GYROSTAT
RISK MANAGED EQUITY FUNDS

Building portfolios today – minding your alphas & betas

When constructing an investment portfolio, most investors' primary objective is to balance risk and return. Hence alpha and beta are important concepts to consider. They are used to evaluate an investment's or portfolio's performance and risk. What do alpha and beta mean, and how they can be used to build a portfolio?

Alpha:

Alpha is a measure of the excess return of an investment or portfolio compared to its benchmark. It indicates the skill of the portfolio manager in generating returns above or below what would be expected based on the market's performance. A positive alpha indicates outperformance, while negative alpha indicates underperformance.

Beta:

Beta measures the sensitivity of an investment or portfolio's returns to the overall market movements. It gauges the volatility and systematic risk of an investment relative to a benchmark index. A beta of 1 indicates that the investment's price moves in line with the market, while a beta greater than 1 indicates higher volatility and a beta less than 1 indicates lower volatility.

Portfolio implications

1. **Diversification with non-correlated assets (as measured by beta) reduces portfolio risk.**

   One of the primary advantages of including low beta assets in a portfolio is risk reduction. Low beta assets tend to exhibit more stable price movements, making them less susceptible to severe fluctuations during market downturns. By including securities with various beta values, investors can achieve a balance between risk and reward. A diversified portfolio containing assets with different betas helps reduce overall risk, as securities with low or negative betas may offset the volatility of those with higher betas. Billionaire investor Ray Dalio, the founder of hedge fund giant Bridgewater Associates, has explained the power of lower beta funds in a portfolio.
   https://www.youtube.com/watch?v=Nu4lHaSh7D4

2. **Beta can change with different market conditions and may not be a reliable future indicator.**

   It's worth noting that beta does have its limitations. First, it is based on historical data and assumes that the relationship between the security and the market will remain consistent in the future. However, market conditions can change, and past performance may not accurately reflect future behaviour. One way of addressing this is utilising “safe haven assets”. A safe haven asset is typically one that has a negative correlation with the broader market or has qualities that make it attractive during times of uncertainty.

   Mark Spitznagel, the founder of Universa Investments, is a hedge fund manager and renowned investor who specializes in tail-risk hedging. He believes in the concept of "safe haven investing," which involves allocating a portion of a portfolio to assets that tend to perform well during market turmoil or economic crises. Universa Investments focuses on tail-risk hedging strategies that aim to provide a reliable payoff during extreme market events. They employ options-based strategies and other risk management techniques to create a portfolio that is designed to benefit from sharp market declines.
   https://www.youtube.com/watch?v=gGpt8VNpCxw

3. **A fund with demonstrated 'alpha' consistently beats its benchmark with 'excess' returns, improving the portfolio's risk-adjusted returns.**

   To incorporate alpha into your portfolio:
   - Identify investments or strategies that have historically exhibited positive alpha.
   - Consider actively managed funds that aim to generate positive alpha through active investment techniques.
   - Evaluate the track record and consistency of alpha generation when selecting investments.

Asset allocation

So, what assets should investors look for?

In our view, the key is to seek out desirable risk attributes and not simply take the approach of investing by asset class.

Gyrostat Risk Managed Equity Fund uses dynamic hedging to manage the trade-off between returns, income, and protection levels (risk). Our approach is focused on a pre-defined quarterly 'hard' risk parameter and then maximises returns and income within that constraint. **Alpha** has been generated since our inception in 2010 by taking advantage of the differences in implied volatility (the price of risk) to have cost-effective protection always in place. This involves the initial selection of option series and then its movement with market moves to always have the lowest cost protection in place with maximum upside. **Beta** is managed by adjusting the level of tail-risk hedging.

Class A: Beta target ~ 0	Downside tail always in place - protect and gain on market falls
Class B: Beta target ~ 0.3-0.5	Returns focus, protect to 6% quarterly protect on market falls
Class C: Beta target ~ 0.9	Approx 98% ETF; 2% risk management (avoid large losses)

In simple terms, when Gyrostat utilises dynamic hedging, of every $ 1 invested, approximately 95c buys the stock, and around 5c is the lowest cost option protection. As the market price moves, the "gyrostat" is brought back into balance to restore this 95:5 recipe. This means if the stock falls, the value of the option protection goes up – the protection has done its job and a portion is sold for cash. On stock rises, the value of protection falls, and more is acquired. The aim is to achieve a stable and rising capital value, with income from the blue chip stock dividends and capital protection provided by entering option positions using a portion of the cash flow from dividends.

Since our inception in December 2010, Gyrostat Class A Units have a track record of no quarterly downside exceeding our quarterly pre-defined loss limit of 3%. The performance of the Gyrostat Absolute Return Income Equity Fund Class A Units since inception compared with the worst 5 quarterly returns from the ASX accumulation index were:

Period	ASX accumulation return	Gyrostat Class A return
Apr - Jun 2022	-11.90%	8.70%
Jan - Mar 2020	-23.10%	9.22%
Oct - Dec 2018	-8.24%	4.18%
Jul - Sep 2015	-6.58%	-0.26%
Jul - Sep 2011	-8.17%	1.29%

FURTHER INFORMATION

Corporate presentation:

http://www.gyrostat.com.au/assets/Uploads/2022-03-31-Gyrostat-Presentation-Class-A-and-B-Final.pdf

Performance reports:

https://www.gyrostat.com.au/investment/performance/

Disclaimer

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) (AFSL 452917) (**GCM)**.

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