

Equus Point Capital Market Neutral Fund

Performance Update 30 September 2019



Net Returns	1m	3m	6m	1yr	Incept	Risk Characteristics	
Equus Point Capital	-4.49%	-1.35%	-0.23%	-	2.85%	Volatility	7.45%
Cash	0.08%	0.25%	0.61%	-	1.33%	Beta	0.01
Excess	-4.57%	-1.60%	-0.84%	-	1.74%	Correlation to S&P/ASX 200	0.02
						Sharpe Ratio	0.3

Commentary

The Fund returned -4.49% after fees for the month.

Stock selection generated -5.38% alpha for the month, with longs returning -4.44% alpha and shorts -0.94% alpha, whilst our beta positioning contributed +0.26% alpha.

While the result for the month is disappointing it reflects a month of poor performance globally amongst momentum based and trend following strategies. This is evidenced by the -5.26% return for the SocGen Trend Index in September. The reversal in multiple trends appears to have been initially triggered by a significant increase in bond yields globally.

SocGen Trend Index



Source: BarclayHedge SG Trend Index and Equus Point Capital

US ten year bonds increased from 1.40% to 1.90% and Australian ten year bonds increased from 0.86% to 1.17% in the first two weeks of the month, as can be seen in the accompanying chart.

Whilst long term bonds do not have a direct impact on the strategy, there were a range of flow on effects from the move in bonds that impacted returns. These include both the differential valuation impacts on equities in addition to technical impacts on asset flows. For example sharp losses on the bond positions of trend followers seemingly led to a more broad based de-risking process. This in turn prompted multiple correlated trend reversals amongst otherwise uncorrelated assets.

It was this de-risking and deleveraging that led to negative returns contributions from both our long and short exposures over the month. To put this into perspective the size of the moves in growth and momentum factors were two standard deviations from monthly norms.

We are not market timers. We will not pick changes in trends and this can result in short term periods of under-performance. We also do not make kneejerk decisions in light of short term events. We are systematic in approach focused on evidence based investing. And drawdowns, whilst never welcomed, are a function of taking on risk and seeking superior long term risk adjusted returns.

To date the annualized volatility of returns has been less than 7.5%, versus the broader equities market where volatility has been more than 11.3% annualized.

With increased stock volatility the portfolio will naturally reduce overall portfolio risk and exposure. Consequently the portfolio for October has 90% long stock exposure, 21% short stock exposure and a 47% short futures exposure.

US Ten Year Treasuries



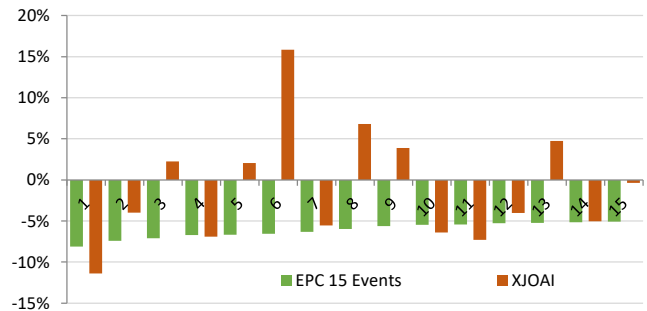
Source: Iress and Equus Point Capital

Drawdowns are unavoidable when applying any strategy that accepts a degree of risk. For example, putting ones investments solely into cash will preserve capital, but is unlikely to meet long term investment goals. Conversely putting ones investments solely into equities might achieve long term investment goals, but the journey will be littered with periods of underperformance and drawdowns.

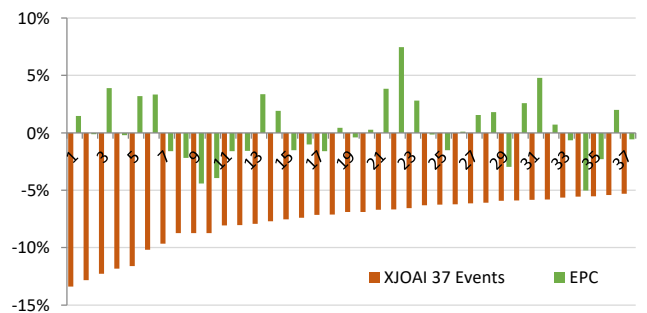
The following chart compares drawdowns greater than 5% over any rolling 21 day period for the S&P/ASX 200 Accumulation Index and Equus Point Capital’s simulated returns since June 2000. In effect it is measuring the size of any drawdown over a rolling month, irrespective of the starting point of that month.

The first point to note is the frequency and size of drawdowns for Equus Point Capital drawdowns versus the Index. The strategy’s drawdown frequency is less than half of the Index and drawdowns are less extreme in magnitude.

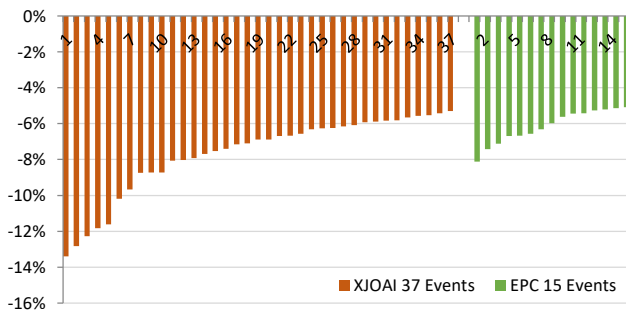
EPC Drawdowns Frequency and Size > 5%



S&P/ASX 200 Drawdowns Frequency and Size > 5%



21 Day Drawdowns Frequency and Size > 5%

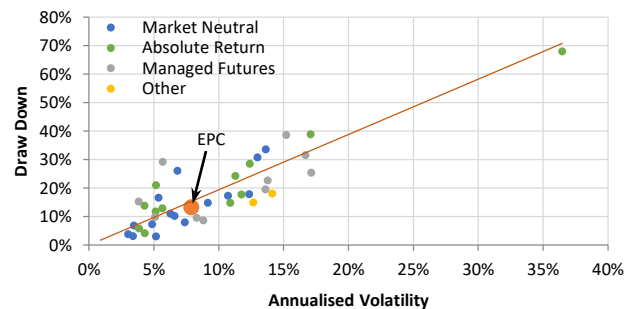


Finally we can demonstrate the relationship between volatility and drawdown potential.

The following chart compares a range of strategies volatility and maximum drawdowns. With higher returns the propensity for higher drawdowns increases. We find this drawdown to volatility relationship is roughly 2 times. For example, a strategy with annualized volatility of 10% could be expected to have a maximum drawdown in the order of 20%. Of course there will be a degree of variation around this relationship and actual results.

We can extend this comparison by looking at the timing of drawdowns. The following two charts compare the drawdowns for Equus Point Capital and the return for the S&P/ASX 200 Accumulation Index during the drawdown period, and conversely the drawdowns for the S&P/ASX 200 Accumulation Index and the corresponding return for the Equus Point Capital strategy return. The analysis demonstrates the independence of drawdowns between the strategy and the Index. This mismatch of drawdowns reinforces the uncorrelated nature of the strategy’s return stream to that of a long only index or strategy.

Annualised Volatility v Draw Downs



Source: Iress and Equus Point Capital

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Net Monthly Performance

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Cash	0.08%	0.25%	0.61%	-	1.33%	Beta	0.01
Excess	-4.57%	-1.60%	-0.84%	-	2.10%	Correlation to S&P/ASX 200	0.02
						Sharpe Ratio	0.3

Gross Monthly Performance

Asset	Positions	Weight	Return	Alpha
Long	66	97.08%	-2.57%	-4.44%
Short	31	-23.83%	6.11%	-0.94%
Futures		-47.00%	1.74%	0.26%
Cash		26.75%	0.08%	0.02%
	97	123.83%	-5.09%	-5.09%
Cash				0.09%
Excess				-5.18%

Exposure and Gross Monthly Alpha

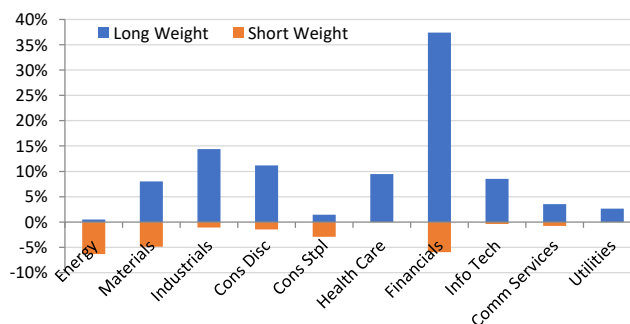
Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	0.5%	-6.3%	-5.9%	0.18%
Materials	8.0%	-4.9%	3.1%	0.10%
Industrials	14.4%	-1.1%	13.3%	-1.00%
Cons Disc	11.2%	-1.4%	9.7%	-0.29%
Cons Staples	1.4%	-2.9%	-1.5%	-0.70%
Health Care	9.5%	0.0%	9.5%	-0.86%
Financials	37.4%	-6.0%	31.5%	-1.37%
Info Tech	8.5%	-0.4%	8.1%	-1.15%
Comm Serv	3.5%	-0.8%	2.8%	-0.28%
Utilities	2.6%	0.0%	2.6%	0.00%
Stock Total	97.1%	-23.8%	73.3%	-5.38%
Futures			-47.0%	0.26%
Cash			26.7%	0.02%
Total			100.0%	-5.09%

Net Exposure	26.3%
Gross Exposure excluding Futures	120.9%
Gross Exposure including Futures	167.9%

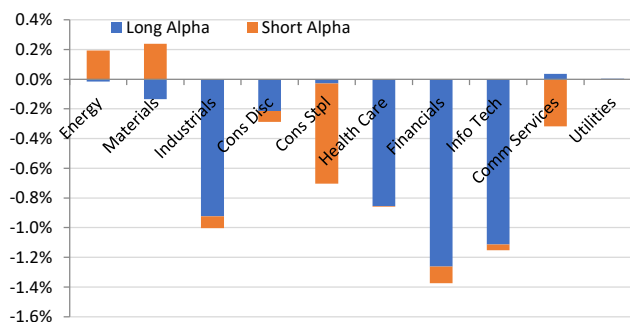
Major Alpha Contributors

Name	Weight	Contrib	Alpha
Top Five Contributors			
CYBG PLC	-1.17%	0.29%	0.32%
Galaxy Resources	-1.64%	0.09%	0.14%
New Hope Corporation	-1.88%	0.07%	0.11%
Harvey Norman	3.23%	0.16%	0.11%
Lynas Corporation	2.09%	0.08%	0.07%
Bottom Five Contributors			
Altium Limited	2.02%	-0.20%	-0.28%
Speedcast Int Ltd	-0.78%	-0.34%	-0.32%
Charter Hall Group	3.39%	-0.29%	-0.34%
Appen Limited	0.62%	-0.33%	-0.37%
Pro Medicus Limited	0.50%	-0.38%	-0.44%

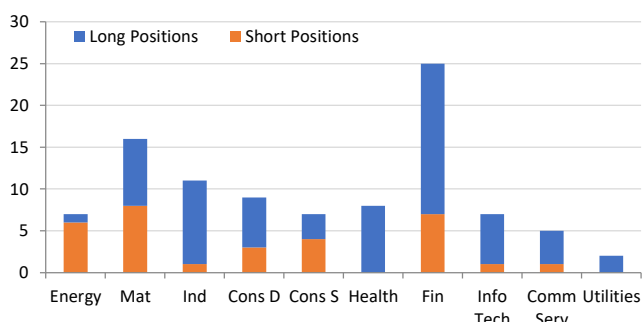
Sector Exposure



Sector Alpha



Positions



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Investment Manager

Equus Point Capital is a boutique fund manager focused on producing meaningful risk adjusted returns from the Australian equities market. Equus Point was founded in 2017 in partnership with Prodigy Investment Partners.

Equus Point's investment process is systematic, designed to produce a return stream irrespective of market direction over the long term, with low volatility and uncorrelated to traditional asset classes.

Fund Objective

To deliver absolute returns above the RBA Official Cash Rate over a rolling five-year period, with low volatility and a low correlation to traditional asset classes.

Investment Philosophy

Equus Point uses a systematic approach to investing, seeking to harvest meaningful risk adjusted returns from behavioural biases in the Australian equities market. The strategy uses both long and short positions coupled with index futures to achieve a market neutral portfolio that seeks to produce positive returns irrespective of equity market direction and uncorrelated to traditional assets. Equus Point's robust risk management approach limits to portfolio's beta positioning, portfolio volatility, individual stock positioning, and long and short portfolio positioning.

The Fund employs a proprietary systematic investment process. The Fund invest exclusively in Australian equities and equity derivatives.

We believe in the following:

- In the short to medium term behavioural biases of investors can influence stock prices leading to both momentum and reversion effects. Momentum is where stocks with positive historical returns tend to be rewarded with a continuation of positive returns, and stocks with negative historical returns tend to underperform with a continuation of negative returns. Reversion is where stock prices initially overshoot before returning to a perceived fair value.
- Meaningful risk adjusted returns can be achieved through a portfolio of both long and short positions seeking to harvest positive and negative momentum.

- Managing the risks of the potential for stock price reversion, stock volatility, portfolio volatility and beta exposure are a core part of the investment process.
- Market neutral positioning between long and short portfolios is ensured through the use of index futures to offset residual beta risks.
- Combining the above dynamics with acceptable leverage delivers a portfolio that is designed to provide superior risk adjusted returns through market cycles.

Benefits of the Fund

1. A systematic strategy with a disciplined focus on risk management.
2. Attractive risk adjusted returns over the long term.
3. Low volatility return stream uncorrelated to traditional asset classes over a rolling five year time frame.
4. Expected to preserve capital in volatile and negative equity markets.

Key Attributes

APIR Code	ETL5256AU
Benchmark	RBA Official Cash Rate
Investment Objective	To deliver absolute returns of 5% above the RBA Official Cash Rate over a rolling five year period
Management Fee	1.20%
Performance Fee	20% over benchmark plus Management Fee
Redemption/Liquidity	Daily
Buy/Sell Spread	+/-0.35%
Entry/Exit Fees	Nil
Distributions	Half Yearly
Inception	30 Nov 18
Investment Manager	Prodigy Investment Partners
Sub Investment Manager	Equus Point Capital
Trustee	Equity Trustees Limited
Prime Broker	Morgan Stanley
Administrator	RBC Investor Services

Further information:

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