



## Gyrostat Risk Managed Equity Fund

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# Gyrostat Risk Managed Equity Fund

## Purpose:

Address uncertainty through portfolio construction - **Volatility is our friend** with a 10 year track record of returns increasing with market volatility (including large market falls).

## Solutions for:

**Equity income** (absolute return benchmarks) and Australian and international equities (Vs index) with **protection** always in place against major market falls (**sequencing**).

## Investment philosophy:

Gyrostat Capitals investment philosophy is founded on the belief that **portfolio construction can reduce undesirable volatility and large negative stocks through including diversified non correlated assets**

- Many portfolios are no longer diversified non correlated as a result of zero bound or negative interest rates
- Stock markets are 'late cycle' and expensive by most valuation metrics – major corrections typically happen over 6-12 months

## Competitive advantage:

**Dynamic Hedging**

## Investment opportunities:

- Gyrostat Absolute Return Income Equity Class A
- **Gyrostat Leveraged Absolute Return Income Equity Class B**
- Gyrostat Risk Managed Australian Equity Class C
- Gyrostat Risk Managed Hong Kong Equity Class D
- Gyrostat Risk Managed Global Equity Class E

# Gyrostat Risk Managed Equity Fund

## Gyrostat Levered Absolute Return Income Equity (Class B)

### **Purpose:**

A global non correlated income fund as part of the 'equity income' component of a portfolio to enhance income in a historically low interest rate environment

### **Investment Objectives:**

**Returns:** To exceed income distributions over rolling 12 months

**Income:** Minimum cash rate + 6% from dividends and risk management profits paid quarterly

**Protection:** No quarterly NAV draw-down exceeding 6%.

Distributions may be higher dependent on the performance of the Class.

Class B buys and holds ASX-20 and International listed equities and options with the relevant exchange as the derivative counterparty. The Class may borrow up to 100% of Class assets

Class B is a levered version of Class A designed to deliver higher income than Class A with a higher risk tolerance. It seeks to generate equity income with downside protection always in place. In contrast to Class A it may not necessarily gain from major market falls.

The Class commenced operations on 13 April 2021.

# Gyrostat Risk Managed Equity Fund

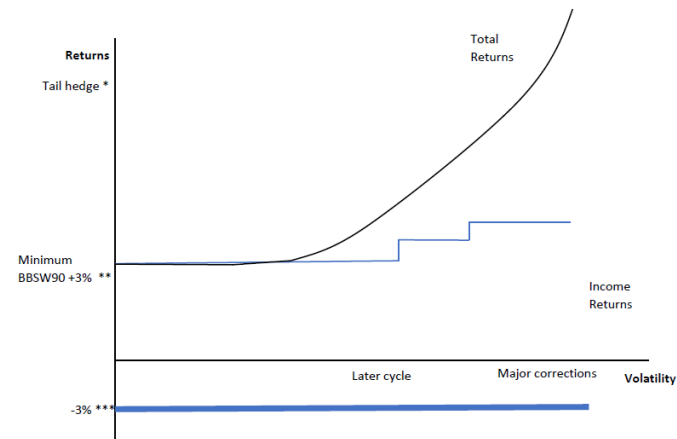
## Class B based on Class A investment approach and track record

Proprietary systems identify volatility skews for lowest cost protection within defined risk parameter always in place

### Gyrostat Absolute Return Income Equity Class A

- 10 year track record no quarterly downsides exceed -3% (predefined risk tolerance)
- Reliable income even if dividends are cut
- Returns increase with volatility (track record)

**1 Feb 2020 to 31 March 2020: Gyrostat + 9.1%    ASX200 - 26.8%**



\* Tail hedge always in place for large gains on large market falls

\*\* Funded by pass through of ASX20 dividends

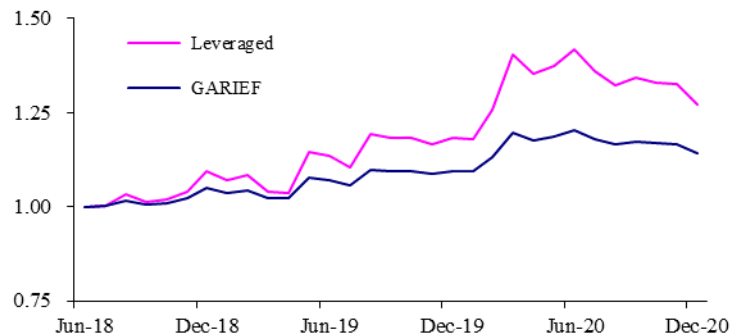
\*\*\* Hard risk parameter, no quarterly capital drawdowns exceed 3%

# Gyrostat Risk Managed Equity Fund

## Gyrostat Leveraged Absolute Return Income Equity Class B “pro forma” returns and income

### Indicative income yield

Financial year	Absolute Return	Leveraged Absolute Return
2018-19	4.9%	9.4%
2019-20	5.4%	9.5%
Income Objective	Min BBSW90 + 3%	Min BBSW90 + 6%



\* Performance is simulated and based on 100% leverage (margin debt/net assets) of Gyrostat Absolute Return Income Equity Class and should not be relied upon for the purposes of making an investment decision as projections, whilst based on grounds believed reliable, are not exact forecasts.

# Gyrostat Risk Managed Equity Fund

## Competitive advantage – dynamic hedging through proprietary systems

The Fund's distinctive feature is having downside protection, through options hedging, in place at all times.

“Cost effective” protection from:

- Identification of lowest cost alternative for a defined risk (implied volatility alpha)
- Adjust /Re-set risk-return payoffs with market moves (underlying stock/ETF and option markets) – “dynamic hedging”

Proprietary systems have:

- Detailed understanding of the current term structure and volatility smile of options market (enabled by technology - direct interface with the ASX and international exchange options market.) – ability to adjust ‘options overlay’ depending upon current term structure and volatility smile of options
- Analyse the data in real time and combine stock with ASX (and international exchange) options to meet class investment objectives
- Strategies to implement throughout the investment cycle and changing conditions in the level of implied volatilities within the options market
  - Bought put options
  - Put option spreads
  - Collars (partial)
  - Bought and written call options
  - Put spread collars (partial)

## Gyrostat Risk Managed Equity Fund

**How do you address the traditional view that option based downside protection is expensive?**

### **- Dynamic Downside Protection**

“A dynamic option replication strategy provides investors with the ability to harvest greater upside potential whilst still providing an ongoing level of downside protection.” p.7

“Through a dynamic option replication strategy there is the ability to participate in a much larger part of the potential upside thus reducing the opportunity cost of implementing a downside protection strategy.” p.8

“Dynamic downside protection ... provide access to a payoff profile that has the potential to provide sufficient downside protection without removing too much upside potential.” p.19

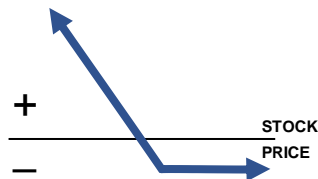
***Russell Research – Dynamic Downside Protection – March 2014 report***

# Gyrostat Risk Managed Equity Fund

## How we make money – Absolute Return and Leveraged Absolute Return units

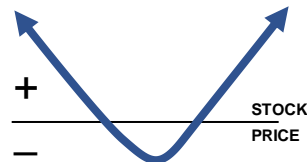
Stocks are ranked based on fundamental and technical analysis

Stock risk-return profile is re-set to match view



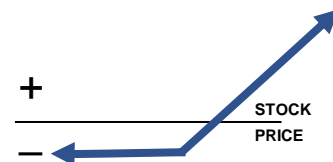
### Large falls

- Options extra protection sold
- 'Conviction' short at a defined cost with large upside



### Range bound

- Option trading from re-setting protection levels
- Buy options 'low' and 'sell' high



### Rising trend

- Stock price gains
- Re-set protection level high to 'lock in' gains



# Gyrostat Risk Managed Equity Fund

## Investment cycles – how will the Central Bank QE experiment end?

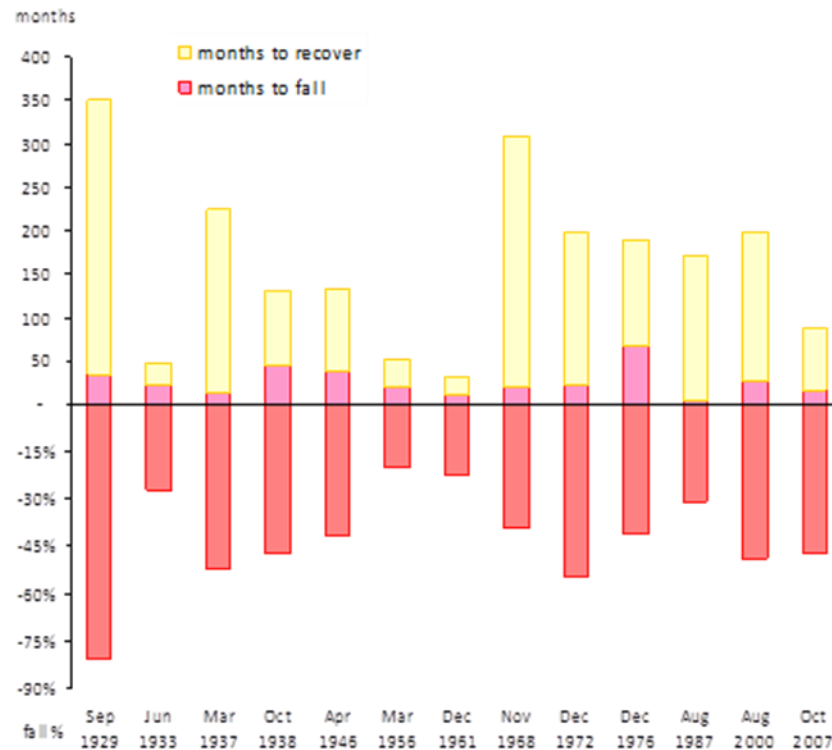
The graph shows the extent of falls from peak to trough, the duration of the fall, and time taken to recover to pre fall highs.

Most corrections occur within 8 years, now at year 14, longest on record is 14 years

**S&P 500 Index - 90 Year Historical Chart: Peak to trough falls > 20%, duration of falls, time to recover to pre fall levels**

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

April 9, 2021: Where we are in the investment cycle – historical perspective  
<https://www.cmgwealth.com/ri/on-my-radar-the-problem-with-too-much-leverage/>



# Gyrostat Risk Managed Equity Fund

## Suitable Investors

- Pre and post retirees
- Lower and moderate risk 'model' portfolios –asset consultants and dealer groups
- Wholesale platform availability: Netwealth, Powerwrap, Mason Stevens
- Accounting practices with own AFSL - private label
- Managed Discretionary Account advisers: through our MDA partner Harbourside
- Philanthropic investors: cash rebates directly to your designated charity
- SMSF: online investment without the need for any forms in most cases

The Fund is offered under Information Memorandum.

From 1 July 2021 conversion to a registered scheme and will be offered under Product Disclosure Statement

# Gyrostat Risk Managed Equity Fund

## To summarise

- Portfolio construction to address uncertainty and avoid regret
- Specific solutions can be tailored depending upon the composition of your existing portfolio
- Adapt to the changing 'late cycle' investment climate -highly indebted - historic low interest rates - heightened geopolitical uncertainty

"You've spent so much time putting it all together – what's the point if it is going to fall apart on major market falls.

"You can do *nothing*, or you can do *something*" – Ben Feldman

### ***Key Personnel***

The senior management team of Gyrostat Capital has extensive experience domestically and globally, as investors, as non-executive directors, and as senior management in funds management, private equity, industry, investment banking, and equity research.

#### ***Craig Racine- Managing Director, Chief Investment Officer***

***BCom, LLB, MAppFin, PGDip (Int Fin)***

Craig Racine has over 25 years experience, at senior executive and directors' roles, within finance and business development. He has been an investor for the past 12 years, and is the founder of Gyrostat Capital Management. Previously his senior management experience includes Executive Director at The Asian Infrastructure Trust (Hong Kong) with lead investors International Finance Corporation, Asian Development Bank, Soros Funds Management, Frank Russell Investments, and AMP Capital. He was a Managing Director at ING Barings (Asia). He has extensive domestic and international experience, having held senior executive positions in private equity, investment banking, equity research and industry. He began his career in the chartered accounting industry. He has held Board positions in multi-national companies in China, India, Indonesia, The Philippines, Pakistan, and globally.

#### ***Peter Clifton BE, MBA, MIEAust, MAICD-***

***Chairman, Board of Directors***

Peter Clifton has over 30 years experience, both within Australia and internationally, at senior executive and director roles, primarily in the information technology and telecommunications field. He has advised a wide range of companies including Leightons, KPMG, the Asian Infrastructure Trust (Hong Kong), ING Barings (Hong Kong) and the Victorian Government. He has helped establish a number of start-up companies and was on the Board of the ASX 300 listed company Amcom Telecommunications 1999 - 2015. Previously he has held Board positions in companies in India, Sri Lanka, the Philippines, Saudi Arabia and Poland.

#### ***Andrew Smith • B.Ec.***

***Director and Chairman Compliance Committee***

Andrew's business career has focussed on finance and the financial markets in the Asia Pacific and the United Kingdom. Utilising the experience gained in his working career, he now holds a number of non-executive and consulting positions. Andrew is also Chairman of Eagle Health Holdings Ltd; Chairman of Aobo Environmental Technology Ltd, Responsible Manager and Chairman of the Project Control Group of Goal Property Group Pty Ltd; and Responsible Manager of Dennis AFSL Pty Ltd.

He was formerly the Managing Director and Chief Executive of the Stockbroking and Corporate Finance group Intersuisse Ltd (now Phillip Capital) between 2000 to 2010. Prior to that, Andrew was Chairman of the Sedgwick Group in the Asia Pacific between 1995 to 2000 and a member of the Group Executive Committee in London. Andrew was also Chairman of XPD Soccer Gear Group Ltd (ASX: XPD) and on the Boards of Elk OrthoBiologics Ltd, Zheng He Global Capital Ltd and on the Board of Advice of Aon Risk Services.

#### ***David Barwise • LLB, LLM***

***Director***

David Barwise has over 20 years legal, regulatory and compliance experience within the legal industry in Australia, Europe and Asia (with a focus on managed funds, structured finance, capital markets, banking, asset management and trust and agency services). He was a partner in a leading global law firm for 15 years, a member of its European management board, held a variety of product, client and regional management positions and acted as the relationship partner for a number of global investment and regional banks. He has worked in Australia, London and Singapore. He also holds a variety of post graduate qualifications in law, business, accounting, finance and corporate governance.

#### ***Leo Tang, BEng, MSc***

***Senior Investment Officer***

Leo Tang has extensive experience within investment banking, private equity and industry. Previously, he worked as regional analyst in equity research with ING Barings Securities Asia, and in the investment deal team with Asian Infrastructure Fund Advisers, as well as strategic planning specialist with Motorola Asia Pacific.

He is skilled in business analysis, financial modelling, and operational management.

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