Equus Point Capital Market Neutral Strategy

Performance Update 31 October 2020

Net Returns	1m	3m	6m	YTD	1yr	Incept pa
Equus Point Capital	0.34%	2.26%	11.92%	6.59%	2.85%	2.78%
S&P/ASX 200 Accum	1.93%	0.98%	8.67%	-9.09%	-8.15%	6.11%
Cash	0.02%	0.06%	0.13%	0.30%	0.43%	0.84%
Excess v Cash	0.32%	2.20%	11.80%	6.28%	2.42%	1.94%

Risk Characteristics	
Volatility	8.97%
Beta	-0.02
Correlation to S&P/ASX 200	-0.06
Sharpe Ratio	0.2

Commentary

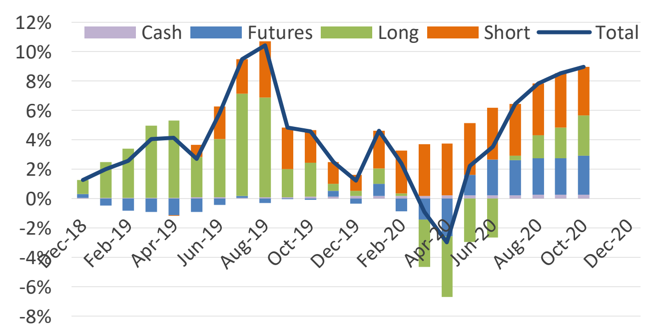
The Strategy returned 0.34% after fees for the month. Please note that with the Fund closed during May, the results for August are simulated returns.

On a gross basis stock selection generated 0.45% alpha for the month, with long exposures contributing 0.63% alpha and a modest short exposure contributing -0.37% alpha. Our beta positioning contributed 0.19% alpha.

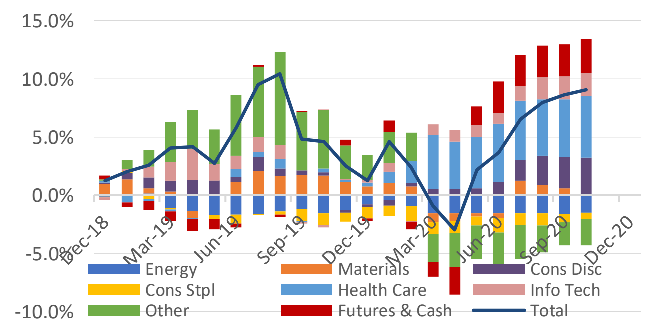
Position contributions included:

- Consumer Discretionary (+0.55%), with long positions in Bapcor, Dominos and REA Group;
- Consumer Staples (+0.17%), with long positions in Costa Group and Elders; and
- Healthcare (+0.29%), with positive alpha from long positions in Ansell, Fisher & Paykel Healthcare, Pro Medicus and Resmed, partially offset by negative alpha from long positions in Mesoblast and Healius.

Total Alpha Contributions



Cumulative Sector Alpha



Negative contributions included:

- Materials (-0.57%), due to long positions in gold stocks, which contributed -1% alpha for the month; and
- Financials (-0.44%), due primarily to a modest short position in Unibail-Rodamco-Westfield which cost -0.26% for the month.

In many respects the sectoral trends have continued the trend post March, with positive alpha from Materials, Consumer Discretionary, Consumer Staples, Healthcare and Technology.

Regular readers of our monthly reports will know of our interest in the VIX index. To reiterate, the VIX is the Chicago Board Options Exchange Market Volatility Index.

The VIX is a real-time market index that represents the market's expectation of 30-day forward looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments. It is also known by other names like "Fear Gauge" or "Fear Index." Investors, research analysts and portfolio managers look to VIX values as a way to measure market risk, fear and stress before they take investment decisions.

The VIX has some unique characteristics, including:

- It is mean reverting. Unlike more traditional indices, such as the S&P/ASX 200 Index, which tend to have long term positive trends (although with bouts of volatility and negative returns), the VIX tends to trade around a long term average of about 20.
- It has a long right tail skew. Whilst the average VIX level is about 20, it can reach levels less than 10 (implying low volatility), but the VIX can reach extreme levels as much as 80 (when volatility is high). And these spikes to extreme levels can be rapid in nature.
- The VIX spends 80% of the time below 25 and 90% of the time below 30.
- The VIX is negatively correlated to equity markets. When volatility spikes, equity markets retreat and visa versa. As demonstrated during the GFC, COVID and late 2018, volatility spikes can be rapid and violent.

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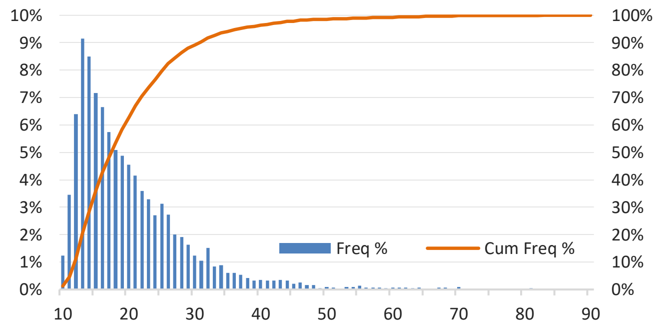
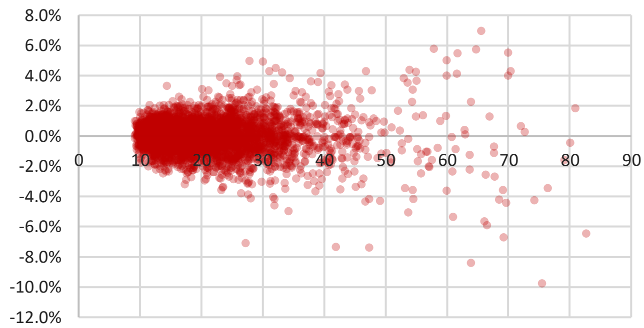
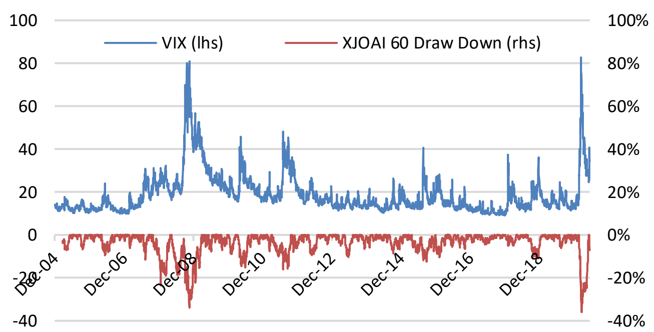
VIX Frequency



VIX v XJOAI Return Daily



VIX Level v S&P/ASX 200 60 Day Drawdown

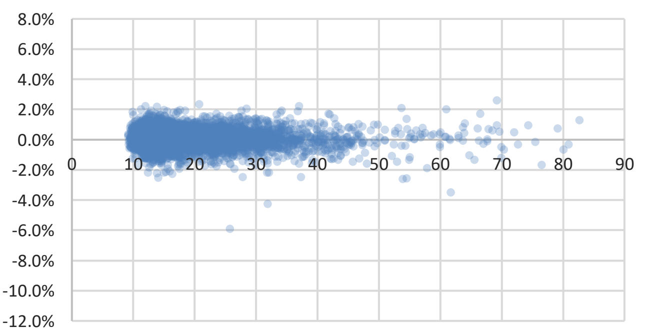


Mapping strategy and index returns against VIX provides a good record of how return streams behave when volatility (or VIX) is elevated.

The following two charts compare the daily returns since June 2000 to October 2020 for the Strategy and for the S&P/ASX 200 Accumulation Index at various levels of VIX. There are two points to note:

- Firstly, variability of the Strategy's returns is contained, reflecting a greater consistency of incremental returns, while the index shows greater variability and uncertainty in returns.

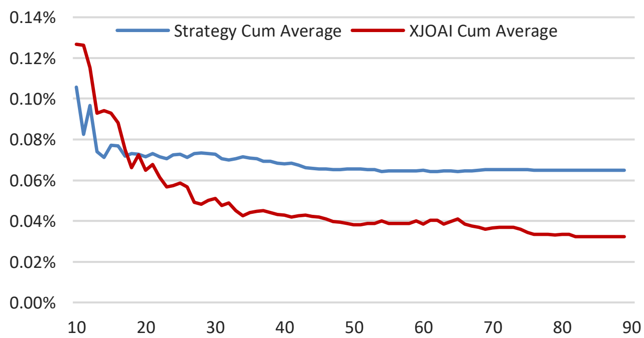
VIX v Strategy Return Daily



- Secondly, as VIX levels increase, the Strategy's return stream narrows, reflecting the de-risking that occurs when volatility increases. In contrast, the index see's the variability of the return stream increase reflecting greater uncertainty of returns when volatility is elevated.

Putting that into perspective, the following chart represents the cumulative average daily return for the strategy against the S&P/ASX 200. For example, when the VIX is at 20 or less the cumulative average daily returns for the strategy and the index are very similar at about 0.07%. When the VIX is at 40 or less the cumulative average daily return for the Strategy is still at about 0.07% while the index cumulative average daily return has fallen to about 0.04%. Put simply, as VIX rises the index incurs losses, whilst the strategy tends to preserve capital through reducing exposure and the overall risk of the portfolio.

VIX v Cum Average Return Inception



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.

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Net Monthly Performance

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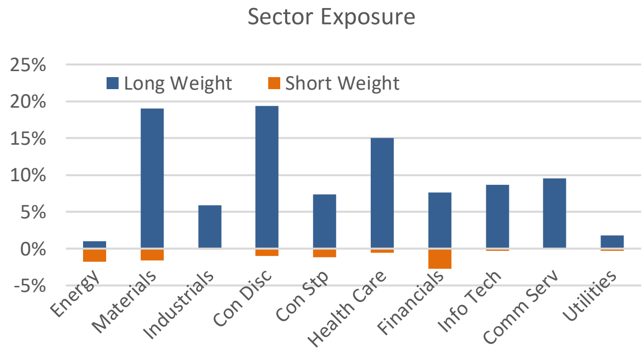
Gross Monthly Performance

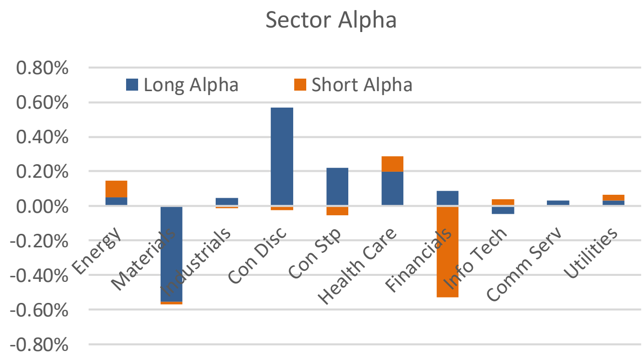
Asset	Positions	Weight	Contrib	Alpha
Long	75	95.41%	1.63%	0.63%
Short	34	-13.64%	-0.31%	-0.37%
Futures		-48.13%	-0.87%	0.19%
Cash		18.23%	0.00%	0.00%
	109	100.0%	0.45%	0.45%
Cash				0.02%
Excess				0.43%

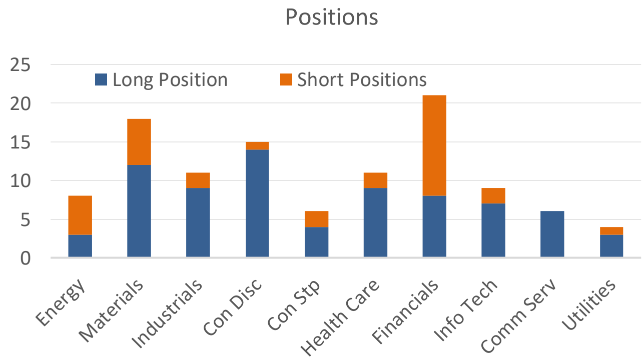


Exposure and Gross Monthly Alpha

Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	1.02%	-1.79%	-0.77%	0.15%
Materials	19.05%	-1.61%	17.44%	-0.57%
Industrials	5.91%	-0.13%	5.77%	0.03%
Cons Disc	19.36%	-1.03%	18.33%	0.55%
Cons Staples	7.40%	-1.14%	6.26%	0.17%
Health Care	15.05%	-0.57%	14.48%	0.29%
Financials	7.61%	-2.76%	0.86%	-0.44%
Info Tech	8.70%	-0.30%	8.40%	-0.01%
Comm Serv	9.52%	0.00%	9.52%	0.03%
Utilities	1.79%	-0.31%	1.48%	0.07%
Stock Total	95.41%	-9.65%	81.77%	0.26%
Futures			-48.13%	0.19%
Cash			18.23%	0.00%
Total			100.00%	0.45%

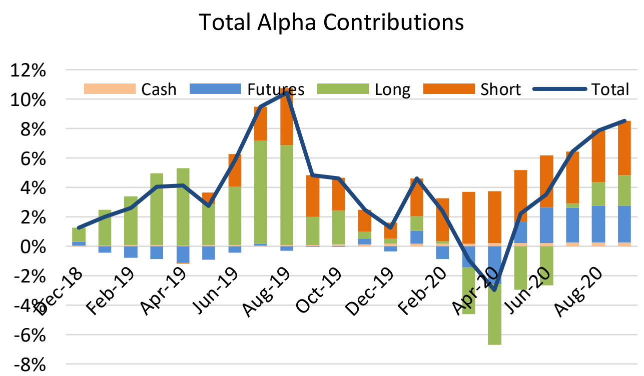
Net exposure including futures	33.6%
Gross exposure excluding futures	109.0%
Gross exposure including futures	157.2%





Major Alpha Contributors

Name	Weight	Contrib	Alpha
Top Five Contributors			
Ansell Limited	3.82%	0.31%	0.26%
Resmed Inc	1.76%	0.28%	0.26%
Netwealth Group	2.21%	0.29%	0.26%
Xero Limited	2.74%	0.27%	0.21%
Fisher & Paykel Health	2.83%	0.19%	0.19%
Bottom Five Contributors			
Perseus Mining	1.77%	-0.21%	-0.22%
UR Westfield	-1.32%	-0.29%	-0.26%
Megaport Limited	1.80%	-0.31%	-0.36%
Regis Resources Ltd	1.98%	-0.36%	-0.39%
Mesoblast Limited	0.63%	-0.51%	-0.57%



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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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