

EXECUTIVE SUMMARY

- In 1Q, security selection was materially favorable relative to the S&P 500 as lower-beta stocks heeled up relatively well amid unprecedented volatility. Sector allocation had no material effect as an overweight allocation to Financials was largely offset by an underweight allocation to the Energy sector. In the end, the U.S. Large Cap Low Volatility Strategy outperformed its benchmark, the S&P 500 Total Return Index.
- Capital markets, health care systems, and national governments continue to deal with the impact of a novel coronavirus, which causes the disease dubbed Covid-19. In the U.S., the S&P 500 Index experienced the fastest drop in U.S. history – falling over 33% in 23 trading sessions as investors attempted to price the uncertainty associated with this pandemic.
- Currently, President Donald Trump is considering his “biggest decision” regarding when and how to begin lifting the social-distancing measures currently in place. The decision entails a tradeoff between public health and economic health and the effects of any actions or inactions are certain to have a profound impact on life in the U.S. and capital markets around the world.

ATTRIBUTION ANALYSIS

Security selection was favorable as investors dumped riskier positions in favor of defensive ones. CTXS is a rare beneficiary of the coronavirus outbreak since its traditional VPN solution is used by numerous large enterprises for employees working remotely. Similarly, investors viewed JKHY’s IT processing and payment solutions as more durable in this environment of heightened uncertainty. Like many other Consumer Staples companies, CL held up well. XOM fell with the Energy sector, although it outperformed the sector nevertheless. The de-facto dissolution of OPEC amid tepid energy demand has sent oil prices plunging and brought XOM’s “never cut” dividend into question. GPC shares sold off as investors looked to trim exposure to the auto industry as trends deteriorate and ‘miles driven’ decline in the near term. AFL underperformed the Financials sector, albeit modestly. AFL may experience a slower-than expected sales recovery with its high exposure to Japan proving a headwind.

TOP 3	BOTTOM 3
CTXS	XOM
JKHY	GPC
CL	AFL

PORFOLIO ACTIVITY

The Low Volatility Portfolio is rebalanced quarterly and securities are bought and sold during the rebalance. The following positions were bought and sold during the most recent rebalance after the quarter’s end (3/31/20).

BOUGHT	DG	COG	AGN	CERN	AKAM	JNPR	BR	FFIV	NEM	CLX	AOS	BMJ
SOLD	AFL	AVB	CB	CME	ECL	FIS	GPC	LMT	MSI	PAYX	PEP	XOM

OUTLOOK AND POSITIONING

Investors have been in awe of how quickly events surrounding the outbreak of a novel coronavirus have unfolded and the ensuing repricing in stocks. Unlike most economic shocks, there is no precedent to this crisis and thus no reference point for guidance on how to discount the risks. While we don't know what the future holds in respect to the impact from public health policies, we do know that once the dust settles investor focus will once again turn to corporate earnings. As a result of unprecedented U.S. equity market volatility, half of the positions in the U.S. Large Cap Low Volatility Strategy were identified for replacement at the Strategy's standard 40th percentile threshold during the most recent rebalance. In an effort to reduce portfolio turnover, we increased this threshold to the 50th percentile level after determining doing so had a limited impact on the level of risk inherent in the strategy. Looking forward, we will resume selecting stocks using the 40th percentile threshold in the absence of a compelling reason to do otherwise.

COMPOSITE RETURNS

As of 3/31/2020	Since Inception 1/1/12*	QTD	YTD	1 Year	3 Year*	5 Year*
Low Volatility (Gross)	11.27%	-16.33%	-16.33%	-6.50%	6.09%	7.28%
Low Volatility (Net) [^]	10.77%	-16.55%	-16.55%	-7.45%	5.12%	6.50%
S&P 500 Total Return Index	11.42%	-19.60%	-19.60%	-6.98%	5.10%	6.73%

*Annualized Returns.

Performance is presented gross and net of advisory fees. [^]Net return is calculated using the weighted average quarterly fee for the underlying accounts for each period. Past performance is not indicative of future returns. The U.S. Dollar is the currency used to express performance.

Gyroscope Capital Management Group, LLC, an investment advisor, does business as Gyroscope Capital Management Group and was founded in 2006.

Gyroscope Capital Management Group, LLC ("GCMG") claims compliance with the Global Investment Performance Standards (GIPS®).

The Large Cap Low Volatility Composite includes all portfolios that are at least 90% invested in our 30 stock portfolio that focuses on large cap equities with low-beta and low volatility and for comparison purposes is measured against the S&P 500 Total Return Index. The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value.

Prospective clients and other interested parties can obtain a copy of the Compliant Presentation and/ or a list of the firm's composite descriptions by contacting Robert Carr by phone at 1-239-219-0550 or by email at rcarr@gyroscopicapital.com.

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