

## Absolute return income equity funds: A structural solution for liquidity, defence and income

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For lower risk investors including retirees, achieving the trifecta of **liquidity, defensive characteristics**, and **reliable income** remains a central challenge in portfolio construction. While traditional asset classes often deliver one or two of these qualities, few consistently meet all three through the market cycle.

In response to this structural gap, a new generation of investment solutions—**absolute return income equity funds with dynamic risk overlays**—is emerging. These strategies, such as the **Gyrostat Risk Managed Equity Fund**, are explicitly designed to deliver on all three priorities in a single, integrated structure.

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### The traditional toolkit: Useful, but incomplete

Conventional income-focused portfolios rely on blending a range of asset types to approximate liquidity, defence, and income stability. These include:

1. **Investment-grade bonds** – defensiveness and income but challenged by interest rate sensitivity.
2. **Listed infrastructure** – essential service exposure with inflation-linked income.
3. **Defensive REITs** – property-linked yields with partial market correlation.
4. **Cash and term deposits** – liquidity and capital safety, with limited yield.
5. **Buy-write equity income funds** – boosted income from call writing, moderate risk mitigation.
6. **Floating rate notes/senior secured loans** – income-linked to rates, moderate liquidity.

While useful, none of these asset classes consistently address all three objectives in a cohesive, risk-managed fashion—particularly under conditions of market stress or during drawdown periods when retirees are most vulnerable to **sequencing risk**.

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## A next-generation approach: Absolute return income equity funds

Funds such as the **Gyrostat Risk Managed Equity Fund** represent a structural evolution. They combine listed equity exposure with **permanent, dynamically managed protective overlays**, generating income while aiming to preserve capital across all market conditions.

### Key Features:

Feature	Description
<b>Liquidity</b>	Daily priced managed fund or ASX-accessible vehicle with regular access.
<b>Defensiveness</b>	Always-on risk protection via put overlays; not reliant on market timing or forecasts.
<b>Reliable Income</b>	Income drawn from dividends and call premiums; structured distribution targets (a minimum premium over the BBSW)

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### Core attributes and retirement relevance

#### 1. Permanent protection overlay (Gyrostat model)

- Continuous put option strategies are embedded to reduce downside exposure.
- Unlike forecast-driven hedging, protection is structural—functioning like an insurance layer.
- Mitigates **sequencing risk**, especially critical in the decumulation phase.

#### 2. Equity exposure with tail risk management

- Investors retain long-term growth potential while smoothing volatility.
- Allows sustained equity participation, addressing **longevity risk** without excessive risk-taking.

#### 3. Predictable income generation

- Income sources include equity dividends and systematically harvested option premiums.
  - Structured income objectives align with the real-world cash flow needs of retirees.
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## Why it matters for retirement portfolios

These strategies directly address the three most significant risks faced by retirement investors:

- **Sequencing risk** – reduced through constant downside protection.
  - **Longevity risk** – addressed by maintaining prudent equity exposure.
  - **Emotional/behavioural risk** – mitigated through a smoother, more predictable return profile.
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## Considerations and implementation factors

- **Cost of protection:** While ongoing hedging carries a cost, it is generally more efficient than reactionary or forecast-dependent risk control.
  - **Upside trade-off:** In strong bull markets, return may be modestly constrained due to protective overlays.
  - **Complexity:** The mechanics of dynamic hedging may require adviser education or client engagement to ensure full understanding and suitability.
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## Conclusion

In an era where traditional 60/40 portfolios may no longer provide sufficient reliability for retirees, **absolute return income equity funds with permanent protection overlays** offer a compelling alternative. They bring together liquidity, risk-managed equity exposure, and reliable income—within a transparent, repeatable framework.

For practitioners designing decumulation strategies, these vehicles present a structurally aligned solution to the demands of today's retirement investor: protection, participation, and predictable income—all in one.

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