

# GYROSTAT

CAPITAL MANAGEMENT

## Gyrostat Risk Managed Equity Fund

Web: [gyrostat.com.au](http://gyrostat.com.au)

Tel: 03 8678 1742

ARSN

651 853 799

Eligibility

Investors who qualify as 'Wholesale Clients'

Responsible  
Entity

One Managed Investment Funds Limited  
(ACN 117 400 987)

Investment  
Manager

Gyrostat Capital Management Advisers Pty Ltd  
(ACN 168 737 246)

# Gyrostat Risk Managed Equity Fund

## AT A GLANCE – Unit Classes A & B

- ASX blue chip shares with protection at stock specific level (through ‘dynamic hedging’) for regular income through the complete investment cycle.
- Absolute return, non correlated with market
- We aim to provide alpha excess returns and income by avoiding large losses through the complete investment cycle

### **Gyrostat Absolute Return Income Equity Class A Units**

At 30 September: 12 Mth + 20.8%; Monthly standard deviation 1.56%; Beta -0.1

Amongst top performing absolute return funds in Australia 12 M FE Analytics

11 years track record, 47 consecutive quarters no losses exceed pre-defined 3% hard risk parameter

### **Gyrostat Leveraged Absolute Return Income Equity Class B Units**

At 30 September: 12 Mth + 17.88%; Monthly standard deviation 4.7%; Beta -0.41

Amongst top performing absolute return funds in Australia 12 M FE Analytics

Leveraged version of Class A

- SQM Research 4 stars, Superior, High Investment Grade

**Competitive advantage:** Risk managed investing - [dynamic hedging](#) – proprietary software systems and processes

# Gyrostat Risk Managed Equity Fund

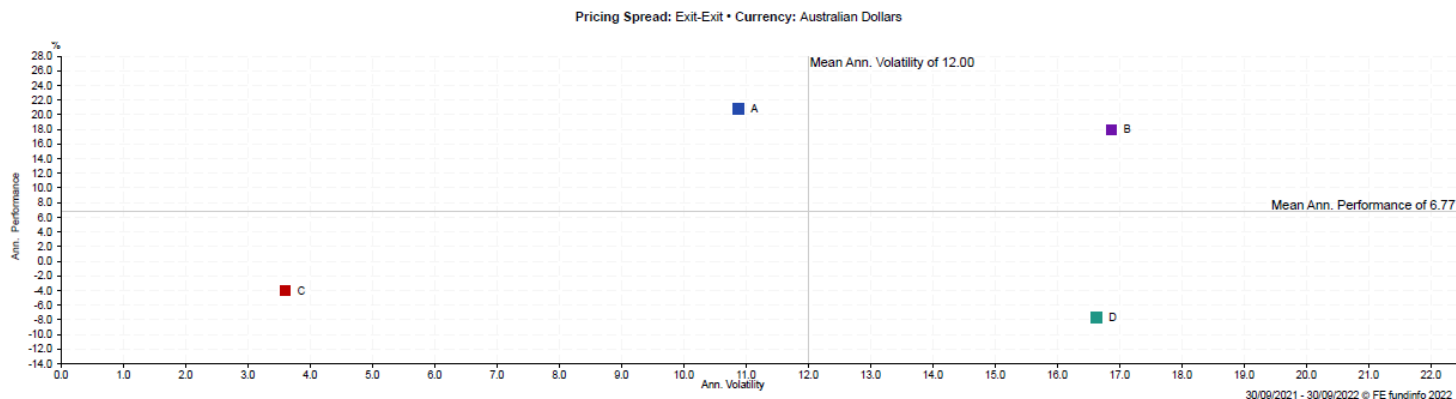
## How does Gyrostat compare?

**GYROSTAT**  
RISK MANAGED EQUITY FUNDS

Static Scatter Chart



14 October 2022



Key	Name	Annualised Performance	Annualised Volatility
■ A	Gyrostat - Absolute Return Income Equity TR in AU	20.94	10.88
■ B	Gyrostat - Leveraged Absolute Return Income Equity B ATR in AU	17.96	16.87
■ C	AMI Absolute Return TR in AU	-4.02	3.60
■ D	S&P ASX 200 TR in AU	-7.69	16.63

**GYROSTAT**  
RISK MANAGED EQUITY FUNDS

## Gyrostat Risk Managed Equity Fund

### How are these results achieved? → dynamic hedging

Risk managed investing has **protection** always in place (dynamically managed as per global best practice), **positive returns** in rising and falling markets and designed to increase with market volatility, and regular **income** through the complete investment cycle.

Gyrostat believes portfolio construction can reduce undesirable volatility and large negative stocks by 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
- Historical drawdown for equities with traditional balance and diversified portfolio did not protect as well as expected

## Outlook

We anticipated strong investment performance during the September quarter (resource stocks dividend cycle).

We continue to increase exposure to resource stocks and anticipate that the higher yields and volatility in this sector will generate returns consistent with our objectives.

# Gyrostat Risk Managed Equity Fund

## Portfolio construction for retiree portfolios – address sequencing risk

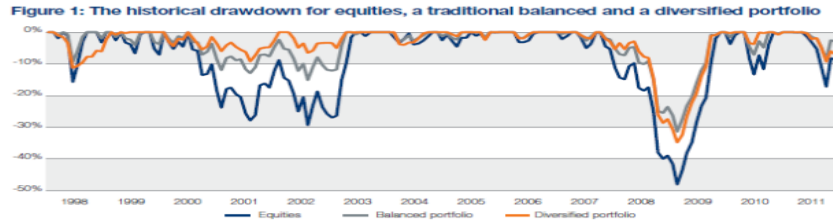
Portfolio construction can reduce undesirable volatility and large negative shocks through including diversified non correlated assets.

- 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 valuations metrics. Most corrections of >30%-50% occur within 6-12 months and typically within an 8 year cycle; we are now at year 13 which is the longest since 1929
- Historical drawdown losses with traditional balanced and diversified portfolios did not protect as well as expected

Further information:

[AFR: Alternative assets that could save your portfolio 20220907](#)

[Mauldineconomics Frontline thoughts- muddling through stagflation](#)



Diversification out of equities into the asset classes did not protect portfolios as well as expected

Source: Schroeders: Effective Downside risk management p7

# Gyrostat Risk Managed Equity Fund

## Gyrostat Absolute Return Income Equity Class - Class A Units

Blue chip shares with protection (through 'dynamic hedging') for investors seeking capital preservation and income distributions, such as retirees. Address sequencing risk with reliable gains on major market falls

### Returns

Returns in rising and falling markets increasing with volatility (including large market falls)

- 12 Mth returns + 20.8% (close Sep 30, 2022)
- Forward guidance for 2022-23 returns top of range (greater than 8%) – based on increased capital deployed to commodity stocks and continuing market volatility

### Income

Generally paid quarterly largely through dividend pass through and risk management overlay profits

- Larger distribution in 4th quarter where 12 Mth returns > 8%

### Protection

- 11 years no quarter losses > 3% (pre-defined 'hard' limit)
- Downside tail always in place with strong returns in stock market falls in February 2020-March 2020 and April 2022-June 2022

## Gyrostat Risk Managed Equity Fund

### Gyrostat Leveraged Absolute Return Income Equity Class B

Classes B focusses on greater returns and less risk protection.

#### Returns

Forward guidance to exceed income distribution (BBSW90 + 6%) in all market conditions increasing in changing markets.

➤ 12 Mth Returns September 30, 2022: 17.88%

#### Income

Minimum BBSW90 + 6% pa

#### Protection:

No quarterly downside losses to exceed 6%

## Gyrostat Risk Managed Equity Fund

### Gyrostat Absolute Return Income Equity Class - Class A Units

#### RETURN ENHANCEMENTS

- 'Hard' risk tolerance from 2% to 3% per quarter since March 2019
- Capital deployed more to resource stocks from September 2021 (higher yields, more volatility)
- Permanent left side tail for gains on market falls
- Increasing capital deployed to resource stocks - enhanced returns likely. (Refer [Gyrations November 2021](#))

#### ROLE IN PORTFOLIO

- We expect this Class to complement existing retiree solutions which are 'long' only
- Non correlated with market
- "Australian equities (defensive) or "alternatives absolute return" allocation

#### Note

On 16 November 2020 until 21 December 2020 the ASX suffered a major outage to its ASX Trade system caused by a software issue identified following a system upgrade relating to the trading of combination orders creating inaccurate market data. This prevented the Fund capturing market upside as in previous market rallies over our 10 year track record, adversely impacting returns in FY21.



# Gyrostat Risk Managed Equity Fund

## Why did Gyrostat develop the Gyrostat Risk Managed Equity Fund?

As recently as 23 June 2022, speaking at the Trans-Tasman Business Circle event APRA chair Wayne Byres said the superannuation sector is not equipped to deal with the current “significant demographic shift”. “An ever-growing number of members shift each year from the accumulation to the retirement phase, only to encounter a [lack of accessible financial advice or suitable products to help manage their nest eggs for potentially decades to come.](#)”

The Fund was developed to provide capital growth and income while hedging equity market risk, which addresses retiree financial risk management needs.

There have been 10 years of Government retirement income reviews in Australia to encourage the development of capital protected retiree income products.

The Financial System Enquiry, commissioned by the Australian Government concluded in their final report:

*“The retirement phase of superannuation is underdeveloped and does not meet the risk management needs of many retirees.”*

The various reviews have listed the criteria to be satisfied as follows: regular income, capital protection , no lock in periods for investors, transparent pricing, strong counterparty and no credit default risks .

We believe that Gyrostat meets all these requirements.

## Gyrostat Risk Managed Equity Fund

What are the approaches to financial risk management?

What is best practice?

A summary of the risk management 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 a predictive approach to sell futures contracts at some times
- Buy underlying assets, buy put options at selected times using predictive approaches
- Buy put options and hold cash (volatility as an asset class)
- Dynamic risk managed protection overlays: buy underlying assets, buy put options (always in place 'hard' risk parameter) – the Gyrostat approach

Gyrostat has reviewed five global papers on dynamic risk managed protection overlays and two best practice key themes emerge:

- Structure protection between 'core' and 'tail' protection
- Use Dynamic Downside Protection, not buy and hold protection

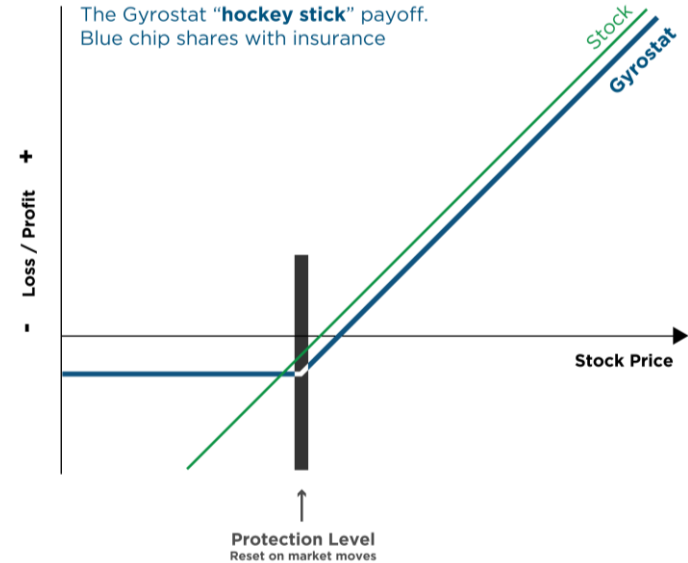
These best practice key themes are incorporated in our investment methodology for the Fund. See [Risk managed investing - global best practice](#)

# Gyrostat Risk Managed Equity Fund

## How does Gyrostat construct its Portfolio?

There are 3 steps in our risk management investment approach:

- Buy** stock [approx. 95% capital deployed in stock]
- Set** risk management overlay [approx; 5% capital]
- Re-set** dynamic risk managed overlay with market moves



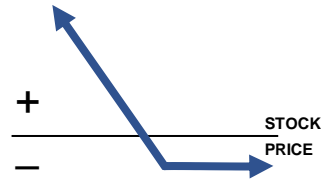
At any point in time the portfolio holds about 15 “positions. A “position” is comprised of an exposure to a stock complemented by a derivatives’ overlay. The components of each position are actively traded to keep the derivatives overlay in line with the underlying stock.

A quantitative/qualitative screening is applied to the eligible securities to determine which are then entered into to support a position. The quantitative/qualitative screens bias the selection to names that provide attractive valuations but are unlikely to exhibit a “value” trap. The screens include using forward earnings estimates in a residual income model (fundamentally based) as well as a variety of technical price driven signals (relative market performance, performance over time, resistance levels). A qualitative assessment of the business is undertaken to mitigate value traps.

# Gyrostat Risk Managed Equity Fund

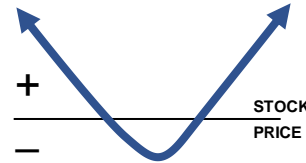
How we make money – ‘position’ payoffs from investment view

Varying the investment recipe between ‘core’ and ‘tail’ protection to adjust risk-return payoff



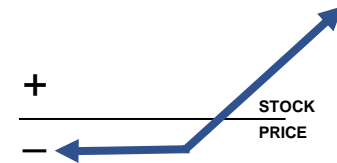
## Large falls

- 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

Stocks are ranked based on fundamental and technical analysis

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

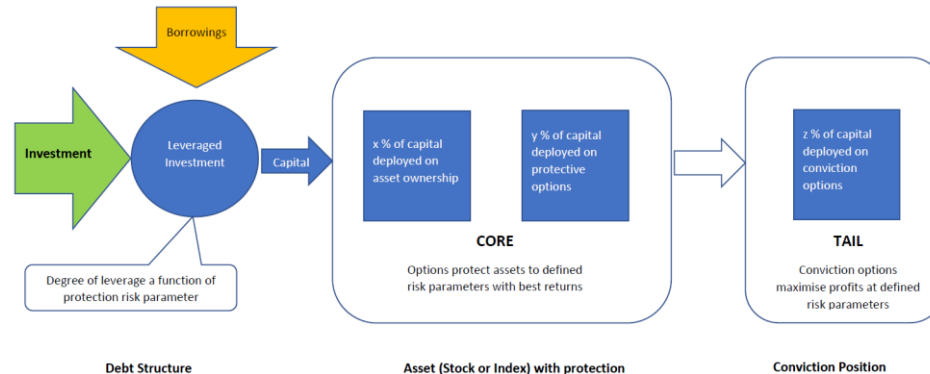
# Gyrostat Risk Managed Equity Fund

## Portfolio construction -What is 'global best practice' for dynamic risk managed investing?

Gyrostat uses proprietary software to identify options series with the greatest profit potential for a defined cost, exploiting differing levels of implied volatility in the options market.

It is important to note that the overlay is not a set and forget strategy. Rather, it is actively monitored and trades follow large market or stock specific moves. Hence trading is intensified around corporate events. The strategy achieves its highest returns on market 'gaps' from the previous days close to market open.

Gyrostat Investment Risk Return Variables



# Gyrostat Risk Managed Equity Fund

Investment cycles – major sell offs a regular and hazardous part of the investment cycle

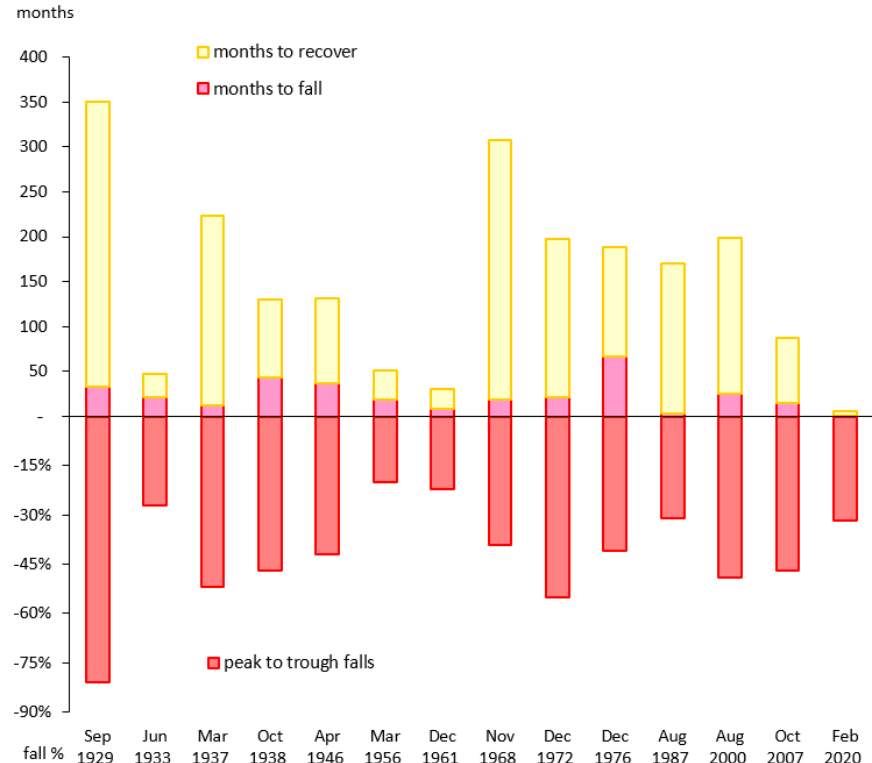
**S&P 500 Index - 90 Year Historical Chart: Peak to trough falls > 20%, duration of falls, time to recover to pre fall levels**

The graph shows the extent of falls from peak to trough SP500, the duration of the fall, and time taken to recover to pre fall highs.

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

Mar 18, 2022: Where we are in the investment cycle – historical perspective

<https://www.cmgwealth.com/ri/on-my-radar-what-current-valuations-tell-us-about-probable-future-returns-and-mauldins-recession-call/>



# 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

## Suitable wholesale investors

- Seeking capital preservation and income distributions, such as pre and post retirees
- Lower and moderate risk 'model' portfolios –asset consultants and dealer groups
- Wholesale platform availability: Netwealth, Praemium, Mason Stevens
- Accounting practices with own AFSL - private label
- Managed Discretionary Account advisers
- Philanthropic investors: cash rebates directly to your designated charity
- SMSF

The Fund is offered under Product Disclosure Statement dated 20 October 2022. The Fund became a registered scheme on 20 July 2021.



# 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

**SQM Research has awarded the Gyrostat Risk Managed Equity Fund (Class A & B) 4 stars  
- Superior, Suitable for inclusion on most APLs, High Investment Grade**

# Gyrostat Risk Managed Equity Fund

## Who is in the Gyrostat team and what is their background?

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

The organisation has been very stable:

- Craig Racine and Leo Tang from inception – December 2010
- Peter Clifton and Andrew Smith from 2014
- David Barwise from 2018
- Peter Keating from 2021

Key skills are as follows:

Craig Racine: Investment, business development  
Leo Tang: Investment, systems, IT  
Peter Keating: Investment operations, finance  
Peter Clifton: Governance, strategy  
Andrew Smith: Compliance, strategy  
David Barwise: Legal, compliance

Further personnel information on next slide

## ***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 Aobo Environmental Technology Ltd, Responsible Manager (ASIC) Goal Advisory Pty Ltd; and Dennis AFSL Pty Ltd.

In his former executive roles he was 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 has also held non-executive directorships for a variety of listed and non listed companies.

### ***David Barwise • LLB, LLM, MAICD, FGIA, FCIS***

***Director***

David Barwise has over 25 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.

The responsible entity for the Gyrostat Risk Managed Equity Fund (ARSN 651 853 799) (Fund) is One Managed Investment Funds Limited ACN 117 400 987 AFSL 297042 (OMIFL). The investment manager for the Fund is Gyrostat Capital Management Advisers Pty Ltd (ACN 168 737 246), a duly authorised representative of Gyrostat Capital Management Pty Ltd (ACN 138 219 002) (GCM).

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