Equus Point Capital Market Neutral Fund

Performance Update 31 May 2020

Net Returns	1m	3m	6m	1yr	Incept pa
Equus Point Capital	4.97%	-1.03%	-1.43%	-2.98%	-0.77%
S&P/ASX 200 Accum	4.36%	-9.92%	-14.59%	-6.70%	5.02%
Cash	0.02%	0.08%	0.26%	0.75%	1.00%
Excess v Cash	4.95%	-1.11%	-1.69%	-3.73%	-1.77%

Risk Characteristics	
Volatility	8.78%
Beta	-0.05
Correlation to S&P/ASX 200	-0.13
Sharpe Ratio	-0.10

Commentary

The Strategy returned +4.97% after fees for the month.

Stock selection generated +1.22% alpha for the month, the result of long exposures with direct shorts having been closed out in favour of futures during March. Our beta positioning contributed +3.84% alpha.

Following the S&P/ASX 200 Index drawdown of 35% over February and March, the index remains some 20% below its previous high. In contrast the Strategy is down 5% over the same period.

Perhaps nothing encapsulates the recent experience of equities markets more than the statistic that between the 23rd March and the 6th June the S&P500 has experienced its best fifty day period in history. Think about that for a moment. We are in the middle of the sharpest bear market followed by the sharpest return to bull market in history – and in the middle of what will turn out to be economic conditions akin to the 1930's depression.

US indices are now in record territory, or close to regaining previous highs, in the face of the greatest economic challenge in ninety years.

There appears to be somewhat of a disconnect between markets and underlying economic conditions. The worst of the economic data is yet to be released – and everyone expects it to be bad – and yet markets have seemingly ignored what remains ahead for economic conditions. The World Bank in its "Global Economics Prospects" report flagged that 93 percent of the world's economies are now in recession. This is the largest share of economies in recession in modern history and greater than the global financial crisis and the Great Depression.

Locally the index remains some 20% below previous highs. The August reporting season will be ugly with broad expectation of 20% earnings decreases across the board which puts the current index on an earnings multiple north of 20x versus the long term average of close to 15x.

Part of this local optimism can be related to a controlling of COVID-19 infection rates. Countries are gradually reopening and removing lock down conditions. Australia has done well to follow the advice of federal and state governments (lockdown, distancing, hygiene), that have in turn followed the recommendations of medical experts. This has correlated nicely with the rise in the local market as virus infection numbers peaked in the last week of March.

The other part of the driving force behind the local market, and indeed global markets, has been the unprecedented fiscal and monetary stimulus being applied to support asset prices, and by inference ensuring the wealth effect filters through to the broader economy.

During the Great Depression central banks raised rates as a means of removing excess and unproductive businesses, only to exacerbate conditions and prolonging any recovery. This time round central banks, led by Jerome Powell of the Fed, have taken the policy of "forcefully, proactively and aggressively" utilizing every financial weapon at their disposal, from record low interest rates, unprecedented money printing and even to buying ETF's and more recently directly buying corporate bonds. Powell has already indicated a need for low interest rates to remain in place until 2022. It is almost a repeat of the GFC playbook, but done immediately and at scale to support asset prices.

Note the 23rd March was when the Fed announced its intention to do whatever it took to support markets and the wave of liquidity from monetary and fiscal stimulus provided the impetus for markets to rebound strongly.

All this stimulus has led to price distortions that do not reflect underlying fundamentals. At some point the day of reckoning will come and all this stimulus will need to be repaid, either through higher taxes and/or a reemergence of inflation.

We have seen three broad outcomes play out during the pandemic and this is likely to be reflected in the reporting season.

- Firstly, we have had those stocks that benefited directly from virus fears (gold, healthcare and consumer staples).
- Secondly those companies that moved early to fortify balance sheets (technology and consumer discretionary with online exposure) and

benefited from ongoing commodity price rises (large resources).

- And finally, the longer-term stories that are still playing out (banks and real estate).

Which leads us to the threats and risks that lie ahead. It is worth thinking through some of the challenges that remain and how these might play out:

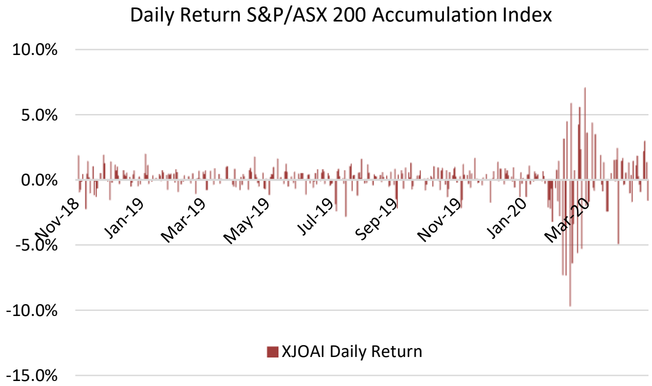
- Fiscal stimulus is now being unwound with financial support to be gradually unwound over coming months. How this unravelling of unprecedented support is conducted will impact businesses and markets. Frankly no one knows what the global economy will look like without stimulus. We are in uncharted territory and uncertainty prevails. And markets are wary of uncertainty.
- Some businesses will simply not survive without support and others simply will not recover.
- No vaccine has previously been discovered for a coronavirus. Global efforts to fast track a vaccine will hopefully lead to success, but 'normal' as we previously knew it is unlikely to return without a vaccine.
- There will be the threat of second waves of infection rates, something already being witnessed in China and to a lesser degree states in the US that have reopened too soon.
- In the interim we will need to live in an environment where the threat of virus outbreaks risks a renewed period of lockdown and all the economic impacts that accompany such measures.

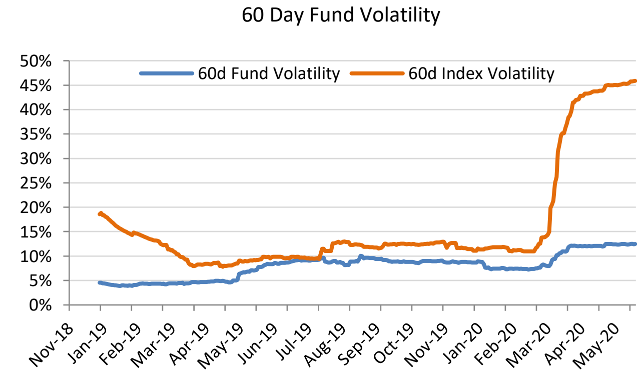
Portfolio Review

The key objectives of the Fund have been to provide investors with:

1. A return stream with lower volatility than that of the equities market;
2. Preserve capital when equities markets are volatile and negative;
3. A low correlation to the equities market (and other traditional asset classes), thereby providing meaningful diversification benefits; and
4. Attractive risk adjusted returns above a cash benchmark through the market cycle.

Since inception the volatility of the return stream of the Fund has been 8.8%pa. This compares favourably with that of the S&P/ASX 200 Accumulation Index volatility of 23.8%pa. This is nicely illustrated with the following three charts that compare the daily return stream of the Fund and the Index, and the rolling sixty day volatility.





In terms of preserving capital the equities market peaked on 20 February before it started its near 36% decline, bottoming on 24 March and its subsequent bounce. The index remains more than 20% below its all-time high. In contrast, the Fund has fallen only 5% over the same period, preserving capital in what has been the most volatile period for the market in almost forty years. Granted, we are not immune to drawdowns, but we have been able to limit the downside risks.

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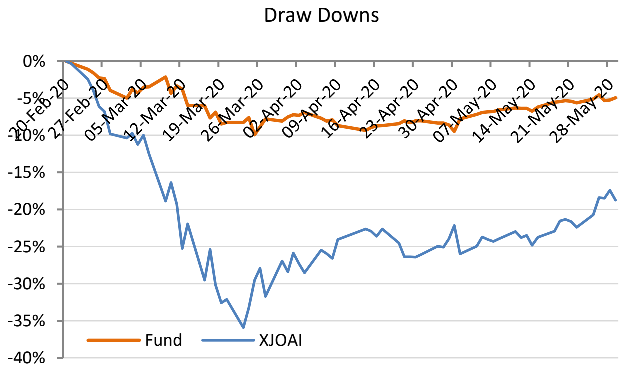


Since inception the correlation between the S&P/ASX 200 Accumulation Index and the return of the Fund has been -0.13. Essentially uncorrelated. Please note being a market neutral strategy does not mean a strategy is expected to provide positive returns in negative markets. This would imply negative correlation which many commentators and investors fail to grasp. 'Uncorrelated' means that on balance, the return stream is independent of that of the Index return stream.

On balance we achieved three of the four key objectives of the Fund. Succeeding in lower than market volatility, preserving capital in volatile markets and an uncorrelated return stream.

However, the fourth outcome, being meaningful positive returns, remains the key measurement in how investors are rewarded. To that end the returns have disappointed over the limited period of the Fund's existence. We would argue that the strategy's success should be considered over a full five year cycle and that seventeen months is an insufficient period in which to be fully judged. We have gone through an experience in September of 2019 where the momentum premium (that we are seeking to harvest) went through a once in a decade reversal which took the wind out of early returns.

Fundamentally we are attracted to a strategy that provides positive risk adjusted returns, is uncorrelated to the equities market and protects capital in volatile markets. However, it is apparent that many investors forsake risk adjusted returns and focus on short term nominal returns. That is, investors are attracted to headline market (or beta based) return streams – especially when in the middle of a bull market with 20%pa plus returns – and forget about downside risks that can erode progress towards long term investment goals.

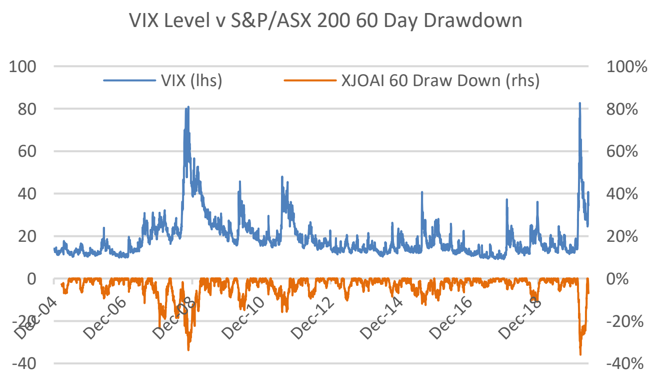
What we have sought to provide over a full cycle is equity-like returns, but without the equity market risk.

Our performance through the drawdown of March was testament to the ability of the strategy to contain risk when market risk is elevated.

Finally, it is with regret that we must announce the closure of the Fund and the return of capital to investors. This unfortunate outcome has directly resulted from the winding up of our partner, Prodigy Investment Partners.

We are now in the process of discussing opportunities with new partners that will see the continuation of Equus Point Capital. We are inherently attracted to a strategy that provides investors superior risk adjusted returns to a standard long only exposure to equities. A strategy that provides investors with equity like returns over the long term, but without the volatility and downside risks that are prevalent in a pure market or beta exposure strategy. As the market has demonstrated in recent months, volatility spikes are not only painful, but more prevalent than what might otherwise be expected. Managing risks in those volatile negative markets goes a long way towards meeting an investors long term goal.

We hope to disclose further details about the next phase for Equus Point Capital in the very near future.



We would like to thank all those that have supported Equus Point Capital and the Market Neutral Fund over the last two years. To our investors, for the faith and confidence they placed in us with their savings; our prime broker, Morgan Stanley; and to our service providers RBC and Equity Trustees, our thanks for your professionalism and dedication.

Kind regards

Equus Point Capital

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Net Monthly Performance

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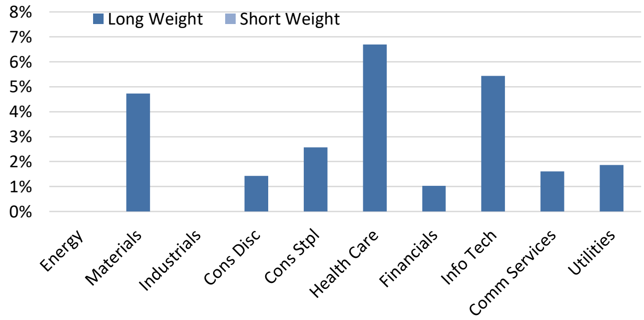
Gross Monthly Performance

Asset	Positions	Weight	Contrib	Alpha
Long	38	25.5%	2.58%	1.22%
Short	0	0.0%	0.00%	0.00%
Futures		3.6%	2.48%	3.84%
Cash		74.5%	0.02%	0.02%
	38	100.0%	5.08%	5.08%
Cash				0.02%
Excess				5.06%

Sector Exposure

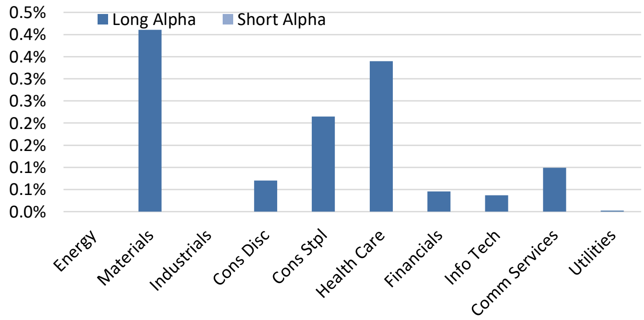


Exposure and Gross Monthly Alpha

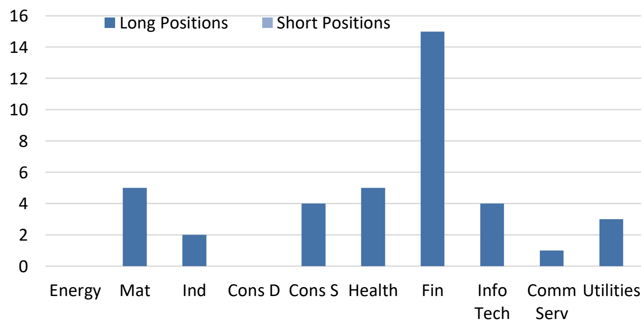
Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	0.0%	0.0%	0.0%	0.00%
Materials	2.1%	0.0%	2.1%	0.41%
Industrials	0.1%	0.0%	0.1%	0.00%
Cons Disc	0.0%	0.0%	0.0%	0.07%
Cons Staples	2.5%	0.0%	2.5%	0.21%
Health Care	5.5%	0.0%	5.5%	0.34%
Financials	11.2%	0.0%	11.2%	0.05%
Info Tech	2.6%	0.0%	2.6%	0.04%
Comm Serv	0.5%	0.0%	0.5%	0.10%
Utilities	1.0%	0.0%	1.0%	0.00%
Stock Total	25.5%	0.0%	25.5%	1.22%
Futures			3.6%	3.84%
Cash			74.5%	0.02%
Total			100.0%	5.08%

Net Exposure	25.5%
Gross Exposure excluding Futures	25.0%
Gross Exposure including Futures	61.2%

Sector Alpha



Positions



Major Alpha Contributors

Name	Weight	Contrib	Alpha
Top Five Contributors			
Elders Ltd	1.93%	0.04%	0.26%
Ansell Limited	1.24%	0.06%	0.25%
Saracen Mineral	1.10%	0.03%	0.17%
TPG Telecom Ltd	1.18%	0.02%	0.14%
Fisher & Paykel Health	1.60%	0.01%	0.14%
Bottom Five Contributors			
Technology One	1.05%	0.00%	-0.07%
Ausnet Services Ltd	0.69%	0.00%	-0.03%
Vocus Communications	0.43%	0.00%	-0.03%
Inghams Group	0.45%	0.00%	-0.02%
Iress	0.30%	0.00%	-0.01%

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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.

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.

Strategy 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 Strategy 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 Strategy

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.

Further information: www.equuspointcapital.com
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