

# Equus Point Capital Market Neutral Fund

## Performance Update 31 October 2019



Net Returns	1m	3m	6m	1yr	Incept	Risk Characteristics	
Equus Point Capital	-0.36%	-4.29%	-0.62%	-	2.48%	Volatility	7.36%
Cash	0.06%	0.23%	0.55%	-	1.17%	Beta	0.03
Excess	-0.43%	-4.52%	-1.17%	-	1.31%	Correlation to S&P/ASX 200	0.04
						Sharpe Ratio	0.2

### Commentary

The Fund returned -0.36% after fees for the month.

Stock selection generated -0.55% alpha for the month, with longs returning -0.10% alpha and shorts -0.45% alpha, whilst our beta positioning contributed +0.32% alpha.

Typically competitors in the market neutral space tend to be pairs trading in nature, offsetting long positions against related short positions, on either a dollar weighted basis or the beta weighted basis. The ability to short also provides the ability to leverage the portfolio, using the proceeds from the short portfolio to fund the long portfolio.

We are different in that the typical EPC portfolio is more akin to a long/short (e.g. 130/30) strategy with a futures overlay to achieve a desired overall portfolio beta position.

We are not a pairs trading strategy

A pairs trading model is where a long position is offset against a related short position, determined either on fundamental grounds or on statistical measures. For example, a manager may have a positive view on BHP and take a long position, offset by a negative short position in RIO.

Note, pair trading consists of two legs in the one trade and if a particular stock cannot be borrowed, the pair trade cannot proceed. Additionally the margins available through a pairs trading approach can sometime be small given the high degree of shared risk factors, requiring leverage to boost portfolio returns. As a result it is not uncommon for pairs trading approaches to have higher leverage ratios and warehouse hidden risks.

EPC is different in that the strategy's short positions are independent of any long position and should a particular stock be unavailable to borrow, we simply short futures in lieu.

We are not sector neutral

We find sector neutrality can dilute alpha potential. For example, being long and short stocks in a sector for neutrality purposes where those stocks are highly correlated and tend to move in unison (for example gold, real estate or the large banks) can offset potential alpha generation where the sector itself is contributing to stock momentum.

Our sector exposure is a function of the stock selection process. We will tend to have an exposure to particular sectors that have a deep pool of potential candidates (i.e. where a sector has a long list of constituents) and where the sector itself exhibits trendiness.

We are not style neutral

Obtaining a neutral exposure to style or factors (value, size momentum, volatility, quality etc.) can dilute any potential alpha source. Effectively the risk management process can dissipate the alpha generation process leading to poor outcomes.

We are unambiguously seeking to harvest the momentum premium. Our research and numerous academic studies support the existence of the momentum premium in the local equities market with risk and return attributes superior to other factors.

We are best described as beta neutral

Given we measure the weighted average beta of the long and short portfolio and deliberately hedge out remaining beta risks to ensure the total portfolio positioning is within acceptable boundaries, we would propose we are best described as beta neutral. In effect we are seeking to remove the individual market return component (beta) of each stock to capture pure idiosyncratic stock return (alpha).

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### Net Monthly Performance

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### Gross Monthly Performance

Asset	Positions	Weight	Return	Alpha
Long	60	86.86%	-0.17%	-0.10%
Short	30	-25.96%	1.73%	-0.45%
Futures		-38.28%	-0.76%	0.32%
Cash		39.10%	0.07%	0.03%
	90	125.96%	-0.21%	-0.21%
Cash				0.06%
Excess				-0.27%

### Exposure and Gross Monthly Alpha

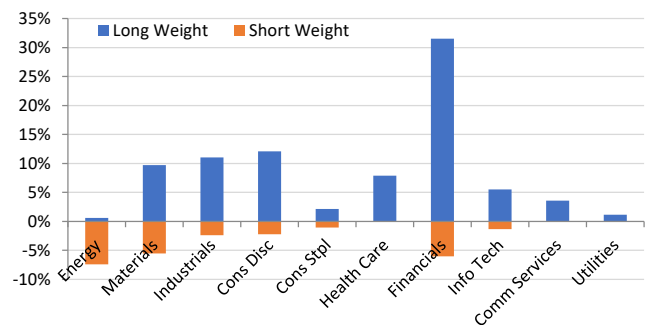
Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	0.62%	-7.39%	-6.77%	-0.34%
Materials	10.02%	-5.55%	4.47%	-0.03%
Industrials	12.38%	-2.37%	10.01%	-0.02%
Cons Disc	14.46%	-2.24%	12.21%	-0.13%
Cons Staples	2.12%	-1.03%	1.09%	0.01%
Health Care	7.87%	0.00%	7.87%	0.44%
Financials	31.52%	-6.05%	25.47%	-0.09%
Info Tech	5.51%	-1.33%	4.18%	-0.09%
Comm Serv	1.21%	0.00%	1.21%	0.04%
Utilities	1.15%	0.00%	1.15%	0.03%
Stock Total	86.86%	-25.96%	60.90%	-0.55%
Futures			-38.28%	0.32%
Cash			39.10%	0.03%
Total			100.00%	-0.21%

Net Exposure	21.0%
Gross Exposure excluding Futures	111.2%
Gross Exposure including Futures	149.4%

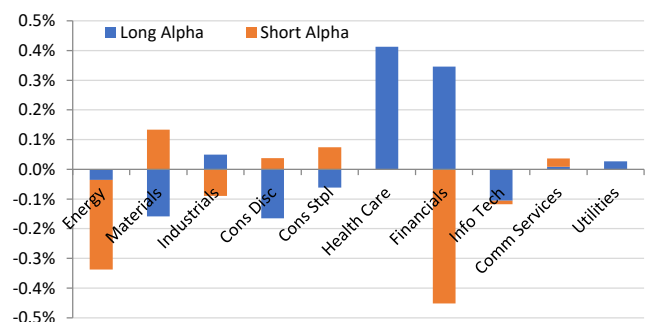
### Major Alpha Contributors

Name	Weight	Contrib	Alpha
<b>Top Five Contributors</b>			
Xero Ltd	2.76%	0.30%	0.32%
JB Hi-Fi Limited	3.31%	0.27%	0.29%
Galaxy Resources	-1.69%	0.26%	0.22%
ResMed Inc.	2.64%	0.19%	0.21%
SYD Airport	2.12%	0.19%	0.20%
<b>Bottom Five Contributors</b>			
IPH Limited	2.33%	-0.19%	-0.17%
Challenger Limited	-1.34%	-0.19%	-0.18%
Cybg PLC	-0.81%	-0.23%	-0.23%
Jumbo Interactive	1.34%	-0.26%	-0.24%
WiseTech Global Ltd	1.31%	-0.44%	-0.41%

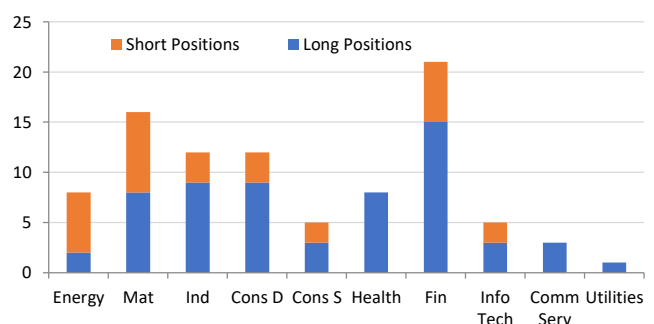
### Sector Exposure



### 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: [www.equuspointcapital.com](http://www.equuspointcapital.com)

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