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SGI Equity Strategies 2nd Quarter Summary

The second quarter of 2020 brought about a stunning reversal in the markets, but the global economy deteriorated. Absolute returns were the best in decades, but it was a period of relative underperformance for the firm. All three of the equity strategies posted positive returns but underperformed their respective benchmarks. Here are some highlights:

- The U.S. Large Cap equity strategy returned 15.26% for the quarter, underperforming the S&P 500 Index on a gross basis by 5.29% for the quarter, while maintaining significantly lower overall portfolio risk.
- The U.S. Small Cap equity strategy returned 11.58% for the quarter, while underperforming the Russell 2000 Index on a gross basis by 13.84% for the quarter, while maintaining lower overall portfolio risk.
- The Global equity strategy returned 12.80% for the quarter, underperforming the MSCI ACWI Index on a gross basis by 6.60% for the quarter, while maintaining lower overall portfolio risk.

SGI Performance	2Q20	1 Yr	3 Yrs	5 Yrs
US Large Cap Gross	15.26%	3.09%	11.04%	11.04%
US Large Cap Net	15.03%	2.27%	10.20%	10.22%
S&P 500 Total Return	20.54%	7.49%	10.72%	10.72%
US Small Cap Gross	11.58%	-17.16%	-2.83%	4.62%
US Small Cap Net	11.34%	-17.83%	-3.54%	4.04%
Russell 2000 Total Return	25.42%	-6.65%	1.98%	4.27%
Global Large Cap Gross	12.80%	-3.53%	6.88%	8.67%
Global Large Cap Net	12.50%	-4.35%	6.14%	8.15%
MSCI ACWI Total Return	19.41%	2.64%	6.71%	7.06%

Please review our separate one-page commentaries covering each strategy for additional details about portfolio positioning and attribution.

All SGI equity strategies implement a managed risk approach to equity investing. This managed risk focus has historically allowed investors to enjoy **competitive equity returns** while taking **meaningfully less overall portfolio risk**. For example, historically, our large cap strategy averaged 10-20% less return volatility than the S&P 500 Index (trailing 5 years weekly as of 6/30/2020).

MARKET COMMENTARY

Pandemic

The global spread of the coronavirus dominated headlines and affected nearly every aspect of human activity. In response, many governments mandated lockdowns or stay-at-home policies for nearly everyone except essential workers. As the number of infections and deaths began increasing exponentially, the healthcare system in most countries mobilized to fight the infection and save lives. Simultaneously, nearly all but essential economic activities ceased or were reduced significantly. National emergencies were declared in most countries. Unemployment skyrocketed to levels unimaginable six months ago. Initially, during the first quarter the financial markets internalized the severity of the pandemic and plunged in the most rapid decline in several generations.

COVID-19 cases surpassed 11.7 million globally and 2.9 million in the U.S. Deaths caused by the virus now exceed 540 thousand globally and 131 thousand in the U.S. Globally numerous efforts are underway to create a vaccine and find effective treatments. Implementation of drastic social policies initially helped slow the number of daily cases across most countries. However, in June, some countries, including the U.S., experienced an acceleration in the number of daily infections. Some of the acceleration is attributable to the gradual reopening of portions of the economy.

Dr. Anthony Fauci, the nation's preeminent infectious disease expert, recently testified to the Senate that "we are not winning the battle against the virus" and fears a resurgence of infections and deaths in the upcoming months. Until an effective vaccine and treatment is found the massive changes in human activities remain in place and their impact on economic activities persist. Nearly all companies have pulled their guidance and targets for 2020. The healthcare crisis continues to have enormous social and economic costs. The beginning of earnings season during the next several weeks will give investors some insight into the degree of damage to earnings and revenues of companies caused by the pandemic.

A VIEW FROM THE SUMMIT

SUMMIT GLOBAL INVESTMENTS

The Fed and Government Response

In March, the Federal Reserve lowered interest rates to zero and stated that they expect to maintain this level until the economy has weathered recent events. Then came extraordinary measures from the government and Fed with the passage of the $2 Trillion CARES Act. The Fed used open market operations, Primary Dealer Credit Facility (PDFC), Commercial Paper Funding Facility (CPFF), Money Market Liquidity Facility (MMLF), dollar liquidity swap lines, Term Asset-Backed Securities Loan Facility (TALF), Main Street Lending Program, and PPP lender support to expand its balance sheet by trillions of dollars and provide massive liquidity to financial markets. In addition to buying U.S. government obligations, the Fed began purchasing corporate bonds including high-yield bonds. The CARES Act also provided fast and direct payments to American workers, families, businesses, and state and local governments.

Levels	1Q20	2Q20	Change
Russell 1000 Index	1416	1717	21.25%
Russell 2000 Index	1153	1441	25.00%
MSCI EAFE Index	1560	1781	14.17%
MSCI Emerging Markets	849	995	17.27%
U.S. Aggregate*	1.59%	1.25%	-21.09%
U.S. High Yield 2% Cap*	9.46%	6.89%	-27.21%
U.S. Federal Funds Rate**	0.08%	0.08%	0.00%
U.S. 10 Year Treasury**	0.67%	0.66%	-2.00%
U.S. Dollar Index	99.05	97.39	-1.67%
WTI Crude Oil Spot	20.48	39.27	91.75%
*Yield to Worst **Interest Rate			

The gigantic monetary infusion instantly reversed a plunging stock market as well as prevented a freezing-up of the credit and lending markets. Other governments across the globe undertook similar measures. These activities clearly boosted the stock and fixed-income markets significantly during the second quarter. However, the fundamentals of businesses and the economy continued to deteriorate, while COVID-19 infections continue to grow.

Economy

Nearly every sector of the economy has seen a reduction in demand as well as some supply disruptions. Unemployment in the U.S. currently ranges between 11-19% depending on which economic measures are used. Hotels, airlines, cruises, car rentals, casinos, sporting events, conferences, hair and nail salons, gyms, malls, specialty retailers, automobiles, and countless other industries have suffered severe revenue declines. Even after restarting in June many of these industries are dealing with reduction of customers of 50%-80% from previous levels. The economic damage has been tremendous and sudden. Most economic indicators have or are expected to plunge to historically low levels.

SGI Outlook

- The U.S. economic recovery will likely be lengthy and dependent on the development of a vaccine and effective treatments.
- We think the stock market has not fully priced in the impact of the November election.
- Bankruptcy filings are likely to accelerate.
- More social unrest is predicted, especially in the fall.
- The Federal Reserve has stated it will do “whatever it takes” to support the economy.
- Additional government stimulus is on the way.

We continue to adhere to our disciplined, managed-risk, multi-factor investment process. Over a full market cycle, this approach has historically limited downside risks and allowed for participation in market rallies. We are grateful for the opportunity to help steward your investments.

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