GYROSTAT
CAPITAL MANAGEMENT

Solving the nastiest problem in finance: Retirement income and sequencing risk

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Executive summary

Needs: Lower-risk investors, especially retirees, want peace of mind in all markets.

Problem: "The nastiest problem in finance" (William Sharpe) is turning retirement savings into reliable income. Sequencing risk and losses early in retirement creates lasting damage.

Solution: Diversify by market scenario, falling, volatile, stable, and rising, to ensure portfolios are prepared for all conditions.

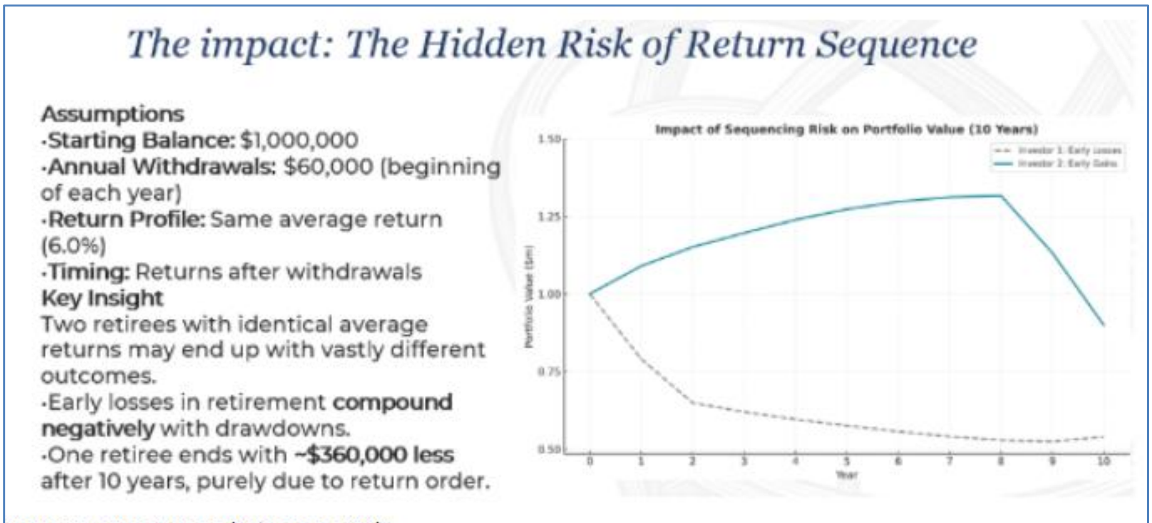
Proof: Gyrostat's absolute return equity income funds embed protection always, delivering growth with resilience.

Introduction

Nobel Laureate William F. Sharpe once described retirement as "the nastiest problem in finance." His point was simple but profound: unlike saving for retirement, where the challenge is to amass as much wealth as possible, the drawdown phase presents an almost impossible balancing act. Retirees must turn a finite pool of savings into an income stream that will last a lifetime, with no certainty about how long they will live, what markets will deliver, or how much they will need to spend along the way. For advisers and their clients, this problem is not theoretical. It is immediate, personal, and unforgiving. A misstep early in retirement can permanently alter outcomes. This is why sequencing risk, the risk of experiencing poor returns in the first years of drawdown, is the defining challenge of modern retirement planning.

The problem: Sequencing risk

Most investors understand that markets fluctuate. What many fail to realise is that the order of returns can matter more than the average return itself. A portfolio that suffers losses in the first years of retirement, just as withdrawals begin, may never recover. The arithmetic of compounding turns against the retiree, locking in losses at the worst possible time.



Source: Gyrostat analysis case study

A more detailed analysis can be found in our previously published article, which can be found here: https://www.gfmreview.com/markets/sequencing-risk-the-hidden-retirement-threat-1

This is what makes Sharpe's "nastiest problem" so daunting. Longevity risk, market volatility, inflation, and behavioural pressures converge precisely when investors have the least flexibility to adjust. Accumulation strategies, designed to maximise growth over decades, are not built to withstand the destructive power of early drawdown losses.

The solution: Diversify by market scenario

The common response to sequencing risk is to diversify by asset class. Yet history shows that in crises, correlations converge, and traditional diversification can fail. What matters more is preparing portfolios for different market scenarios.

At Gyrostat, we frame markets through four distinct states

- Falling – when markets correct or crash.
- Volatile – when uncertainty dominates, and outcomes are uneven.
- Stable – when conditions are range-bound.
- Rising – when growth trends hold.

Diversification for All Market Scenarios

Strategy	Key Attributes	Falling Market (Inc. Large Market Falls)	Volatile Market	Stable Market	Rising Market
Diversify risk – Conservative/Growth Mix	Relies on correlation spread across asset classes	Unfavorable – Correlation often rises in crisis	Unfavorable – Capital losses	Favorable	Favorable
Occasional Protection via Predictions	Requires accurate timing to be effective	Unfavorable – Exposed if wrong	Unpredictable – Gains/Losses	Favorable	Favorable (May be Capped)
Protection Always in Place – Absolute Return (Gyrostat)	Non-correlated beta with embedded put protection; thrives on volatility	Very favorable (Class A), favorable (Class B)	Favorable (Class A), very favorable (Class B)	Less Favorable (Lower Return)	Favorable (Mitigated Upside)

Most portfolios are designed exclusively for the rising market scenario. However, retirees cannot afford that kind of concentration. A retirement-ready portfolio must have structural resilience across all four. That is the essence of Gyrostat's approach: protection is always integrated, not just turned on or off, ensuring readiness regardless of the market's direction.

The proof: Absolute return income equity funds

The promise of resilience must be demonstrated in outcomes. Gyrostat's absolute return equity income funds are designed to deliver growth and income while ensuring protection is always in place.

Gyrostat Absolute Return Income Equity Fund Classes returns to 31 August 2025.

Class	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Max Qtr Loss (3Yr)	Beta
A	+11.80%	+9.05%	+8.88%	+10.32%	-1.53%	-0.08
B	+14.15%	+10.46%	+10.78%	+11.07%	-0.84%	-0.22

The evidence is clear. Class A and Class B funds have shown how a strategy built around protection and scenario resilience can deliver competitive equity returns while cushioning downside risk. Importantly, this is not achieved through market timing or complex overlays, but through a disciplined structural design.

For advisers, this proof matters. It allows them to sit with clients and show that the Gyrostat approach does not depend on predicting the next crisis or bull run. Instead, it recognises that retirement income must be safeguarded across all conditions.

The adviser's role

Advisers are on the front line of Sharpe's "nastiest problem." They must help clients navigate an environment where the risks are multi-dimensional, the time horizon uncertain, and the consequences of early losses severe.

Gyrostat's scenario framework and absolute return equity income design equip advisers with a clearer narrative:

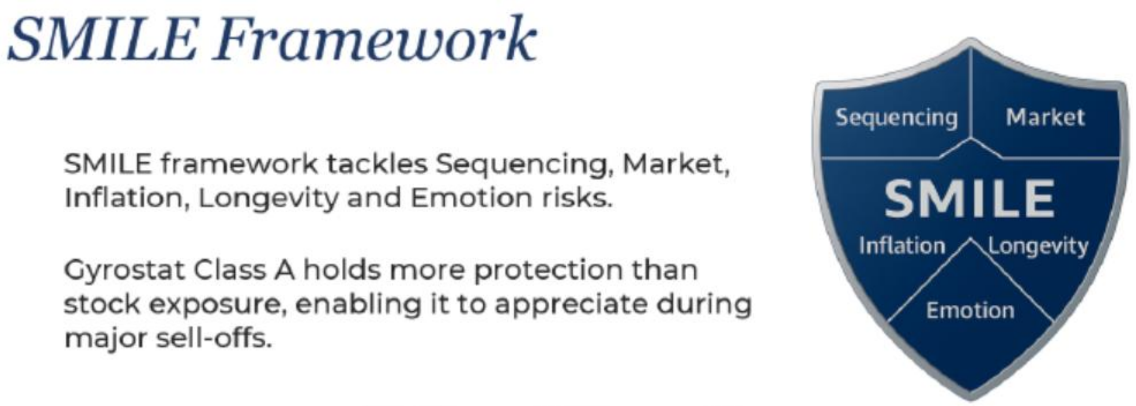
- Sequencing risk is the silent danger.
- A portfolio built only for rising markets is incomplete.
- Structural protection can provide clients with peace of mind.

By reframing the conversation from prediction to preparation, advisers can demonstrate value in the most important phase of a client's financial life.

Conclusion

Sharpe was right: retirement is the nastiest problem in finance. It requires more than asset allocation; it requires structural protection against sequencing risk.

Gyrostat's absolute return equity income funds, grounded in the principle of protection always, offer a practical solution. By diversifying portfolios across falling, volatile, stable, and rising market scenarios, and embedding downside resilience into the design, Gyrostat provides what retirees and their advisers need most: peace of mind in all markets.



The nastiest problem in finance cannot be eliminated. But it can be managed. Gyrostat is built for exactly that purpose.

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