

ABSOLUTE RETURN INCOME EQUITY FUND

28 February 2020

APIR code: GYC6212AU

Retiree income with protection always in place – ‘defensive’ fund - track record of returns increasing with volatility

The Fund is designed for retiree income with protection, and to address sequencing risk (the risk of major market falls). The distinctive features are ‘hard’ protection always in place and a track record of returns increasing with market volatility.

Gyrostat has operated for 36 consecutive quarters within a ‘hard’ pre-defined risk parameter (no more than 3% capital at risk with our **maximum draw-down 2.2% in any circumstances**) always in place, delivering regular income by passing through ASX-20 dividends, and meeting returns guidance based upon market conditions (demonstrating increasing returns with market volatility). The Fund buys and holds ASX-20 shares with **lowest cost protection always in place** with upside. It is an ‘alternative - defensive’ **conservative** asset allocation. [Corporate presentation: <http://www.gyrostat.com.au/news/presentation-gyrostat-absolute-return-income-equity-fund-3/>]

Fund performance – Total Return

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
Fund net	3.27	3.98	2.84	8.26	4.60	2.94	4.67
RBA cash rate	0.08	0.23	0.49	1.31	1.70	1.87	2.60

* 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, BBSW + 3% in stable markets
- **Income:** Minimum **cash rate + 3%** paid semi-annually (currently 4.0% 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

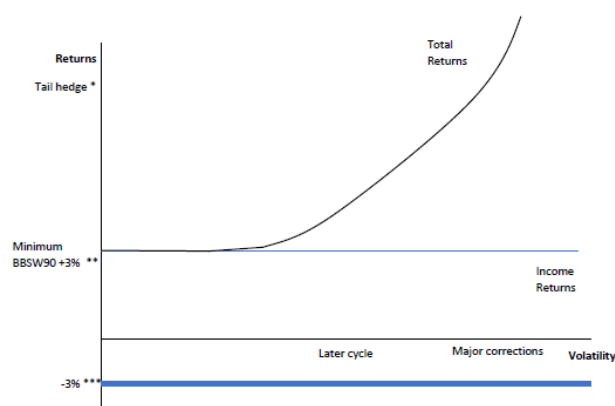
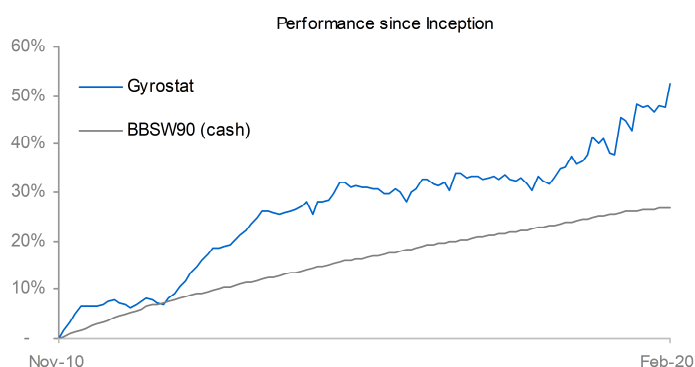
Further details can be found in our Information Memorandum

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	3.97	-0.45	0.12	-0.78	0.80	-0.11	3.27					5.54
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



* 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%

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

Commentary

- The Fund NAV at 28 February was **\$0.85493**. Returns increased consistent with our guidance in the more volatile market conditions.
- With the evolution of our investment processes and raising the ‘hard’ quarterly risk tolerance from 2% to 3% (in February 2019) **we upgrade our returns guidance** in stable markets to the 90 day bank bill swap rate (“BBSW 90” + 3%). Our Investment Strategy allows up to 10% of the Fund’s assets to be invested in international assets. **We anticipate returns in all market environments of at least BBSW 90 + 3% (enabling investors to receive income and capital growth.)**
- 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 portfolio?

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). We are a defensive asset generating higher income and addressing sequencing risk (risk of major market falls.)

Gyrostat has for 36 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.) The maximum NAV capital draw-down has been limited to - 2.2% in any circumstances since our inception in December 2010.

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.

We offer a solution to investors for the following issues:-

- 1) Sequencing risk: Move from unprotected growth asset to Gyrostat (usual retirement tactical re-balance to conservative asset, with higher income, higher returns and downside tail for large gains on large market falls.)
- 2) Conservative assets not generating enough return: Move from cash/short term bonds to Gyrostat, with 'hard' protection always in place to offer capital stability. Other risk management approaches without 'hard' protection always in place have a much higher maximum NAV capital draw-down during the complete investment cycle.

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.

Our international universe includes SP500, FANGS, Hang Seng, Nikkei, MSCI Developed Markets, MSCI Developing markets.

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 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.

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.