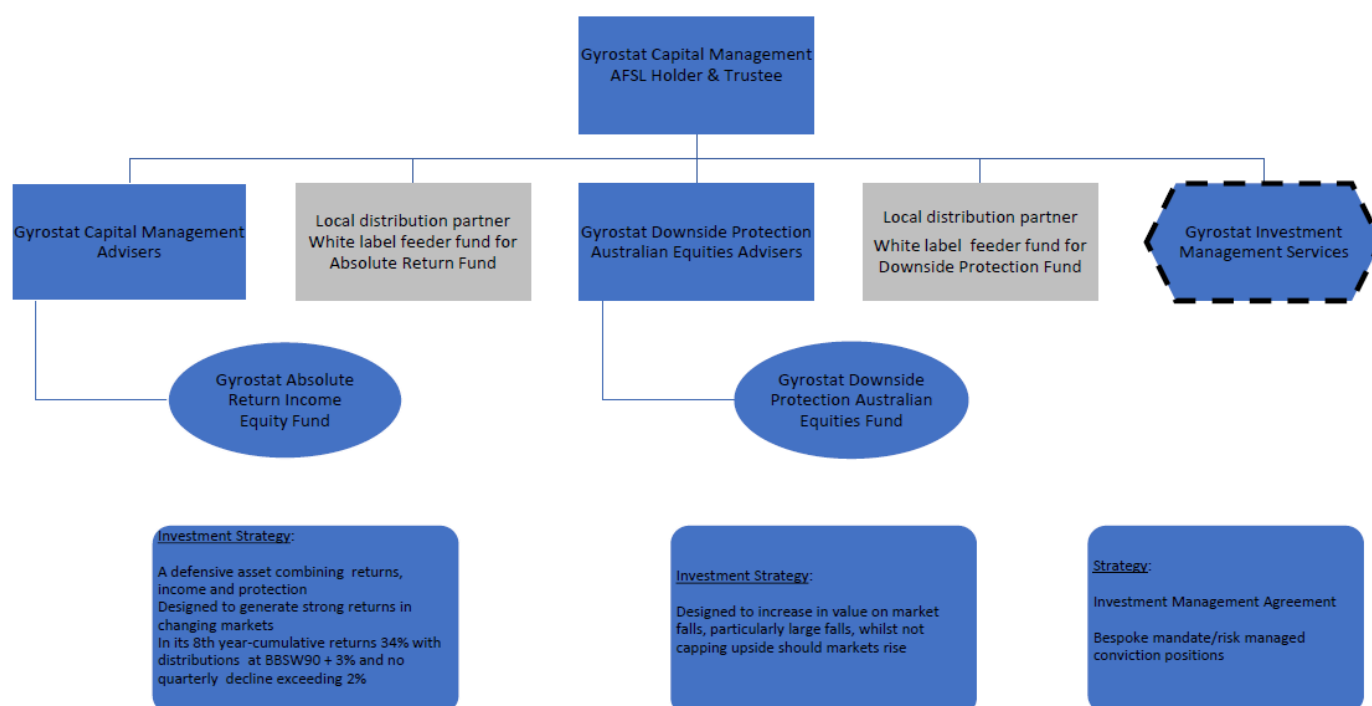
### **Downside Protection Australian Equities Fund: Keep your existing growth assets in place. Add 5% to Gyrostat.**

This fund uses our established investment approach and is designed to increase in value with ASX200 market falls, particularly large market falls, whilst not capping upside should the markets continue to rise. Profits are distributed promptly on large market falls.

### **Investment Management Services – customised risk-return profiles**

We also offer investment mandates identifying the lowest costs of protection available in the market for a defined period of time, adjusting 'excess' in increments of [2.5%] from [0%] to [10%].

The protection delivered is full compensation for losses beyond a pre-defined 'excess' level. By actively managing options we lower the cost of protection whilst maintaining it always in place.



## ABSOLUTE RETURN INCOME EQUITY FUND

31 October 2018

### A 'conservative' asset combining protection, returns and regular income

Gyrostat buys and holds ASX 'Blue chip' shares with *lowest cost protection always in place with upside*. Our Absolute Return Fund provides the opportunity to invest in a portfolio of large cap Australian securities which includes banks currently delivering 9.0% - 11.0% yields with a 2% downside risk tolerance in place (no drawdown over 2% in the 8 year history). The concentrated portfolio currently holds positions within ASX20 stocks.

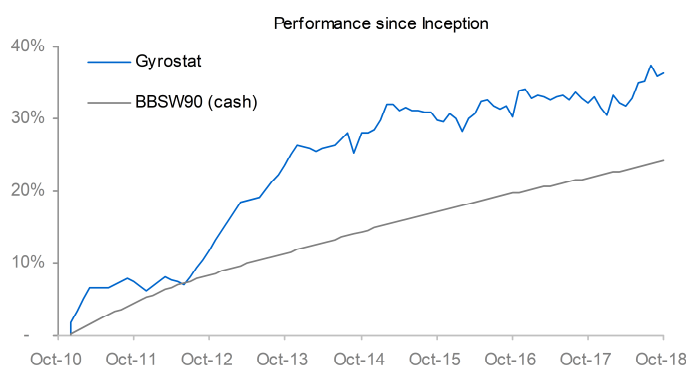
- Investors - Pre and post retirees (sequencing risk), industry associations, intergenerational wealth transfer
- Capital growth in trending and volatile markets (including down markets) - making money when others don't
- Absolute return alternative – stable and rising absolute returns with regular income
- Distinctive risk management – lowest cost protection always in place with upside

#### Investment Objectives

- Returns:** 6% - 8% pa in trending markets, greater than 8% pa in volatile markets, short term bond returns in stable markets
- Income:** Minimum **cash rate + 3%** paid semi-annually (currently 5.0% p.a.) from dividends and franking credits
- Protection:** No quarterly NAV draw-downs exceeding 2%

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



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

Fiscal year	Market type	Period return	Cumulative return *
June 2011	Trending	6.5%	6.5%
June 2012	Stable	0.4%	4.4%
June 2013	Volatile	11.4%	7.1%
June 2014	Trending	6.0%	6.8%
June 2015	Stable	3.8%	6.1%
June 2016	Stable	1.2%	5.2%
June 2017	Stable	0.4%	4.5%
June 2018	Stable	1.3%	4.1%

\* since inception

Designed to protect and benefit in changing markets

Protection is **always** in place with upside

Making money in changing markets including large down markets - when others don't

Proven strategy over **8 years**

Performance	Total Return	
	Gyrostat	BBSW90
1 Month	0.4%	0.2%
3 Months	0.8%	0.5%
1 Year	3.1%	2.0%
3 Years	1.7%	2.0%
5 Years	2.2%	2.2%
Inception	4.0%	2.8%

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

#### Commentary

- The Fund NAV at the end of October was **\$0.81956**. Volatility returned in October with the market experiencing losses of ~ 5.9%, The Fund performed as anticipated for these market conditions. There has been a moderate increase in market volatility since February 2018. As anticipated there has been uplift in NAV of 4.6% over this 9 month period (**annualized rate of 6.2% p.a.**).
- Our expected returns vary with the stage of the investment cycle. Our distinctive risk managed investing with **protection always in place and upside return potential** prefers trending and volatile markets as this provides the opportunity to lowers protection costs.
- During 2018-19 our investment view remains that stock market volatility will increase – both up and down. Global interest rates are rising. Global interest rates and inflation are rising, valuations remain expensive by historical standards, and Central Banks are adjusting QE policies. However, global growth has accelerated and corporate earnings have been above consensus.

## DOWNSIDE PROTECTION AUSTRALIAN EQUITIES FUND

31 October 2018

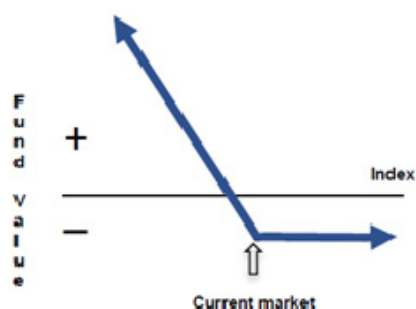
### Keep your existing growth assets in place. Add 5% to Gyrostat

The Fund is designed to increase in value on market falls, particularly large falls whilst not capping upside should markets rise. The fund uses our established investment approach and is designed to increase in value with ASX200 market falls, particularly large market falls, whilst not capping upside should the markets continue to rise. The fund prefers more volatile market conditions.

As an illustration, an investment of 5% of the underlying exposure, or \$ 50,000 into the Gyrostat Downside Protection Australian Equities Fund, protects a \$ 1 M underlying ASX 200 holding against large one off falls and large losses. A portfolio with a 20% allocation to Australian equities could be protected against large losses with a 1% allocation to this Fund.

The month to month net asset value is anticipated to be variable (both up and down), with more volatile conditions favourable to the Fund and stable markets likely to see a reduction in NAV.

**The ASX200 accumulation index fell 6.1% in October 2018. The Gyrostat Downside Protection Australian Equities Fund increased by 21.0% during the month. The combined holding of XJO and Gyrostat has returned -3.6% in the past 5 months with protection always in place against large market falls. Index realized volatility was at very low levels during this period.**



- Maintain existing growth investment.
- Add 5% of asset value to Gyrostat.
- Gyrostat risk management approach identifies the least cost protection alternatives in the market.
- To minimise costs the "options" component is actively managed, and reset to current market levels.
- On large market falls Gyrostat takes profits by selling some protection.
- Profits are promptly distributed for reinvestment.

Further details can be found in our Information Memorandum

Portfolio Inception	June 2018
Minimum Investment	AUD 50,000
Management Fee	1% per annum
Performance Fee	15% of excess return
High Water Mark	Quarterly
Distribution	On large market falls
Access	Wholesale Investors

Performance	Total Return		
	Combine *	A200 acc	Gyrostat
1 Month	-4.7%	-6.1%	21.0%
3 Months	-6.5%	-5.9%	-22.2%
1 Year			
Inception	-3.6%	-1.5%	-43.4%

\* comprises 5% Gyrostat, 95% ASX200 accum index

NAV: 31 October 2018 \$0.56647

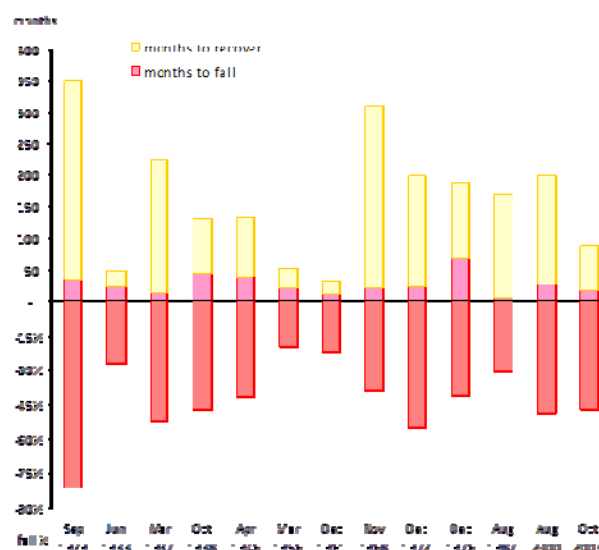
The graph shows the extent of falls from peak to trough, the duration of the fall, and time taken to recover to pre fall highs.

History shows us that equities worth \$1 M today are likely to see \$300,000 - \$500,000 wiped off their market value in a period of less than 12 months, and take 12-17 years to get back to previous levels.

Further explanation – brief video:

[www.gyrostat.com.au/news/you-protect-your-home-cars-and-life-why-not-protect-shares/](http://www.gyrostat.com.au/news/you-protect-your-home-cars-and-life-why-not-protect-shares/)

### S&P 500 Index - 90 Year Historical Chart:



Source:

[www.macrotrends.net/2324/sp-500-historical-chart-data](http://www.macrotrends.net/2324/sp-500-historical-chart-data)

## Gyrostat Investment Management Services – Investment Mandate

### Australian ASX200 index – protection costs for market falls

The Gyrostat investment risk management systems obtain live pricing to identify lowest cost alternatives to protect against market falls. The protection will deliver a defined level of compensation at expiry.

Our approach exploits the differing levels of implied volatility in the options market.

Protection costs are shown for a defined period of time, adjusting 'excess' in increments of [2.5%] from [0%] to [10%].

The protection delivered is full compensation for losses beyond a pre-defined 'excess' level.

Underlying portfolio to protect:	\$100 M	AUD	000's				
Date today:			100,000				
ASX index level:			31-Oct-18				
			5806				
Excess	-	2.5%	5.0%	7.5%	10.0%		
Index level	5,806	5,661	5,516	5,371	5,226		
Minimum intrinsic value - expiry	000's						
5,342	8% falls	8,000	5,500	3,000	500	0	
4,935	15% falls	15,000	12,500	10,000	7,500	5,000	
4,355	25% falls	25,000	22,500	20,000	17,500	15,000	
Current market costs of protection							
Expiry	Days						
15-Nov	15	Cost 000's	867	596	450	393	337
		%	0.87%	0.60%	0.45%	0.39%	0.34%
20-Dec	50	Cost 000's	2,168	1,491	1,124	984	843
		%	2.17%	1.49%	1.12%	0.98%	0.84%
17-Jan	78	Cost 000's	2,713	1,959	1,477	1,293	1,108
		%	2.71%	1.96%	1.48%	1.29%	1.11%
21-Feb	113	Cost 000's	3,369	2,534	1,911	1,672	1,433
		%	3.37%	2.53%	1.91%	1.67%	1.43%

For example: A\$ 100 M protected  
Index at inception: [5,806]  
Excess selected: [5.0% or 5,516 level]  
Expiry: [78 days – 17 Jan 2019]

At expiry, using a [5.0%] excess at [5,516] index level, there is intrinsic protection, dollar for dollar below this index 'excess' level. Maximum Cost: [1.48%] for 78 days. (Investment of \$1,477,000 protects an underlying portfolio of \$ 100 M.) This may be reduced through active management.

The portfolio has protection in place against large 'one off' or rapid falls. At a [15%] fall to [4,935] the intrinsic value of protection would be \$ 10.0 m, a [25%] fall to [4,355] would be \$ 20.0 m.

It is likely that with large 'one off' falls implied volatility would spike significantly, and that market valuations may be higher than intrinsic valuations shown (due to the additional time value given the period to expiry.)

#### 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, employees or associates do not in any way guarantee the performance of the Fund.

This information is only made available to persons who are wholesale clients within the meaning of section 761G of the Corporations Act 2001.