

Gyrostat Absolute Return Income Equity Fund

Retiree income always with protection - 'highly-defensive'

There is an increasing demand for retirement income products with protection and an acknowledged lack of product. Gyrostat has protection always in place, generating higher income/returns from defensive assets.

New products need to address market risk, sequencing risk and liquidity (Financial System Inquiry 2014, Retirement Income Disclosure Consultation Paper 2018, Deloitte Actuaries & Consultants 2019).

Our solution is for retiree investors to simply add a **defensive asset** allocation which provides regular equity income (minimum BBSW90 + 3%) by passing through ASX-20 dividends with 'hard' protection always in place, including tail hedge for gains on large market falls.

The Fund

The Fund is designed for retiree income with protection, and to address longevity and sequencing risk. 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 and international assets with **lowest cost protection always in place** with upside. It is a **conservative** asset allocation.

Gyrostat Absolute Return Income Equity Fund

Retiree income with protection always: 'defensive' fund, track record of returns increasing with market volatility

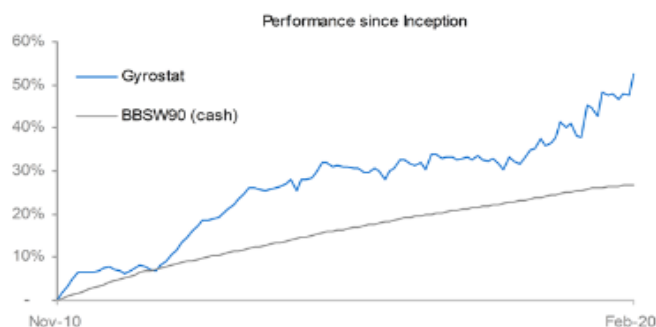
Buy and hold ASX20 shares with lowest cost 'hard' protection always in place with upside; No more than 10% may be invested in international assets

Investment objectives:

- **Returns:** 6% - 8% pa in trending markets, greater than 8% pa in volatile markets, BBSW + 3% in stable markets
- **Income:** Minimum BBSW 90 + 3% (currently 4.0% pa) from pass through of dividends
- **Protection:** 36 consecutive quarters operated within 'hard' pre-defined risk parameter with no quarterly NAV drawdown exceed 3%; maximum capital draw-down - 2.2%

Sequencing risk: Includes a 'tail hedge' for gains on large market falls

Returns low correlation to market: 0.30



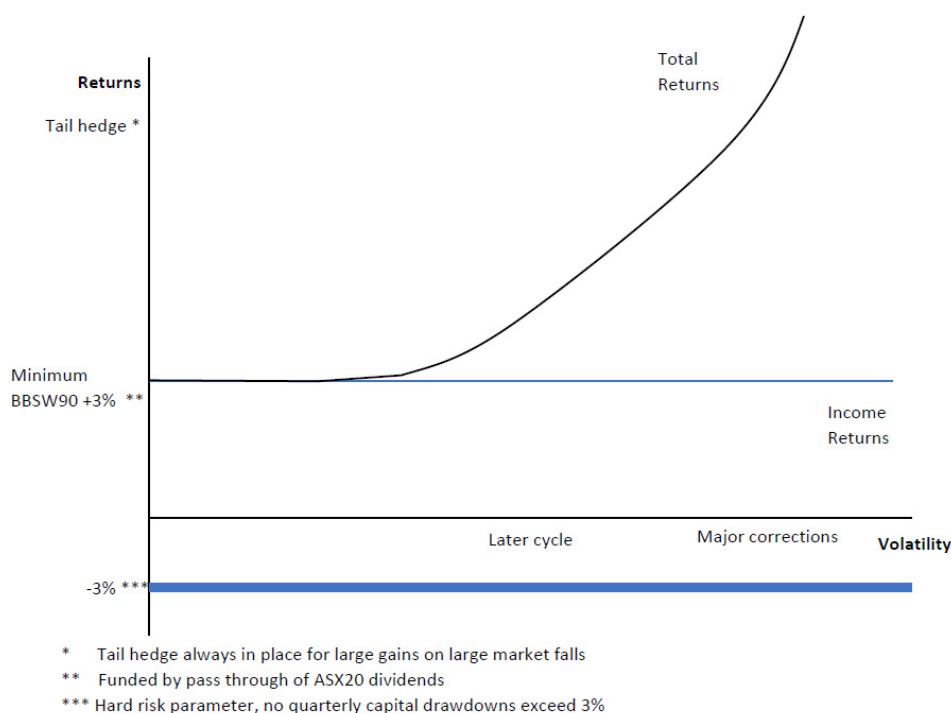
<http://www.gyrostat.com.au/assets/Uploads/2020-02-29-Gyrostat-Overall-Summary-Presentation-v8a.pdf>

In the case of Gyrostat, we have protection always in place (this is now possible by using technology to identify volatility discrepancies for lowest cost protection) and dynamically manage these options with market moves. This challenges the existing paradigm that protection always in place is too expensive.

By adding to retiree portfolios this generates higher returns/income than cash/bonds/term deposits AND addresses longevity and sequencing risk (with 9 year track record of returns increasing with volatility and downside tail always in place.)

We **complement existing growth asset allocations** with a track record of our returns increasing with volatility (tail hedge always in place for gains on large market falls. Ie: addresses sequencing risk).

Returns, income and protection through the market cycle



Target market

Post retirement and those approaching retirement

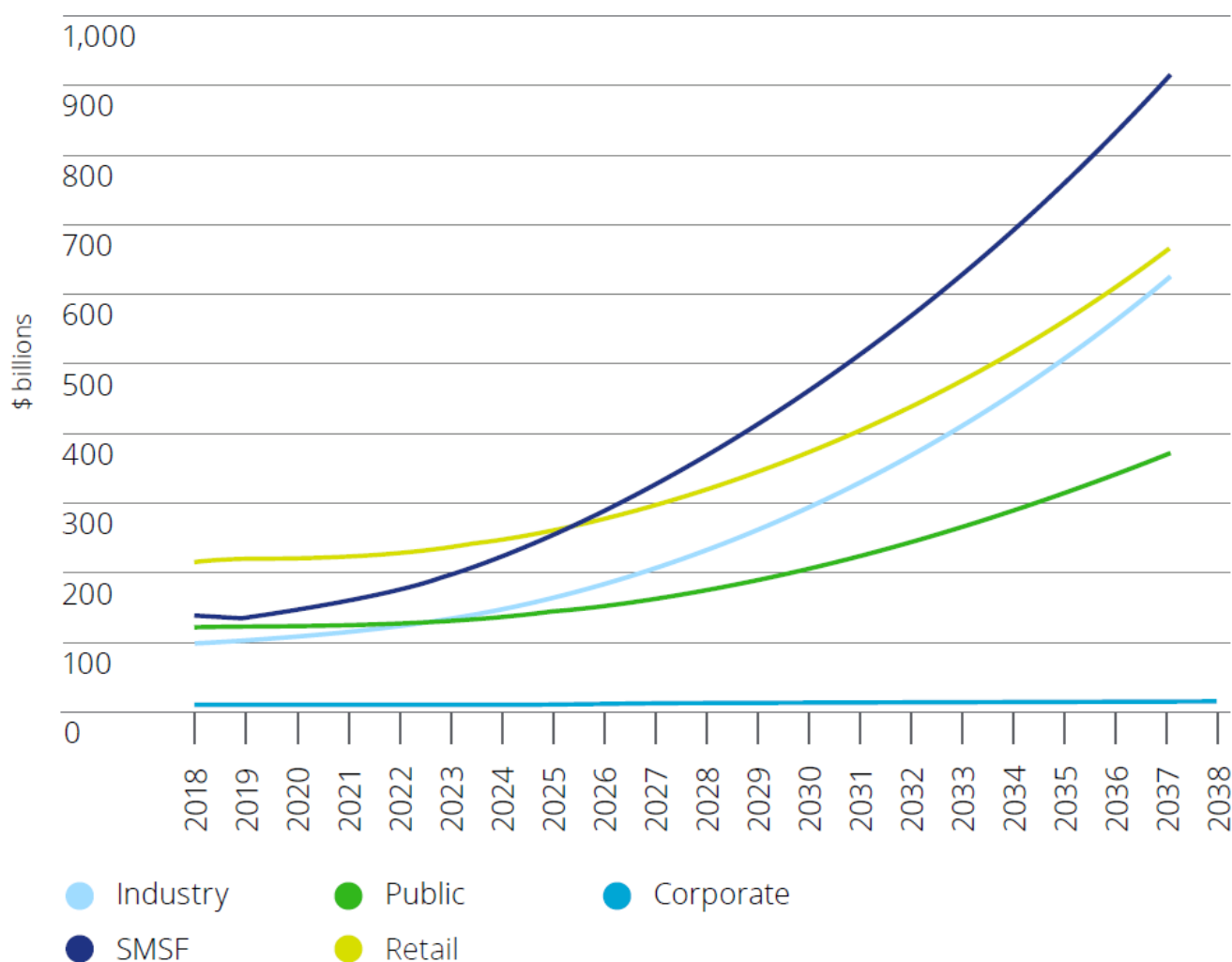
Post retirement asset growth is forecast to be very strong across all market segments, particularly within the SMSF and industry segments.

“In post retirement, investors are generally less able to withstand the impact of negative returns, and are more exposed to sequencing risk around the timing of withdrawing their benefit. Likewise, as pre-retirement members reach the final years of their working lives, they will also be less prepared to accept negative returns, and will need to avoid the risk of a sudden drop in their savings as they enter retirement...

There has been slow progress in the development of more innovative retirement income products.”

P.9 Deloitte Actuaries & Consultants, Dynamics of the Australian Superannuation System, November 2019

Figure 7: Post-retirement assets by market segment



Source: APRA and Deloitte Actuaries & Consultants, 2019

P.8 Deloitte Actuaries & Consultants, Dynamics of the Australian Superannuation System, November 2019

Our Fund is well suited to be a **component** of a retirement solution as a **defensive** asset to provide **higher income** than traditional conservative assets (eg. cash and term deposits) and addresses **longevity** and **sequencing risk** with a track record of capital growth with rising levels of market volatility (including large market falls.)

Our strategy is to address the following key market segments:-

SMSE: As a component of a 'lifecycle' product which adjust strategic asset allocations depending upon investors age and risk tolerance. They typically have a CPI + x% investment objective, and are available on investment platforms.

Wealth Groups: Approved product lists from investment committee due diligence (which may also include wholesale asset consultants.) We have 2 independent research reports completed – available upon request. We note that increasingly wholesale wealth groups (particular managed discretionary accounts and dealer groups) are awarding mandates to wholesale asset consultants to develop retiree product solutions.

Institutional: Comprehensive income products in retirement (CIPR) component

The Financial System Inquiry encouraged the development of better comprehensive income products for retirement included a recommendation that superannuation funds may work with other funds or entities (under mandate) to provide CIPRs. The Retirement Income Review is due to issue its final report in June 2020.

Established asset managers income and target date funds: Defensive component

Add Gyrostat as a defensive component of existing Income Funds and Target Date funds for outperformance in all market conditions.

Corporate transaction

We are seeking a corporate partner with expertise in marketing and distribution. We have flexibility on the corporate structure to meet the needs of our partner. It could include:

- “White label” 100% owned Distribution Company with naming rights and an investment management agreement with Gyrostat Capital Management.
- Equity in trustee company with underwrite
- Defensive component existing Income and Target Date Funds for outperformance all market conditions
- “Third party” marketers

Other applications

We now have a 9 year track record in Australia and are seeking geographic expansion to Asia Pacific (Japan, South Korea, Hong Kong, Singapore) for retirement income opportunity.

The retirement income product development would eg Japan with underlying asset Nikkei index and large cap higher yielding Japanese stocks, with lowest cost protection always in place (actively managed) to a 'hard' defined risk tolerance. an 'Asia Pacific' offering including dynamic asset allocation within major Asia Pacific markets.) Our existing Fund has Asia Pacific exposure.

The two key global investment issues today are:

- Achieving a regular and stable income stream in a low interest rate environment with capital security – “defensive” assets.
- Elevated risk of major market corrections in a ‘late cycle’ environment of stock market volatility impacting capital returns – “growth” assets.

The Gyrostat solution is to buy equities, always protected to a defined ‘hard’ risk tolerance. The underlying asset and ‘hard’ risk tolerance is varied depending upon the need being addressed.

For instance, a domestic offering in major Asia Pacific markets with a ‘hard’ 5% monthly/10% quarterly risk parameter (could be market specific eg Hang Seng, China, Tokyo, Singapore) or an ‘Asia Pacific’ offering including dynamic asset allocation within major Asia Pacific markets.) Could also be a sector specific offering.

We currently operate in Hong Kong under mandate at this risk tolerance.

Appendix: Risk management approaches

There are a variety of investment risk management approaches with the objective to meet the equity income needs of retirees and defend against losses in declining markets.

Typically, the investment generates dividends from a diversified portfolio of Australian shares with an investment risk management overlay that aims to reduce the volatility of returns, in particular defending against losses in declining markets.

A brief summary of the approaches is as follows:

- Vary asset allocation between stocks and bonds (diversification)
- Buy underlying asset, write call options (Buy-write income funds)
- Long/short funds (market neutral, 130/30)
- Buy underlying asset, using predictive approach has the ability to sell futures contracts
- Buy underlying assets, buy put options (sometimes) using predictive approaches
- Buy put options and hold cash (volatility as an asset class)
- Buy underlying assets, buy put options (always in place 'hard' risk parameter)

Advances in investment risk management enable cost effective protection to always be in place for a 'hard' defined risk parameter (say no more than 3% capital at risk). Returns are designed to increase as volatility levels increase, as this provides more opportunities to lower protection costs.

To minimise costs and maximise profits:

- The Gyrostat proprietary software systems identify options series with the greatest profit potential for a defined cost, exploiting differing levels of implied volatility in the options market.
- "Active management" by buying or selling options with market movements.

Explaining our process

To assist with understanding our investment strategy please see the weblink to an explanatory video:

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

Gyrostat Absolute Return Income Equity Fund - in depth guide

Current state of the market: "Incredible risks yet bullish trend persists"

Investment features:

- Protection always in place with upside (participate in the upside in rising market)
- Make money in changing markets (prefer more volatile conditions, especially if large 'one off' market falls)
- Proven strategy over 7 years – our innovation is the investment risk management of equities
- An Absolute return Income Equity fund is a conservative asset with the potential for capital growth in rising and falling markets

[Download PDF for more information](#)



Retirement income policy – issues and background

A summary of the retirement income policy development in Australia since 2010 is available here:

<https://www.gyrostat.com.au/news/feature-article-4/>

The article also outlines key product developments that may arise from the Retirement Income Review, following the Treasury proposed risk disclosure rating that assesses an investments ability to address longevity risk, market risk, sequencing risk and inflation risk.

Gyrostat's submission to Retirement Income Review February 2020 – expanding risk management

<http://www.gyrostat.com.au/news/retirement-income-review-submission-gyrostat-capital-management/>

Gyrostat's submission to Treasury on their Objective of Superannuation 2016 Paper is available from:

https://treasury.gov.au/sites/default/files/2019-03/C2016-010_Gyrostat_Capital_Management.pdf

Gyrostat articles on retiree income with protection products

Gyrostat has been publishing articles since 2015 on the risk managed equity investing developments, in particular to meet the equity income needs of retirees and defend against losses in declining markets.

18 September 2019:

Comprehensive Income Products for Retirement – Treasury Framework

<https://www.gyrostat.com.au/news/feature-article-3/>

19 October 2019:

Positive developments likely from the retirement income review

<https://www.gyrostat.com.au/news/feature-article-positive-developments-likely-from-the/>

31 October 2019:

Three key outcomes needed from the retirement income review

<https://www.gyrostat.com.au/news/firstlinks/>

19 August 2019:

Sequencing risk for retirees – the consequences of loss 'late cycle'

<https://www.gyrostat.com.au/news/feature-article-2/>

12 August 2019:

Equity income in retirement products

<https://www.gyrostat.com.au/news/feature-article-equity-income-in-retirement-2/>

29 December 2015:

Where are the retiree solutions for income and protecting nest egg?

<https://www.gyrostat.com.au/news/where-are-the-retiree-solutions-for-income-and-protecting-nest-egg/>