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RISK MANAGED EQUITY FUNDS

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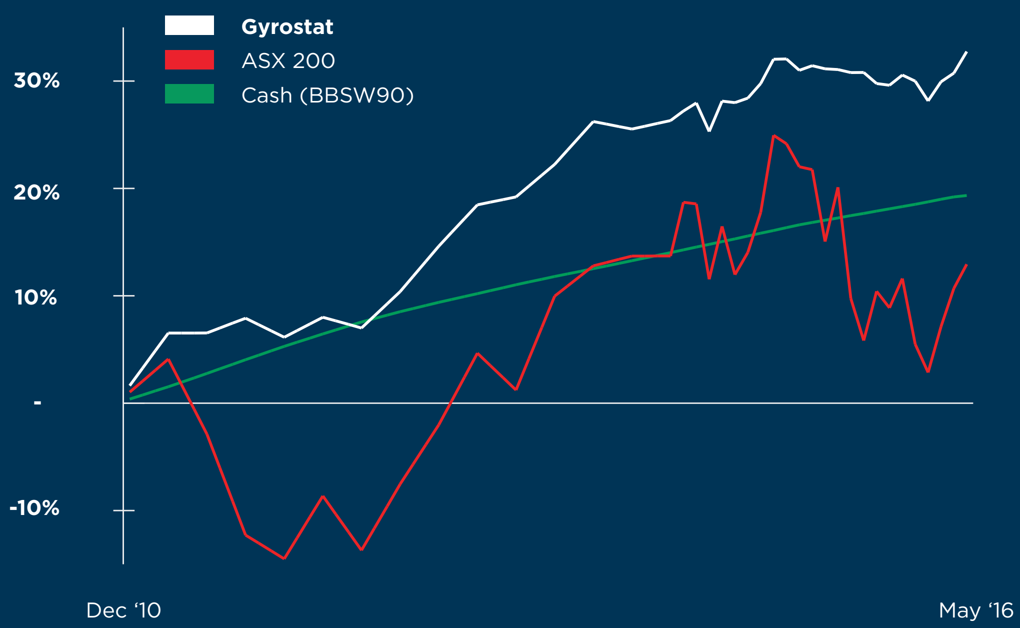
The investment case

Ideal conditions with falling interest rates and rising market volatility



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Risk managed equity funds – compelling yield investment opportunities

- Where we fit in portfolio asset allocation – 'income' allocation suitable for all investors
- The Gyrostat approach – risk managed equity income funds unique offering
- Fund characteristics – frequently asked questions
- Compelling investment opportunities now – low interest rates and increasing market volatility

Where we 'fit' in portfolio asset allocation

When constructing an investment portfolio, investors vary the blend between 'income' and 'growth' assets depending upon their desired risk-return profile.

As an illustration, in the Vanguard model portfolios, the 'total income' component of the portfolio varies between 10% (high growth) and 70% (conservative).

Vanguard's ETF portfolio strategies - asset allocation

	ETF	Conservative	Balanced	Growth	High growth
Income					
Fixed income	VAF	60%	50%	30%	10%
Cash	Cash Plus*	10%	0%	0%	0%
TOTAL INCOME		70%	50%	30%	10%
Growth					
Domestic equity	VAS	13%	22%	31%	40%
International equity	VTS	6%	11%	15%	19%
	VEU	7%	11%	16%	21%
Property	VAP	4%	6%	8%	10%
TOTAL GROWTH		30%	50%	70%	90%

Gyrostat Capital Stability Income Fund can form part of your 'income' allocation and is suitable for all investors.

We benefit investors who are sensitive to falling valuations in the underlying investment and require higher income than cash and term deposits.

On 16 May 2016 the 10 year Australian Government bond yield fell to its lowest in 141 years with expectations that more cuts to official interest rates are coming.

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The Lonsec report "Income in retirement – the pros & cons" considers the asset classes commonly used to generate income:

- Term deposits
- Annuities
- Endowment Bonds
- Bond funds
- Equities – income focused
- Hybrids

Most "income" alternatives don't invest in growth assets and ***the income being generated on the underlying investments continues to fall as interest rates are reduced.***

"Equities – income focussed" are investments in growth assets that offer yield.

The "traditional" approach to investing directly in blue chip high yielding shares, or conventional income funds, ***leave you fragile and exposed to market fluctuations in the value of your investment.***

> "… the long term question is how the industry will produce income for its clients and manage the new risks."
>
> *Craig Racine, Chief Investment Officer, Gyrostat, July 22, 2015 "The Age, Money" (attachment A)*

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The Gyrostat approach

We buy and hold high yielding blue chip shares in the ASX top 20 and insure downside with lowest cost alternatives (ASX bought put options).

Gyrostat's key competitive advantage is its ability to be fully invested in stocks with a risk-return profile at all times to participate in share price upside with minimal capital at risk – "hockey stick payoff".

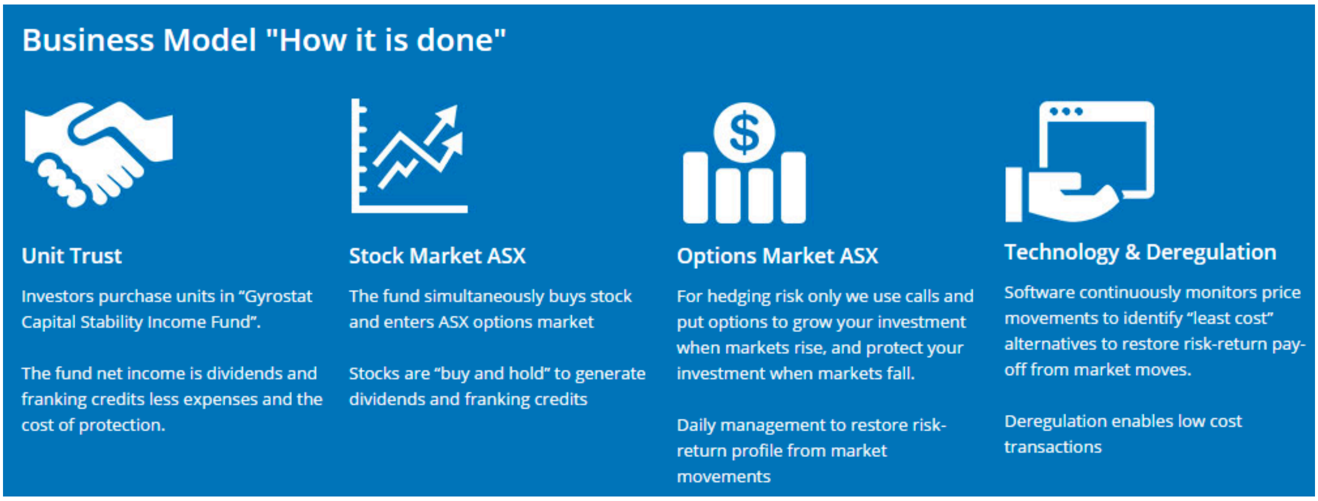
We achieve this through the management of ASX options, made affordable through advances in technology and deregulation.

Gyrostat software systems identify the 'least cost' put option alternatives available in the market. There are many series to choose from. Gyrostat uses a variety of bought put options at a lower cost than the "do it yourself" approach.

To further lower the cost of protection, Gyrostat receives premiums in return for limiting some of the upside gains. This is achieved by selling call options. Again, there are many series to choose from.

With market movements, the "options" component needs to be managed. We participate in the upside if markets rise, and protect the downside when markets fall. On market rises, we lock-in the gains with more protection – on falls we are able to sell some protection which is no longer required.

Investors' funds and stocks are held in custody by Australia's largest independent custodian One Investment Group.



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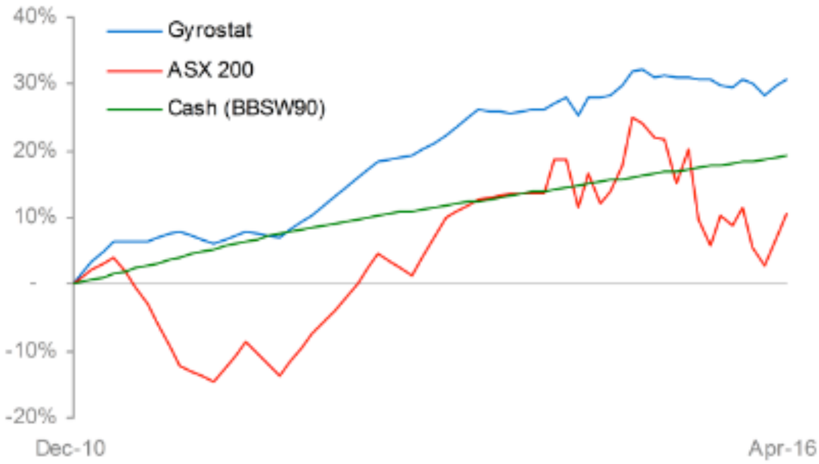
Fund characteristics – frequently asked questions

What is your track-record?

We have a 5½ year track record of delivering on our investment objectives since our inception in December 2010.

We grow our investors' funds on market rises or large 'one off' falls. We protect our investors' capital on market falls. We have achieved compounded returns of 33% since our inception, considerable higher than cash, with 21 consecutive quarters of no losses exceeding 2%.



What are the fund characteristics?

Yield	Semi-annual income at least 3% above BBSW90 (currently **5.3% pa**) by passing through dividend and franking credits.
Tax	Receive cash and franking credits (or re-invest) Buy and hold stocks for simplicity of capital gains
Valuation	Mark to market valuations of fund value weekly.
Counterparty	Financially strong counter party for protection – Australian Stock Exchange
Leverage	No leverage within the fund

Full details are available in our Information Memorandum

www.gyrostat.com.au/assets/Download/Paragraphs/Gyrostat-Information-Memorandum-web.pdf

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Who are your investors?

Our investors ***typically re-allocate maturing term deposits to our Fund, disappointed at the reduced income they receive from interest rates on offer.*** They receive enhanced yield whilst always protecting and growing their capital investment. Our investors range from conservative to high growth investors.

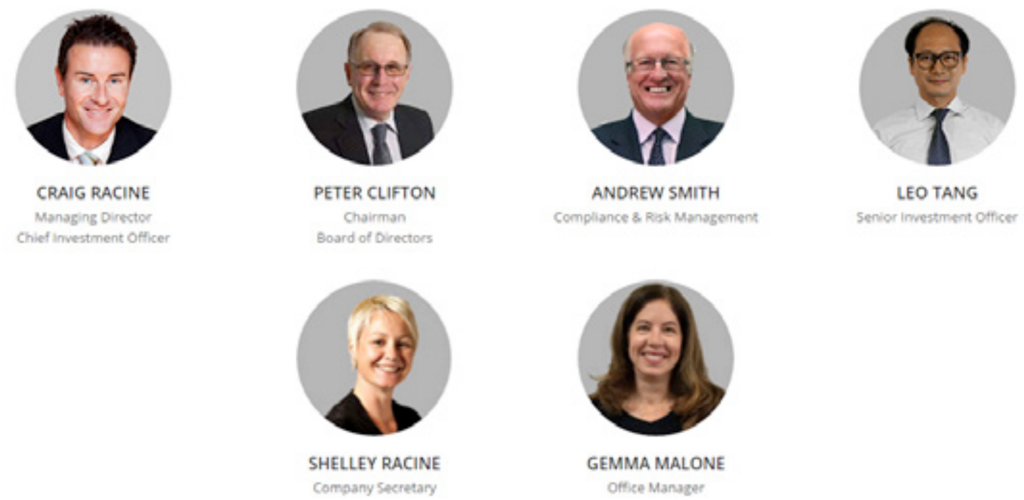
Who are the team?

Our 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, and equity research.

Craig Racine has held Board positions in multi-national companies in China (China Unicom), India, Indonesia, The Philippines, Pakistan, and globally. 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).

Andrew Smith, as Chairman of our Risk & Compliance Committee has extensive experience acting as an **ASIC Responsible Manager** under four Financial Services Licences for a diverse range of firms with operations in the financial markets in Australia and the Asia Pacific. Andrew is also Chairman of ASX listed XPD Soccer Gear Group Ltd.

Peter Clifton was a Board member with ASX listed Amcom from 1999 until its recently completed merger with Vocus, and has extensive experience in governance having served on Boards in Asia, the Middle East, and Europe.



Full details are available at http://www.gyrostat.com.au/about-us/

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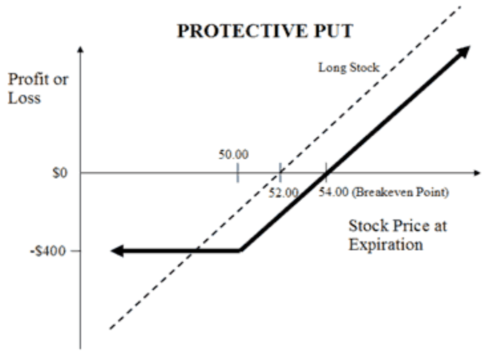
What is the background to being able to 'insure your shares'?

The theoretical knowledge on how to "insure" your portfolio has been around since 1973 when Fisher Black and Myron Scholes published a paper, the basis for which a Nobel Prize in Economics was awarded fourteen years later. Their work created one of the most important concepts in modern financial theory, the mathematical model for pricing derivative investment instruments, including options.

A put option gives you the right to sell a stock at a pre-defined price for a pre-defined period of time. It is like an insurance policy, but like all insurance it comes at a price.



Protective Put Payoff Diagram

The ASX offers investor education at their web site, including a specific section "Equity Options from SMSFs". (http://www.asx.com.au/products/equity-options/eto-for-smsf.htm)

How does Gyrostat manage ASX options?

Management of the ASX options is the key to lowering its cost. In particular:

- There are differing levels of 'implied volatility' in the option market from differing maturities, or within the same maturity across a different range of strike prices. This has been observed by academics and market participants for many decades. Technology and software enables these to be identified in 'real time'.

- To further lower the cost of protection, you can receive premiums in return for limiting some of the upside. This is achieved by selling call options. Again, there are many series to choose from.

- With market movements, the "options" component can be actively managed. The trading reduces the cost. By actively managing, on market rises - locking in the gains with more protection; on market falls - sell some protection which is no longer required. Sophisticated software allows instant monitoring of a large number of price movements simultaneously.

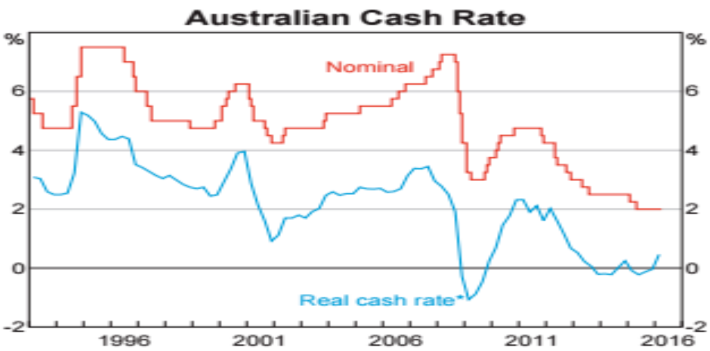
- Transaction costs have fallen with deregulation. Deregulation allows funds managers and individuals to execute transactions at a low cost without the requirement to use a full service broker.

Compelling investment opportunities now – low interest rates and increasing market volatility

Low interest rates

Low interest rates reduce the rate of return, and hence level of income from traditional 'lower risk' assets such as term deposits, annuities, endowment bonds, bond funds, and hybrid securities. The amount received at maturity, rate of return, and the date it will be received, is known at the time of purchase.

On 16 May 2016 the 10 year Australian Government bond yield fell to its lowest in 141 years with expectations that more cuts to official interest rates are coming.



* Calculated using average of year-ended weighted median inflation and year-ended trimmed mean inflation
Sources: ABS; RBA

Reserve Bank of Australia Governor Glenn Stevens recently questioned:

> " … how an adequate flow of income could be generated for the retired in a world where nominal return on low-risk assets are so low".

Increasing stock market volatility

It is widely anticipated that stock market volatility will increase over the coming years. The VIX is a real-time volatility index that provides investors, financial media, researchers and economists with an insight into investor sentiment and expected levels of market volatility. Historically lower levels of market volatility have been experienced for a period of 4 years – 1992 to 1996, and 2003-2007. The most recent period of historically low volatility commenced in 2012.

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"We should expect ***greater-than-usual financial volatility***, with quite large swings (up and down) that are only distantly related to changes in fundamentals."

Mohamed El-Erian, Chief economic adviser at Allianz, is chairman of Barack Obama's Global Development Council, ex-CEO of Pimco

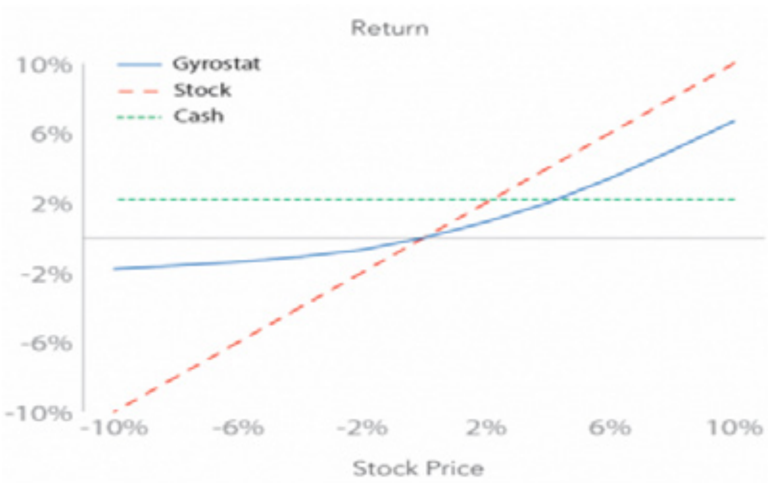
Volatility S&P500 (VIX) 1990 – 2016

Increasing stock market volatility benefits Gyrostat due to the risk-return profile at all times to participate in share price upside with minimal capital at risk, at the stock specific level.

We participate in the upside if markets rise, and protect the downside when markets fall. On market rises, we lock-in the gains with more protection – on falls we are able to sell some protection which is no longer required. The more volatility, the more opportunities there are to capture upside and re-balance the portfolio.

We re-balance our portfolio with the market movements to restore our risk-return profile.

Since market lows of February we've achieved returns of 4% at an annualised rate of 16%.



Further details are available at http://www.gyrostat.com.au/investment/

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Retirement planning **Craig Racine**

End of seven-year rule brings a new ball game

For the first time in the history of the ASX, the All Ordinaries Index is lower than it was seven years ago. The seven-year rule used to be a persuasive sales pitch for financial planners. Now it is gone.

Times have changed. Global debt has increased by $57 trillion since 2007 and interest rates are at record low levels. Rental yields are heading in the same direction. Sharemarket volatility around the world adds to the uncertainties facing retirees.

Australia escaped the worst of the global financial crisis, but the record 25-year run of prosperity and growth seems set to end soon. The economic tremors in China and Europe add more uncertainty. This all spells trouble for retirement planning as the peak of the baby boom bulge moves past 65. In Paris last month, OECD secretary-general Angel Gurria warned about the risks created by current conditions.

He said: "Increasingly pension funds and life insurers are feeling the pressure to chase yield themselves, and to pursue higher risk investment strategies that could ultimately undermine their solvency. This not only poses financial sector risks, but potentially jeopardises the secure retirement of our citizens."

Reserve Bank of Australia governor Glenn Stevens recently questioned how an adequate flow of income could be generated for the retired "in a world where nominal returns on low-risk assets are so low".

David Murray, the chairman of the Financial System Inquiry, added more doubt when he said recently that "the retirement phase of superannuation is undeveloped and provides limited choice for managing risk in retirement". Put simply, the traditional approaches of buying high yielding stocks or buying stocks and selling call options are fragile and exposed.

Most attention on the financial planning industry recently has been, quite rightly, on the graft and corruption exposed by Fairfax Media in some of our biggest institutions. But the wider, long-term question is how the industry will produce income for its clients and manage the new risks. One answer is to deploy two other great movements of the past 25 years – technology and deregulation.

Deregulation allows fund managers and individuals to make unlimited numbers of transactions at low cost without the requirement to use a full service broker or other third party. And sophisticated software allows instant monitoring of large numbers of price movements simultaneously.

The deployment of these two weapons allows a form of insurance with downside protection always in place through the use of put and call options to lock in the sale price of the shares, no matter how low the share price may go.

The theoretical knowledge for this approach has been around since 1973 when Fisher Black and Myron Scholes published a paper that was the basis for a Nobel prize in economics awarded 14 years later. Their work created one of the most important concepts in modern financial theory, the mathematical model for pricing derivative investment instruments, including options. Recent software developments have opened the way for new ways to apply the model with deeper levels of sophistication and speed.

Most fund managers will be searching for ways to adapt to the new market paradigms to deliver better returns in a sluggish investment environment. This introduces another risk for investors who may be at the mercy of unintended consequences of new investment products.

Some exotic products will be exposed as fatally flawed. A recent example is bank hybrids, which were supposed to be a cross between the safety of cash and the risk of shares, with a yield somewhere in between. Unfortunately, some investors have found that hybrids are capable not only of producing the best of both worlds, but also the worst.

Investors and trustees of self-managed superannuation funds need to get used to the marketing by financial planners of more novel products aimed at producing higher returns than the old formulas. Investors should look for strategies with a proven track record. Those asked to participate in novel approaches should check for safeguards, including a straightforward business model with minimal capital at risk at all times and a financially strong counterparty such as the ASX for hedging activities, be cautious about leverage within a fund, ensure instruments are traded on an exchange which provides transparency and ask questions about whether the offering is robust in all market conditions.

Craig Racine is managing director of Gyrostat Capital Management.

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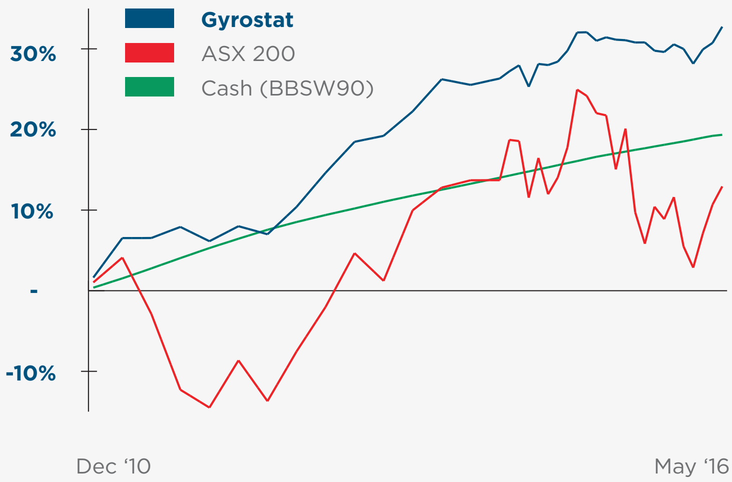
If your objective is to generate a higher level of income than cash and term deposits, whilst always protecting and growing your capital investment…

…OUR FUND CAN HELP.

Risk managed equity income fund

- Minimum distribution cash rate plus 3% (currently 5.3%)
- Growing your investment on market rises or large 'one off' falls
- Protecting your investment when markets fall
- Compounded returns of 33% since inception
- 21 consecutive quarters of no losses exceeding 2%



WE BUY AND HOLD BLUE CHIP STOCKS AND PASS ON THE FRANKED DIVIDEND.

We simultaneously enter the Australian Securities Exchange ("ASX") options market to hedge risk.

We are always fully invested with minimal capital at risk.

Our Track Record of Returns:

Period	Gyrostat	ASX 200	BBSW 3M
31 Mar 2012	6.1%	-6.7%	4.9%
31 Mar 2013	7.6%	2.0%	4.3%
31 Mar 2014	7.1%	4.0%	3.8%
31 Mar 2015	6.7%	5.2%	3.6%
31 Mar 2016	5.1%	1.3%	3.3%

* compunded annualised returns since inception

Business Model - "How we invest"

Unit Trust

Investors purchase units in "Gyrostat Capital Stability Income Fund".

The fund net income is dividends and franking credits less expenses and the cost of protection.

Stock Market ASX

The fund simultaneously buys stock and enters ASX options market

Stocks are "buy and hold" to generate dividends and franking credits

Options Market ASX

For hedging risk only we use calls and put options to grow your investment when markets rise, and protect your investment when markets fall.

Daily management to restore risk-return profile from market movements

Technology & Deregulation

Software continuously monitors price movements to identify "least cost" alternatives to restore risk-return pay-off from market moves.

Deregulation enables low cost transactions

Further details available at:
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