

# Equus Point Capital Market Neutral Strategy

Performance Update 31 December 2020



Net Returns	1m	3m	6m	1Yr	2yr pa	Incept pa	Risk Characteristics	
Equus Point Capital	2.09%	-1.63%	3.07%	4.49%	1.14%	1.58%	Volatility	9.9%
S&P/ASX 200 Accum	1.21%	13.70%	13.20%	1.40%	11.86%	11.27%	Beta	-0.03
Cash	0.01%	0.04%	0.10%	0.32%	0.75%	0.78%	Correlation to S&P/ASX 200	-0.06
Excess v Cash	2.08%	-1.67%	2.97%	4.17%	0.39%	0.80%	Sharpe Ratio	0.1

## Commentary

The Strategy returned 2.09% after fees for the month. Please note that with the Fund closed during May, the results for December are simulated returns.

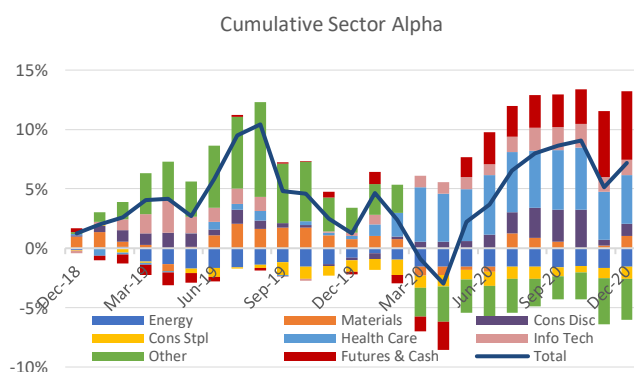
On a gross basis stock selection generated 1.95% alpha for the month, with long exposures contributing 1.37% alpha and a modest short exposure contributing 0.58% alpha. Our beta positioning contributed 0.26% alpha.

Position alpha contributions included:

- Materials (+0.84%)
  - Oz Minerals +0.41%
  - Mineral Resources +0.37%
- Consumer Discretionary (+0.60%)
  - Dominos +0.31%
  - ARB Corporation +0.21%
- Utilities (+0.34%)
  - AGL due to a short position contributing +0.35%
- Financials (+0.24%)
  - Insurance Group Australia due to a short position contributing +0.21%
  - Charter Hall +0.16%

Negative alpha contributions included:

- Communication Services (-0.32%)
  - Carsales.com -0.11%
  - Chorus -0.12%
- Consumer Staples (-0.16%)
  - Treasury Wines -0.13%



Given the market draw down and recovery it is perhaps prudent to review how the Strategy has performed through the events of 2020.

We have always stated the aim of the strategy was to provide:

- Absolute returns akin to the equity market and in excess of the benchmark, being the official cash rate;
- A return stream uncorrelated to the broader equities market;
- A return stream with a lower volatility than the equities market; and
- Preserve capital during times of market stress.

The following table summarizes these key points for the year that was 2020.

Whilst the headline return was been modestly positive, the other objectives of the strategy have been largely achieved:

- Returns exceed that of the S&P/ASX 200 Accumulation Index and cash
- Volatility was 40% of that of the S&P/ASX 200 Accumulation Index;
- Both correlation and beta of the strategy versus the S&P/ASX 200 Accumulation Index were close to zero and slightly negative; and
- The drawdown was less than 30% of the S&P/ASX 200 Accumulation Index.

In addition, risk adjusted returns (reward to risk and Sharpe Ratio) were significantly better than that of the broader market, due largely to the lower volatility of the Strategy's return stream and the modest positive return.

	Strategy	XJOAI	Cash
Return (gross)	6.10%	1.40%	0.32%
Volatility	12.7%	29.9%	
Reward to Risk	0.49	0.05	
Sharpe Ratio	0.45	0.04	
Draw Down	-9.9%	-35.9%	
Beta	-0.09		
Correlation	-0.21		

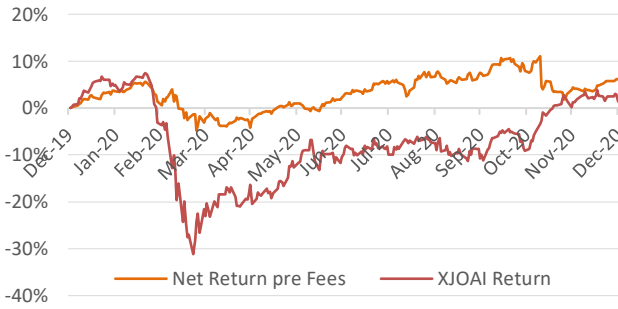
On balance the Strategy has performed well through the year on the back of what has been the most challenging environment since the GFC.

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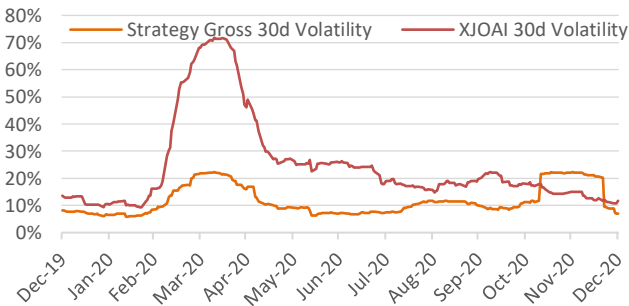
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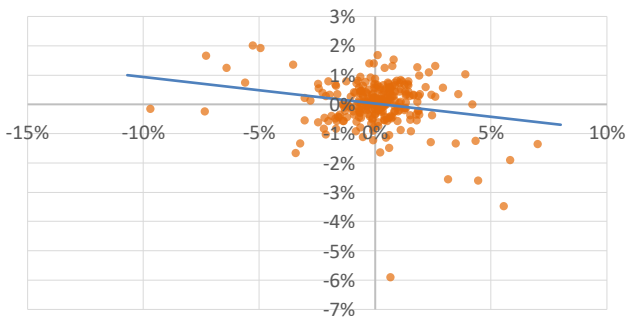
Gross Returns 2020



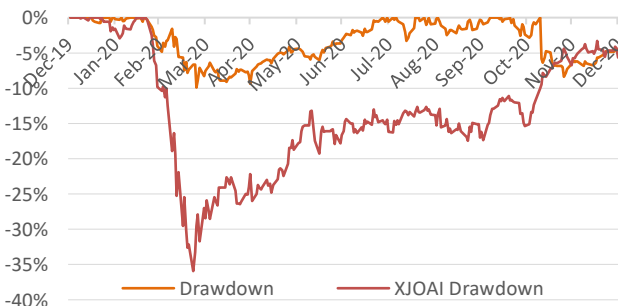
Annualised Volatility 2020



XJOAI v Strategy 2020



Drawdown 2020



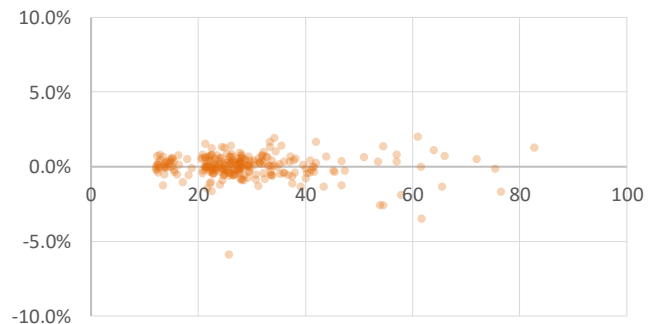
The bout of volatility during 2020 was a firm reminder that seeking returns from the equity market is not without risk. The higher the return, the higher the potential risks and volatility of those returns.

One barometer of risk that we employ is referencing the return stream to changes in volatility, as measured by the VIX index.

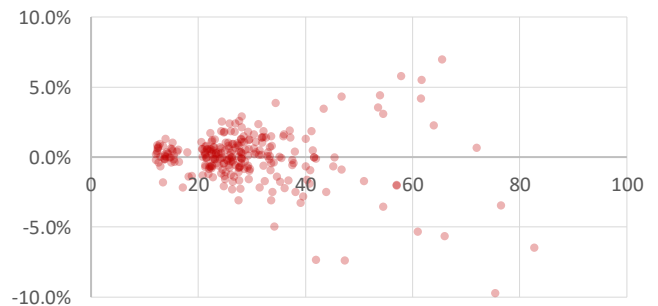
History tells us that bouts of extreme volatility occur more frequently than normal probability distributions would have us believe. The most widely recognized measure of volatility is the VIX, often referred to as the 'fear index' as the VIX tends to increase in response to market fears and stress. When markets are generally positive the VIX tends to be in low. But the VIX can also rapidly increase when markets turn negative and are under stress.

Pleasingly the returns from the Strategy were contained as volatility (and VIX levels) increased during 2020, in contrast to the S&P/ASX 200 Index that saw increasing negative returns as volatility increased.

VIX v Strategy Return Daily 2020



VIX v XJOAI Return Daily 2020



Despite economic weakness and ongoing COVID infection rates globally, markets have remained surprisingly buoyant – due almost exclusively to unprecedented monetary and fiscal support. A range of markets valuations are now at levels akin to the tech boom and bust of 2000. History would suggest these booms do not end well – but the timing of any correction is difficult to predict.

The portfolio has been largely retained with a positive beta position and modest levels of gearing.

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### Net Monthly Performance

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### Gross Monthly Performance

Asset	Positions	Weight	Contrib	Alpha
Long	74	86.7%	2.32%	1.37%
Short	38	-15.5%	0.41%	0.58%
Futures		-48.9%	-0.54%	0.26%
Cash		28.8%	0.00%	0.00%
		100.0%	2.21%	2.21%
Cash				0.01%
Excess				2.20%

### Exposure and Gross Monthly Alpha

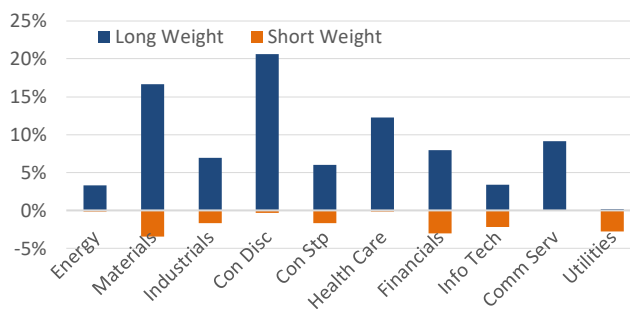
Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	3.33%	-0.13%	3.19%	0.08%
Materials	16.69%	-3.49%	13.21%	0.84%
Industrials	6.98%	-1.65%	5.33%	0.25%
Cons Disc	20.66%	-0.33%	20.34%	0.60%
Cons Staples	6.02%	-1.69%	4.33%	-0.16%
Health Care	12.27%	-0.20%	12.08%	0.00%
Financials	7.98%	-3.04%	4.94%	0.24%
Info Tech	3.39%	-2.18%	1.21%	0.08%
Comm Serv	9.17%	0.00%	9.17%	-0.32%
Utilities	0.17%	-2.75%	-2.58%	0.34%
Stock Total	86.67%	-15.46%	71.21%	1.95%
Futures			-48.93%	0.26%
Cash			28.79%	0.00%
Total			100.00%	2.21%

Net exposure including futures	22.3%
Gross exposure excluding futures	102.1%
Gross exposure including futures	151.1%

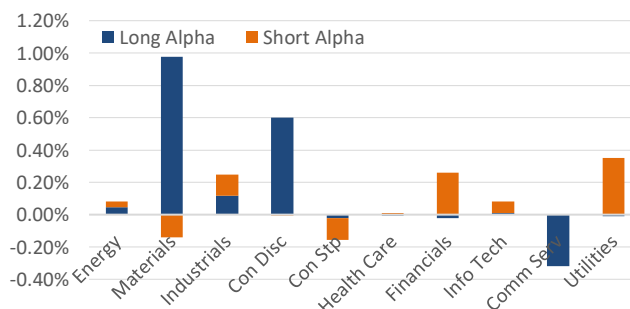
### Major Alpha Contributors

Name	Weight	Contrib	Alpha
<b>Top Five Contributors</b>			
Oz Minerals Limited	3.03%	0.45%	0.41%
Mineral Resources	2.74%	0.40%	0.37%
AGL Energy	-2.70%	0.33%	0.35%
Domino's Pizza	1.13%	0.32%	0.31%
Pro Medicus	1.72%	0.25%	0.24%
<b>Bottom Five Contributors</b>			
Fisher & Paykel Health	1.63%	-0.14%	-0.15%
Netwealth Group	2.31%	-0.12%	-0.15%
Elders Ltd	2.53%	-0.14%	-0.17%
Ansell Limited	2.17%	-0.17%	-0.20%
IDP Education	0.90%	-0.24%	-0.25%

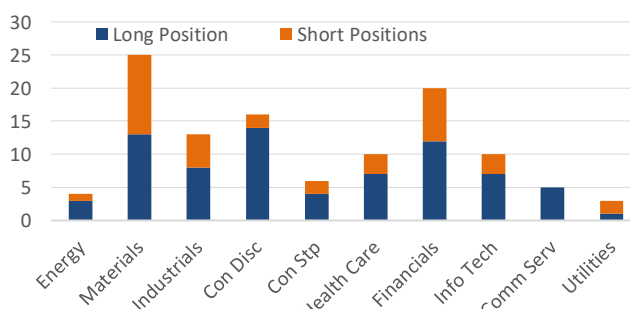
### Sector Exposure



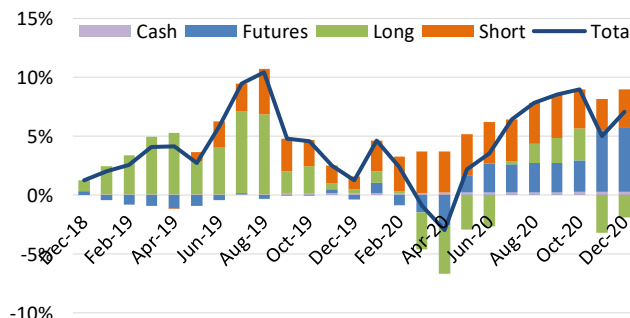
### Sector Alpha



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

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