

Large cap v small cap and value v growth

Equus Point Capital's stock selection and risk management process is based on the relative momentum of stocks within the S&P/ASX200 adjusted for beta. That is, we seek out stocks that demonstrate true alpha and not stocks where returns are simply driven by individual beta and the market.

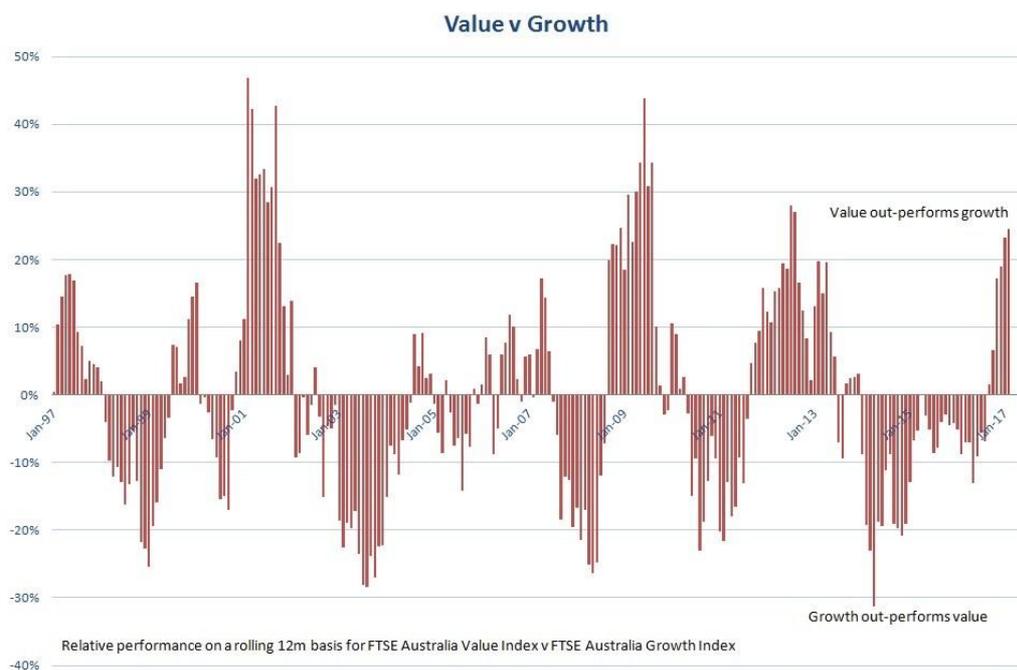
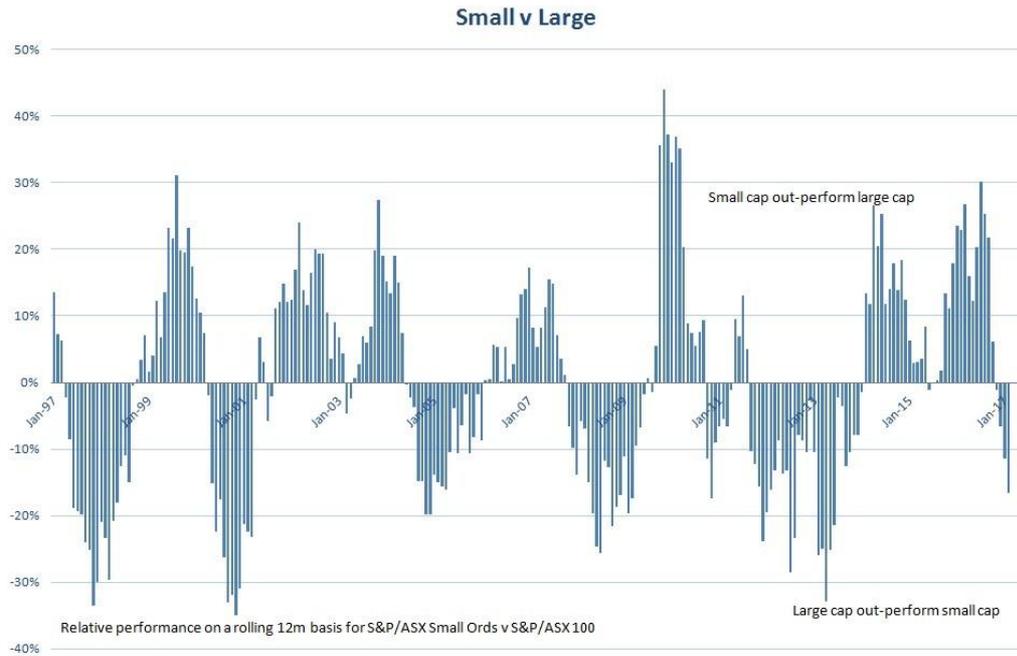
As a result, our process will have a natural bias towards mid and small cap stocks where the market is less efficient and greater opportunity exists to extract alpha over the long term. We are also sector unaware focusing instead on overall beta risk, stocks that exhibit the greatest liquidity, weighting positions by underlying stock volatility, managing downside risk and ensuring capital is preserved. Accordingly, the strategy can tend to under-perform a market cap index when large capitalization stocks run hard, although technically the benchmark for the strategy is cash. If history is a guide, these events are short lived and eventually run out of steam. Over the last six months we have seen three core influences in the market:

1. Large caps have out-performed mid and small caps;
2. Value has out-performed growth; and
3. Resources have out-performed industrials.

		1m	3m	6m	12m
Market Cap Indices					
S&P/ASX 20	XTLAI	2.44%	6.37%	11.23%	24.58%
S&P/ASX 50	XFLAI	2.40%	6.22%	9.12%	22.66%
S&P/ASX 100	XTOAI	2.28%	6.16%	8.00%	22.61%
S&P/ASX Small Ordinaries	XSOAI	1.31%	2.40%	-2.12%	16.77%
S&P/ASX Midcap 50	XMDAI	1.47%	5.75%	1.08%	22.35%
S&P/ASX 200	XJOAI	2.25%	5.88%	7.22%	22.13%
S&P/ASX 300	XKOAI	2.18%	5.79%	6.94%	21.99%
All Ordinaries	XAOAI	2.09%	5.53%	6.20%	21.33%
S&P/ASX Mid Small	XMSAI	1.40%	4.23%	-0.40%	19.77%
S&P/ASX 200 Industrials	XJIAI	3.42%	5.96%	5.54%	18.17%
S&P/ASX 200 Resources	XJRAI	-3.36%	5.51%	16.93%	48.64%
Small Industrials	XSJAI	1.73%	1.66%	-4.04%	11.39%
Small Resources	XSRAI	-0.19%	5.26%	6.22%	43.82%
Mid Cap Industrials	XMTAI	1.60%	3.89%	-2.88%	14.73%
Mid Cap Resources	XMRAI	0.75%	17.67%	31.00%	98.53%
GICS Sectors					
XJO 10 Energy	XEJAI	-2.06%	4.46%	5.98%	21.60%
XJO 15 Materials	XMJAI	-3.18%	5.40%	15.58%	46.94%
XJO 20 Industrial	XNJAI	3.54%	0.91%	-2.09%	5.42%
XJO 25 Discretion	XDJAI	1.98%	1.59%	-4.30%	13.46%
XJO 30 Staples	XSJAI	6.17%	6.97%	5.09%	15.50%
XJO 35 HealthCare	XHJAI	3.91%	9.81%	-1.10%	12.91%
XJO 40 Financials	XFJAI	4.11%	7.61%	14.21%	28.35%
XJO 45 Info Tech	XIJAI	2.74%	3.75%	-0.94%	15.15%
XJO 50 Telecoms	XTJAI	-3.13%	-4.43%	-12.55%	-7.09%
XJO 55 Utilities	XUJAI	3.23%	13.19%	9.94%	21.82%
Value & Growth Indices					
FTSE AUSTRALIA Value Index		2.08%	7.16%	16.04%	32.28%
FTSE AUSTRALIA Growth Index		2.94%	6.27%	2.39%	17.45%

The following charts nicely encapsulate the forces at play in the market over the last six months. We have rapidly witnessed a reversal in the performance of small caps versus the large caps, and value has significantly out-performed growth stocks.

While small caps and growth stocks do experience periods of under-performance relative to large caps and value stocks, it is the pace of this reversal that has surprised the market.



Anecdotally we have also had feedback from dealing desks that deal flow has been focused on dumping mid and small caps and reweighting to large caps. In recent years institutional fund managers have sought higher returns by investing in small market cap stocks, in lieu of a lack of growth from resources and banks. Over the last six months resources, and to a lesser extent the banks, have enjoyed solid returns and institutional investors have been caught out trying to cover being under-weight through a sell down of these small cap positions. In effect we have witnessed marginal risk taking by institutional investors replaced with index hugging within 3-6 months.

These trends do not last indefinitely. As this rotation from growth to value and small to large eases, we expect medium to long-term momentum trends to re-engage.

Quoted performance represents the simulated returns to Feb 2017 and based on a systematic risk management process. Past performance is not an indicator of future performance.

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