GYROSTAT
RISK MANAGED EQUITY FUNDS

Industry evolution - from accumulation to retirement phase solutions

- Solutions are required for equity risk management and income in retirement.
- Risk management against large equity falls can be achieved by adding a small downside protection allocation to the portfolio. Protection is always in place (not relying on forecasts), with large cash distributions available for re-investment on major market falls.
- A portfolio with a 20% allocation to Australian equities could be protected against large losses by adding a 1% allocation to an Australian downside protection fund.
- Equity income can be delivered through all phases of the investment cycle (including large market falls) by including in the conservative asset allocations an absolute return income equity fund. These funds hold a 'hard' defined risk tolerance (say no more than 2% capital at risk). The fund holds a diversified portfolio of higher yielding stocks, delivering regular income by passing through dividends. Protection is always in place at the stock specific level. Returns are designed to increase as volatility levels increase, as this provides more opportunities to lower protection costs.
- The Gyrostat Absolute Return Income Equity Fund has an 8 year track record of delivering protection and income.

Consequences of loss – histories lessons

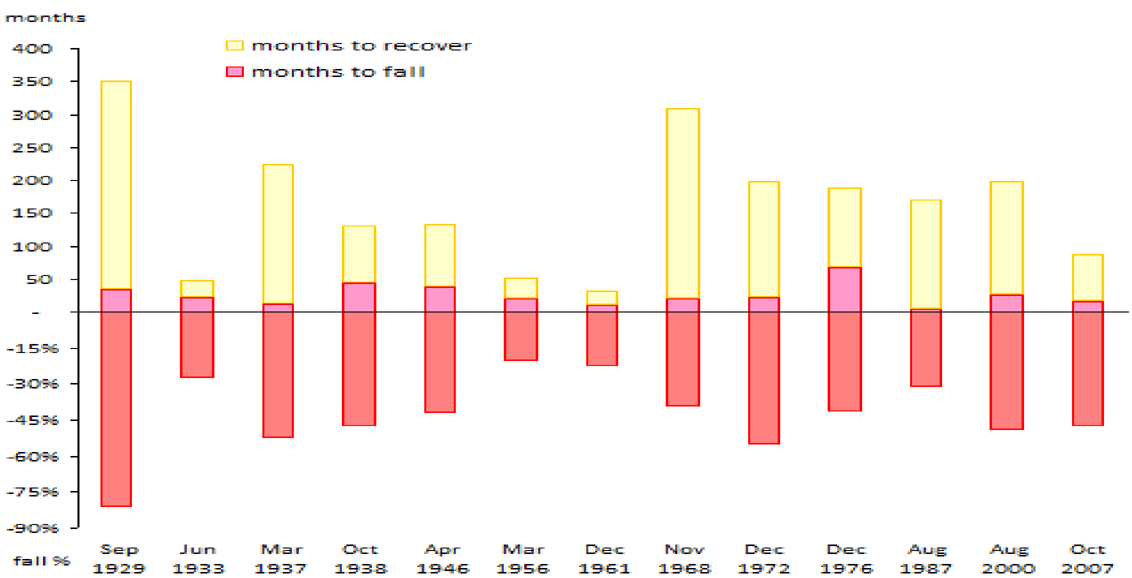
Rates are rising, and volatility is increasing, liquidity is being withdrawn, geopolitical risks are increasing.

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

History shows us that equities worth $1 M today are likely to see $300,00 - $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.

Major market falls are a regular and hazardous feature of the investment cycle – 10 times in the past 90 years losses of 30% or more within a year, often much quicker, have occurred.

S&P500 Index - 90 year historical chart



Source: http://www.macrotrends.net/2324/sp-500-historical-chart-data

GYROSTAT
RISK MANAGED EQUITY FUNDS

Equity risk management

Risk management against large equity falls can be achieved by adding a small downside protection allocation to the portfolio.

In the USA the approach has been successfully applied for nearly 20 years and is also applied by large investment banks. A brief explanation of the approach and how a small asset allocation to downside protection can deliver higher returns with lower risk is available at:

https://www.youtube.com/watch?v=LyGtiiGBEc8

A more detailed explanation designed for asset consultants/investment committees is as presented by Mark Spitznagel -tail risk hedge pioneer is available at:

https://www.youtube.com/watch?v=gGpt8VNpCxw

Three leading investment banks have adopted similar strategies for their clients in global markets:

> "Dynamic downside protection or option replication strategies provide access to a pay-off profile that has the potential to provide sufficient downside protection without removing too much upside potential. "
>
> https://russellinvestments.com/-/media/files/au/campaigns/cps/r_rpt_res_protection_v1ff_1402.pdf?la=en-au

> "Put options are often the first defense that comes to mind for investors. These are an explicit insurance contract, guaranteeing protection if market prices fall below the strike price."
>
> https://www.ssga.com/na/us/institutional-investor/en/our-insights/publications/as-the-cycle-lengthens-investors-look-to-hedge-tail-risk-but-at-what-price.html

> "In a bear market or a painful correction, astute investors in these mutual funds will find a refuge from the storm and a greater chance of substantial profits."
> https://www.investopedia.com/articles/investing/020616/3-best-downside-protection-equity-mutual-funds.asp#ixzz55oXufVWr

GYROSTAT
RISK MANAGED EQUITY FUNDS

Gyrostat Downside Protection Australian Equities Fund

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.

A portfolio with a 20% allocation to Australian equities could be protected against large losses with a 1% allocation to this Fund. (ie: a $ 1 M portfolio would add $ 50,000 to Gyrostat.) This is designed to provide full protection in the event of 'one off' 10% market fall.

The level of protection is set at the current market level and is moved as the market moves. On market falls profits are made - selling some protection re-sets the protection level to the new lower market level. These profits are promptly distributed to investors in cash.

A brief video explanation along with a brief summary of our fund is available at our web site.

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

The key investment features are:

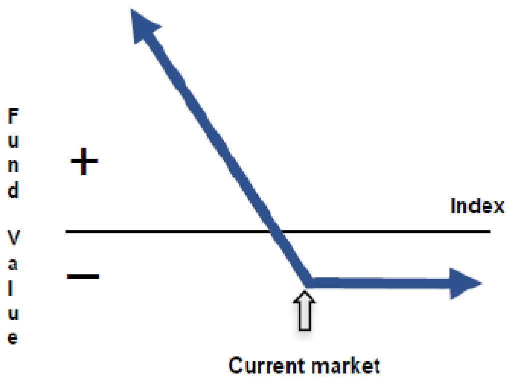
- Designed to increase in value on market falls without capping upside on market rises
- Protection is always in place
- A financially strong counter-party - the ASX - for hedging activities
- Transparent mark to market valuations from ASX valuations
- Lower protection costs than existing approaches through option series selection and actively managing the options with market moves (enabled by technological advances and deregulation)
- Cash is promptly returned to investors for re-investment on market falls

Gyrostat Capital Management Pty Ltd
Suite 402, 566 St Kilda Road Melbourne VIC, Australia 3004 / www.gyrostat.com.au / Tel +61 (3) 9041 0970 Fax +61 (3) 9041 0971

GYROSTAT
RISK MANAGED EQUITY FUNDS

- Maintain existing growth investment.
- Add 5% of asset value to Gyrostat.
- The 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.

Downside fund is designed to increase in value on market falls, especially large one off falls, without capping the upside in rising markets.



Protection is always reset to current market levels

Equity Income in Retirement

Pre and post retirees require a 'conservative' asset combining protection, returns and regular income through all stages of the investment cycle. Traditional 'income funds' have experienced substantial capital losses in market corrections. Advances in risk management enable cost effective protection to always be in place.

Gyrostat Absolute return Income Equity Fund

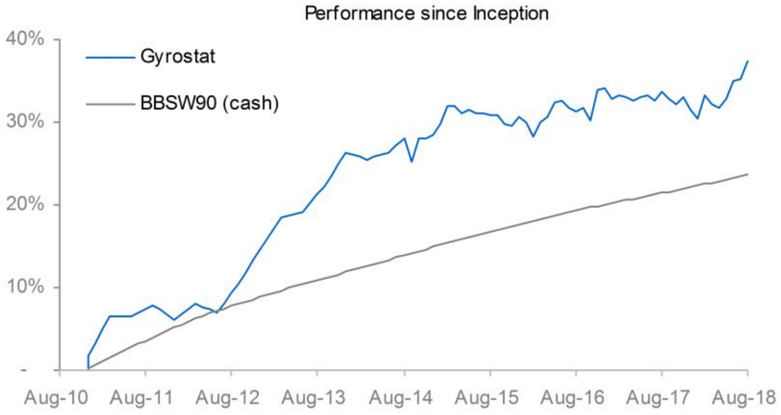
Gyrostat buys and holds ASX 'Blue chip' shares with *lowest cost protection always in place with upside*.

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%

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.)

GYROSTAT
RISK MANAGED EQUITY FUNDS



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

A video outlining our investment approach and track record is available at:

http://www.gyrostat.com.au/news/gyrostat-absolute-return-income-fund-in-depth-guide/

The Gyrostat investment risk management approach utilises a unique set of investment software and process related intellectual property. Our strategy exploits the differing levels of 'implied volatility' in the option market from differing maturities, or within the same maturity across a different range of strike prices. This has been observed by academics and market participants for many decades.

Technology enables our proprietary software systems to construct a volatility term structure and identify the 'least cost' call and put option alternatives available in the market at that time. There are many series to choose from. This is reflected in differing levels of 'implied volatility' across time periods and within a range of strike prices within the same time period. Gyrostat uses a variety of bought option and other strategies typically ranging from duration of 3–15 months, depending upon the prevailing option market conditions.

With market movements, the "options" component needs to be re-set or actively managed to ensure that the risk-return parameters meet the investment charter. This involves the buying or selling of options.