GYROSTAT
RISK MANAGED EQUITY FUNDS

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ABSOLUTE RETURN INCOME EQUITY FUND — 31 Jul 2019

‘Alternative-defensive’ asset –combines ‘hard’ protection, returns, regular income — APIR code: GYC6212AU

Gyrostat Absolute Return Income Equity Fund buys and holds ASX20 ‘Blue chip’ shares with *lowest cost protection* ***always in place*** *with upside*. It combines **protection**, **returns** and regular **income** through all stages of the investment cycle (including large market falls.)

Investors - Pre and post retirees (sequencing risk), industry associations, philanthropic, 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 for a **‘hard’ defined risk parameter** with upside

Fund performance – Total Return

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
Fund net	-1.30	3.48	1.88	5.50	2.70	2.32	4.19
RBA cash rate	0.10	0.40	0.88	1.91	1.86	2.07	2.71

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

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 4.8% p.a.) from dividends and franking credits
- **Protection:** No quarterly NAV draw-downs exceeding 3%
  Also includes a ‘tail hedge’ for gains on large market falls

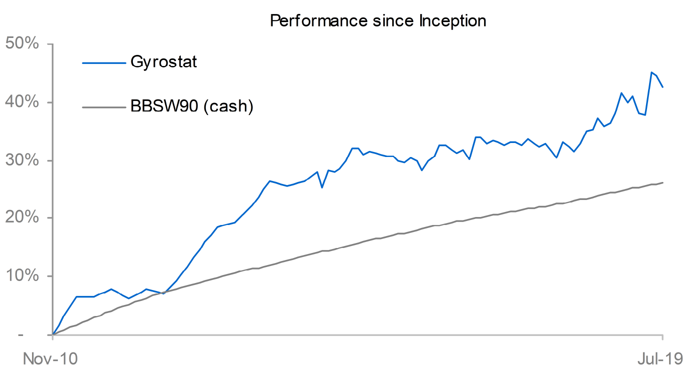
Further details can be found in our Information Memorandum

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

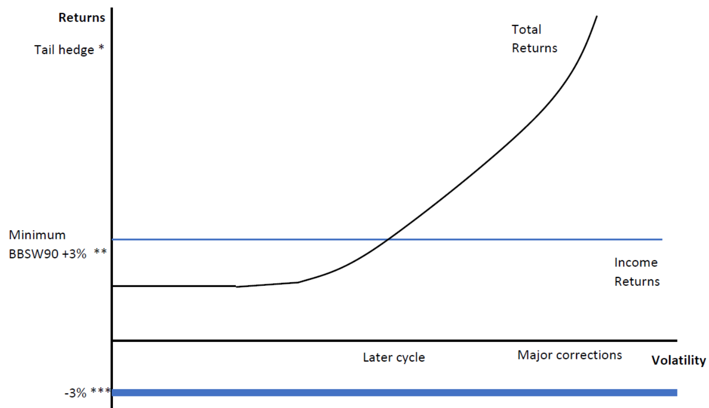
Fund performance – Return by Month

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
2020	-1.30												-1.30
2019	0.19	1.54	-1.07	0.39	1.14	2.60	-1.06	0.63	-2.07	-0.09	5.29	-0.42	7.09
2018	-0.38	0.75	-0.71	-0.37	0.52	-1.11	-0.84	2.18	-0.75	-0.43	0.97	1.56	1.35
2017	-0.70	-0.31	0.38	-1.20	2.85	0.06	-0.84	0.29	-0.12	-0.41	0.36	0.09	0.41
2016	-0.05	-0.21	0.01	-0.79	-0.12	0.73	-0.44	-1.41	1.38	0.63	1.32	0.15	1.16
2015	0.71	0.59	-2.07	2.25	-0.11	0.33	1.06	1.74	0.03	-0.80	0.33	-0.22	3.82
2014	0.84	0.84	0.84	1.08	1.08	1.08	-0.19	-0.19	-0.19	0.21	0.21	0.21	5.96
2013	1.04	1.04	1.04	1.26	1.26	1.26	1.11	1.11	1.11	0.21	0.21	0.21	11.41
2012	0.43	0.43	0.43	-0.55	-0.55	-0.55	0.58	0.58	0.58	-0.31	-0.31	-0.31	0.44
2011	-	-	-	-	-	1.59	1.59	1.59	1.59	0.00	0.00	0.00	6.54

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



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



* Tail hedge always in place for large gains on large market falls
** Funded by pass through of ASX20 dividends
*** Hard risk parameter, no quarterly capital drawdowns exceed 3%

Commentary

- The Fund NAV at the end of July was **$0.81557**. Market volatility was at low levels with the Fund performing as per our guidance.
- Gyrostat has for 34 consecutive quarters operated within a ‘hard’ defined risk parameter (no more than 3% capital at risk) always in place, delivered regular income by passing through ASX20 dividends, and met returns guidance based upon market conditions (demonstrating increasing returns with market volatility.)
- We anticipate increasing levels of ‘late cycle’ market volatility with geopolitical, historically high debt levels, and valuations elevated.

Frequently asked questions

How will your fund improve my lifestyle?

With historically low interest rates expected for many years, many 'conservative' assets are generating very low returns (such as cash, term deposits, short term bonds).

Gyrostat has for 34 consecutive quarters operated within a 'hard' defined risk parameter (no more than 3% capital at risk) always in place, delivered regular income by passing through ASX20 dividends, and met returns guidance based upon market conditions (demonstrating increasing returns with market volatility.)

We offer the ability to increase your portfolio returns without the risks associated with investing more in unprotected 'growth' assets which exposes your capital to major losses in stock market corrections.

Most analysts anticipate 'late cycle' market conditions with rising volatility levels and elevated risk of major market corrections. Most major corrections occur within 8 years, we are now at year 12, with the longest on record since 1929 being 13 years.

This is important to all investors – for those in accumulation phase it enables a higher return from your conservative assets, whilst for retirees it offers a stable equity income stream with peace of mind from protection always in place.

What are the key attributes of investment performance?

We track the number of re-sets where the asset value has varied +- 2%, and also the number of gaps at market open exceeding 2%. Our returns have increased the greater the market volatility.

We have a non-linear pay off profile always in place that is 2 dimensional (as distinct from the traditional 1 dimensional payoff).
The shape of the pay off profile is re-set with market moves to match the investment view on each particular stock.

How are you generating alpha in your Fund and why does the Sharpe ratio increase with market volatility?

If you graph our investment performance with returns on the horizontal axis, and standard deviation on the vertical axis, you can see a 9 year history of extremely low standard deviation. This is because there is a 'hard' protection always in place.

It has been long observed that the implied volatility in options varies within the same time period (volatility smile) and over differing time periods (volatility duration).

Our proprietary investment systems have direct feeds to the ASX exchange and instantaneously identify the lowest cost protection available. We have a 3 step process to buy the underlying asset, set the level of protection, and re-set with market moves.

Why should we add your Fund as distinct from other risk managed investment approaches?

The correlation of our investment returns to market moves is approximately 0.3 (from recently completed McGregor Consulting Report.).

In addition, with a 'tail hedge' always in place, we anticipate large gains on large market falls.

Implied volatility levels in the options market are nearing historic lows – this provides the opportunity to benefit from volatility spikes as they occur.