Equus Point Capital Market Neutral Strategy

Performance Update 30 September 2020

Net Returns	1m	3m	6m	YTD	1yr	Incept pa
Equus Point Capital	0.59%	4.83%	9.32%	6.32%	5.14%	2.77%
S&P/ASX 200 Accum	-3.39%	-0.16%	16.30%	-10.56%	10.23%	5.45%
Cash	0.02%	0.06%	0.13%	0.28%	1.59%	0.86%
Excess v Cash	0.56%	4.77%	9.19%	6.04%	3.55%	1.90%

Risk Characteristics	
Volatility	8.9%
Beta	-0.03
Correlation to S&P/ASX 200	-0.07
Sharpe Ratio	0.2

Commentary

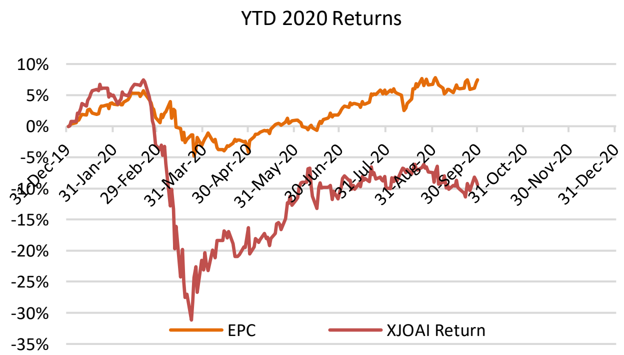
The Strategy returned 0.59% after fees for the month. Please note that with the Fund closed during May, the results for August are simulated returns.

On a gross basis stock selection generated 0.67% alpha for the month, with long exposures contributing 0.50% alpha and the reinstatement of a modest short exposure contributing 0.17% alpha. Our beta positioning contributed 0.01% alpha.

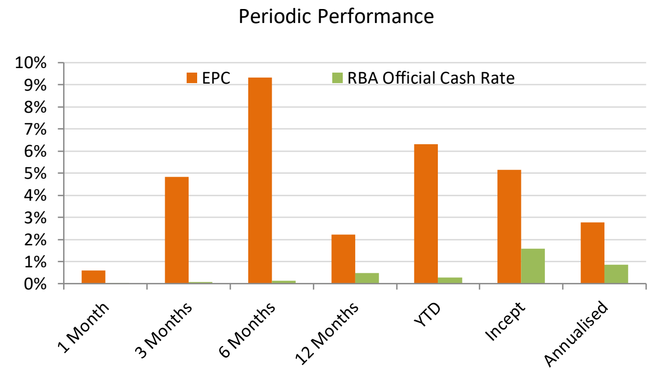
Given the unprecedented market shock of March, being most significant decline in the index since October 1987 and the grind down of the GFC, we thought it prudent to review the year to date based on the core objectives of the Strategy.

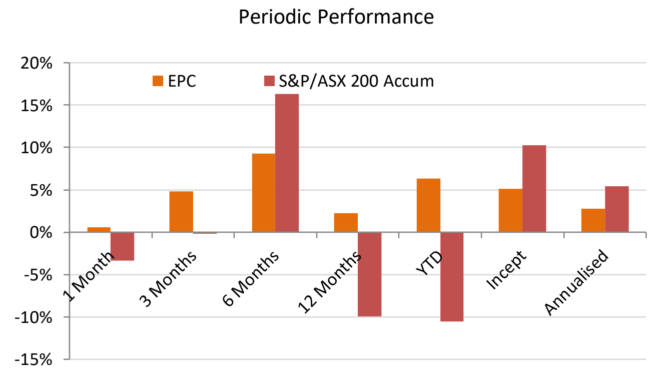
To recap the objectives of the Strategy are to provide investors with:

- a return stream of 5% to 10% above the risk-free rate through an investment cycle;
- a volatility outcome less than that experienced from an exposure to the S&P/ASX 200 Index;
- an uncorrelated return stream to the broader equities market and other asset classes; and
- the preservation of capital in times of stress.



On a year to date basis the Strategy **return** has been a respectable 6.3% after fees. A solid result when compared to the S&P/ASX 200 Index return of -10.6% over the same period. Much of the gains reflect the de-risking nature of the strategy when markets are volatile. In doing so, the volatility of returns are reduced and capital is preserved, which better serves return outcomes over the long term.





Year to date has seen a significant increase in market **volatility**, with volatility jumping from less than 10% to more than 70% on the back of the steep and rapid market decline in March. A corresponding increase in individual stock volatility was also incurred, with average stock volatility increasing from just under 30% to more than 80%.

In contrast the Strategy's volatility remained relatively subdued when compared to the market, with volatility increasing from 8% to only 21% at the worst of the market shock.

On balance we would argue that the strategy met its goal of lower than market volatility.

On a year to date basis the strategy has achieved a **correlation** of -0.27 versus the S&P/ASX 200. This slight negative correlation reflects the de-risking the strategy undertakes when markets get volatile. That is reducing position sizes, reducing overall exposure and trimming beta targeting.

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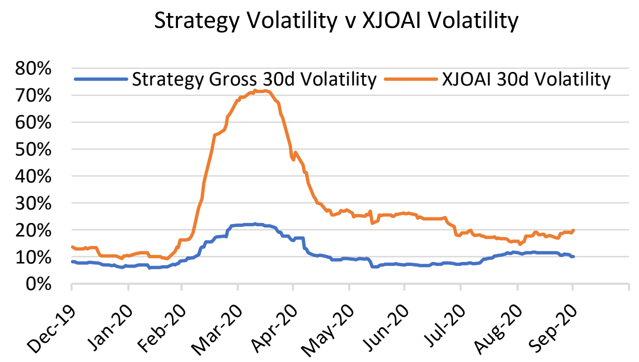
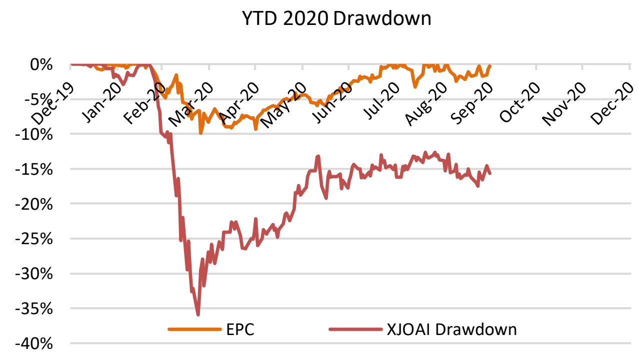


Note, that there is a perception that a market neutral strategy should produce positive returns in all markets. This is incorrect. Such an outcome implies positive correlation in positive markets and negative correlation during negative markets. What we seek to achieve is uncorrelated returns through the cycle, implying that on average the strategy should achieve net positive returns through both positive and negative markets.

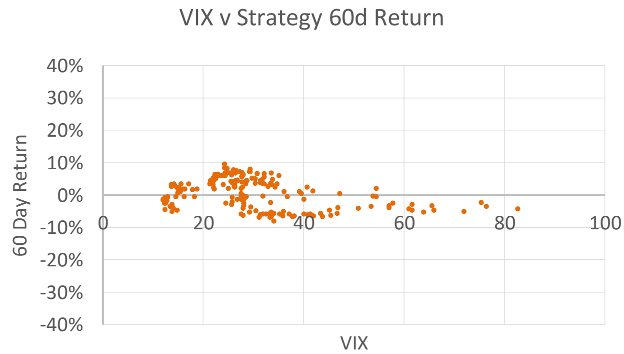
Lastly, we seek to **preserve capital** in times of market stress. The market incurred a 36% drawdown during March. In contrast, the strategy incurred a drawdown of less than 10%. An excellent result in relative terms, although like any investor losses are never welcomed.

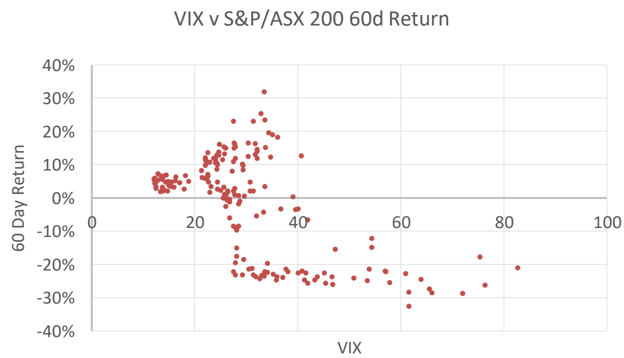


To emphasize the capital preservation capabilities of the Strategy, the following charts compare the sixty day return outcomes for the Strategy and the S&P/ASX 200 against the VIX Index on a year to date basis. The VIX is the most wildly recognized measure of volatility, often referred to as the 'fear index' as the VIX tends to increase in response to market fears and stress. When markets are generally positive the VIX tends to be low. But the VIX can also rapidly increase when markets turn negative and are under stress.

The charts demonstrate that when the VIX levels are elevated (i.e. volatility has increased) the index returns tend to be significantly negative, with returns up to -30%. In contrast, the Strategy's returns are more contained with loses less than -10%, even when the VIX has reached extreme levels. Granted the Strategy has not had the rebound like the market as VIX levels have reduced. But remember equity returns are asymmetrical. A loss of 50% requires a following 100% return to restore capital. Simply put the -36% fall in the S&P/ASX 200 Index in March requires a +56% return to restore capital to where investors were prior to the market decline. Preserving capital makes a significant difference to the longer-term goals of investors.

For emphasis we have kept the vertical scales constant between the Strategy and the S&P/ASX 200 Index.





On balance the Strategy has held up well year to date, in what has been a testing environment for investors. Like all investors, we would like headline returns to be higher, but we see ourselves as risk managers, seeking to provide superior risk adjusted returns through the cycle.

Having an exposure to liquid alternatives such as a market neutral strategy can mitigate the impact of severe volatility episodes. The benefits of this alternative exposure to standard long only strategies is that by removing the impact of beta from the portfolio one can also reduce the volatility of the return stream and preserve capital when markets are under stress.

While we have gradually increased exposure to the long equities portfolio and added a modest short equities exposure, we remain cautious in the current environment.

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Net Monthly Performance

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Gross Monthly Performance

Asset	Positions	Weight	Contrib	Alpha
Long	61	88.0%	-2.27%	0.50%
Short	11	-4.6%	0.22%	0.17%
Futures		-74.6%	2.73%	0.01%
Cash		16.6%	0.00%	0.00%
	72	100.00%	0.68%	0.69%
Cash				0.02%
Excess				0.66%

Exposure and Gross Monthly Alpha

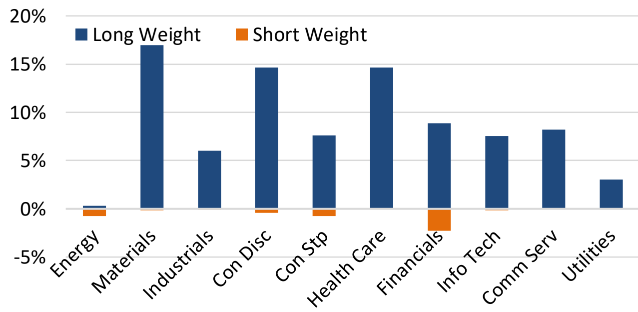
Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	0.3%	-0.8%	-0.4%	-0.06%
Materials	17.0%	-0.1%	16.8%	-0.29%
Industrials	6.0%	-0.1%	6.0%	-0.29%
Cons Disc	14.7%	-0.4%	14.2%	0.18%
Cons Staples	7.6%	-0.7%	6.9%	0.31%
Health Care	14.7%	0.0%	14.7%	0.14%
Financials	8.9%	-2.3%	6.6%	0.36%
Info Tech	7.5%	-0.1%	7.4%	0.05%
Comm Serv	8.2%	0.0%	8.2%	0.28%
Utilities	3.0%	0.0%	3.0%	-0.01%
Stock Total	88.0%	-4.6%	83.4%	0.67%
Futures			-74.6%	0.01%
Cash			16.6%	0.00%
Total			100.00%	0.69%

Net exposure including futures	8.8%
Gross stock exposure excluding futures	92.6%
Gross exposure including futures	167.2%

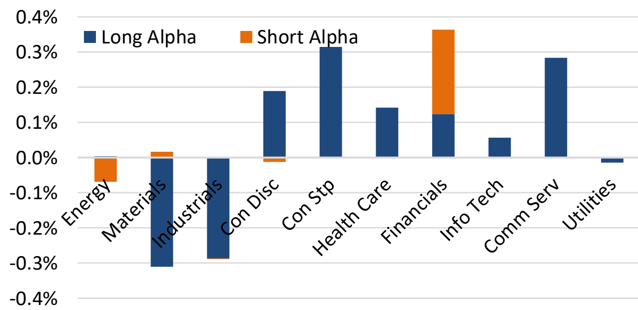
Major Alpha Contributors

Name	Weight	Contrib	Alpha
Top Five Contributors			
Elders Ltd	3.89%	0.29%	0.36%
Hardie (James) Inds.	2.46%	0.18%	0.27%
Unibail Rodamco	-0.71%	0.20%	0.20%
Sonic Healthcare	1.90%	0.13%	0.20%
Netwealth Group	2.05%	0.13%	0.18%
Bottom Five Contributors			
Cleanway Waste	1.96%	-0.44%	-0.37%
Mineral Resources	2.33%	-0.41%	-0.31%
Fisher & Paykel Health	2.48%	-0.24%	-0.22%
St Barbara Limited	1.55%	-0.23%	-0.19%
Iluka Resources	2.30%	-0.26%	-0.18%

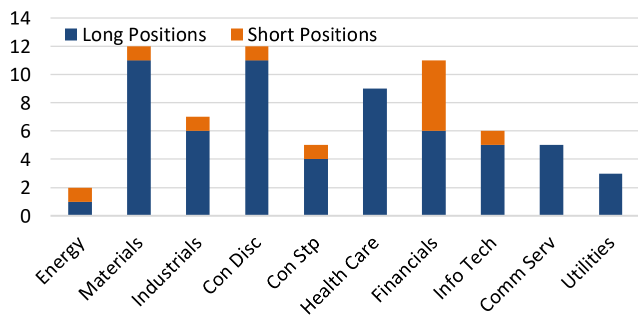
Sector Exposure



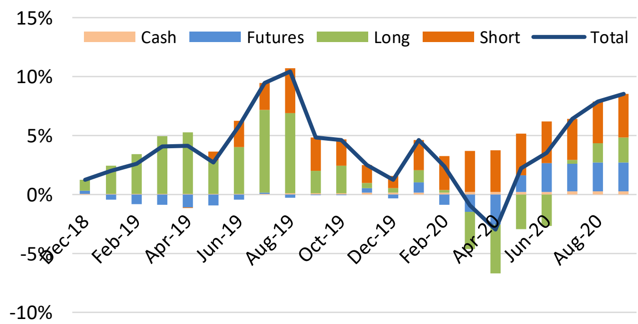
Sector Alpha



Positions



Total Alpha Contributions



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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
Phone +61 439 997 612