Equus Point Capital Market Neutral Strategy

Performance Update 31 March 2021

Net Returns	1m	3m	6m	1Yr	2yr pa	Incept pa
Equus Point Capital	2.95%	6.26%	4.53%	14.16%	3.20%	4.09%
S&P/ASX 200 Accum	2.44%	4.26%	18.54%	37.47%	8.46%	12.00%
Cash	0.01%	0.02%	0.06%	0.19%	0.58%	0.71%
Excess v Cash	2.94%	6.24%	4.46%	13.97%	2.62%	3.38%

Risk Characteristics	
Volatility	8.1%
Beta	0.11
Correlation to S&P/ASX 200	0.26
Sharpe Ratio	0.42

Commentary

The Strategy returned 2.95% after fees for the month. Please note that with the Fund closed during May 2020, the results for the month are simulated returns.

On a gross basis stock selection generated 3.48% alpha for the month, with long exposures contributing 1.85% alpha and a modest short exposure contributing 1.00% alpha. Our beta positioning contributed 0.63% alpha.

The volatility of returns since inception is 8.1% annualized versus 19.2% for the S&P/ASX 200 Accumulation Index.

The Strategy's drawdown maximum through COVID was 9.9% versus the S&P/ASX 200 Accumulation Index drawdown of 35.9%.

Positive alpha contributions from stock positions included:

- Materials (+1.50%)
  - Resolute Mining +0.71%
  - Bluescope Steel +0.33%
  - Sims Group +0.21%
  - James Hardie +0.17%
  - Fletcher Building +0.12%
- Consumer Discretionary (+0.73%)
  - Harvey Norman +0.33%
  - JB HiFi +0.23%
  - Premier Investments +0.15%
  - Burson Group +0.11%
- Industrials (+0.39%)
  - Seek +0.17%
  - Reece Limited +0.13%
- Consumer Staples (+0.24%)
  - Metcash +0.18%

Negative alpha contributions were limited:

- Financials (-0.17%)
  - Short position in IOOF -0.13%
  - Short position in ASX -0.11%

The approach to attributing returns within a diversified equities portfolio is typically to assign returns to a particular sector. At Equus Point we delve a little deeper to understand the drivers of performance, attributing returns to the underlying beta, volatility, liquidity and the market capitalization of individual stocks. This provides a richer understanding of how and where returns are derived and a sense of the risk or vulnerabilities in the portfolio.

This month we delve into the how alpha is generated across the beta spectrum.

The Capital Asset Pricing Model (CAPM) suggests that the relationship between beta and return is linear. That is the higher the beta, the greater the risk and therefore the greater the expected return.

In practice this linear relationship fails due to the so-called beta anomaly, where low beta names tend to provide superior returns and high beta names tend to provide inferior returns.

Part of this flaw in CAPM is that it relies on a) equity markets are efficient (i.e. stock information is quickly and universally distributed and assimilated) and b) that investors are rational and risk-averse. In reality investors are not rational and markets are not efficient. This presents opportunities to harvest meaningful risk adjusted returns from investor behaviour and market inefficiencies.

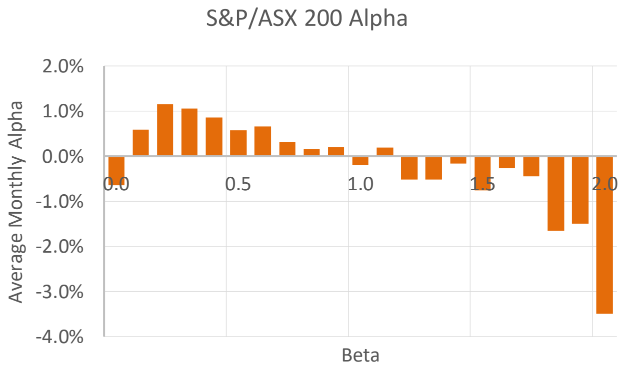
To recap, we define alpha as the risk adjusted return for any given stock, taking into account that stock's beta and the movement in the broader market. This is a better reflection of recognizing a stocks genuine return independent of any market movement and that stocks inherent sensitivity to those market movements.

We define alpha as: $a = R_s - (\beta_s * R_m)$

Where:
R_s = stock return
β_s = stock beta
R_m = market return

We can demonstrate the beta anomaly by measuring the average monthly alpha for each given level of beta for constituents of the S&P/ASX 200 Index. The analysis is for the period from Jun 2000 to Mar 2021.

What the analysis demonstrates is that stocks with a beta of less than 1.0 do indeed tend to produce positive alpha. Conversely, stocks with betas greater than 1.0 tend to produce negative alpha.



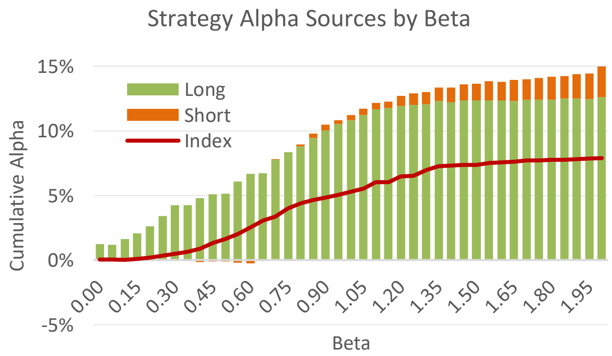
Why is this important? Well, consider a portfolio that has an inbuilt skew to high beta names. Under CAPM the higher beta exposure should be rewarded with higher return. In reality, the additional sensitivity to higher beta names is not rewarded with additional returns. Investors would be better served by focusing on lower beta names for superior risk adjusted returns.

We can also assign alpha across the various sectors, along with average beta and stock volatility.

As one might expect, given the dominance of the large banks and resources in the S&P/ASX 200 Index, the majority of nominal returns come from these two sectors, as per the following table. However, if one adjusts these returns for the underlying beta of the stocks in these sectors, we see a different picture emerge. Banks and resources have produced negative alpha. The two sectors that have provided the greatest risk adjusted returns are healthcare and consumer staples. As a side note we would highlight that healthcare has been richly rewarded through the performance of CSL (the standout stock in the index over the last twenty plus years) and to a lesser extent Cochlear.

	Return	Return pa	Alpha pa	Beta	Volatility
Energy	6.9%	0.32%	-0.80%	1.22	41.3%
Materials	82.7%	2.94%	-0.19%	1.26	41.9%
Gold	5.8%	0.27%	-0.10%	0.78	50.0%
Industrials	19.1%	0.85%	-0.09%	0.92	34.9%
Con Staples	42.8%	1.73%	0.86%	0.72	29.1%
Con Disc	14.7%	0.66%	0.08%	0.83	32.6%
Health Care	43.2%	1.75%	1.08%	0.83	34.4%
Financials	28.1%	1.20%	-0.39%	1.05	31.6%
Banks	98.1%	3.35%	-0.54%	0.96	22.8%
Info Tech	7.6%	0.35%	0.07%	1.13	42.5%
Comm Serv	1.6%	0.08%	-1.16%	0.87	31.6%
Utilities	6.7%	0.31%	0.13%	0.67	29.0%
Real Estate	22.5%	0.98%	0.06%	0.67	25.9%
	379.8%	7.95%	0.00%	1.00	34.4%

Taking this concept of lower beta stocks tending to out-perform higher beta stocks, we can demonstrate that the majority of alpha for the Strategy is derived from the long portfolio, which in turn is dominated by lower beta names. Above beta 1.0 the marginal additional alpha generation is minimal for the long side of the portfolio. However, alpha for the short portfolio is derived from higher beta stocks – perhaps not unsurprisingly if higher beta names tend to under-perform.



In summary being able to focus on the underlying drivers of meaningful risk adjusted returns allows us to understand where and how returns – and risk – are generated.

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Net Monthly Performance

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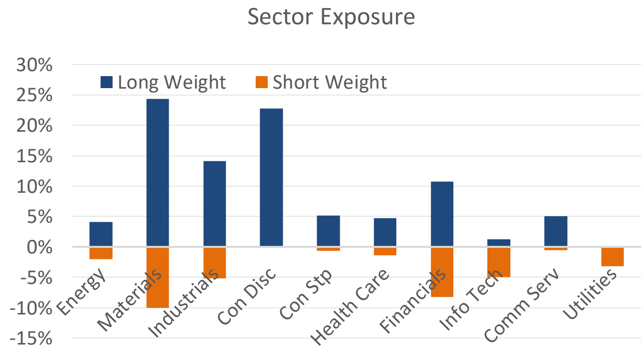
Gross Monthly Performance

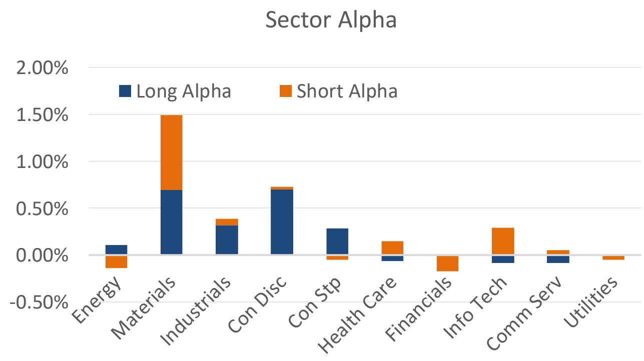
Asset	Positions	Weight	Contrib	Alpha
Long	76	92.4%	4.35%	1.85%
Short	40	-36.4%	0.15%	1.00%
Futures		-35.7%	-1.03%	0.63%
Cash		44.0%	0.00%	0.00%
		100.0%	3.48%	3.48%
Cash				0.01%
Excess				3.47%

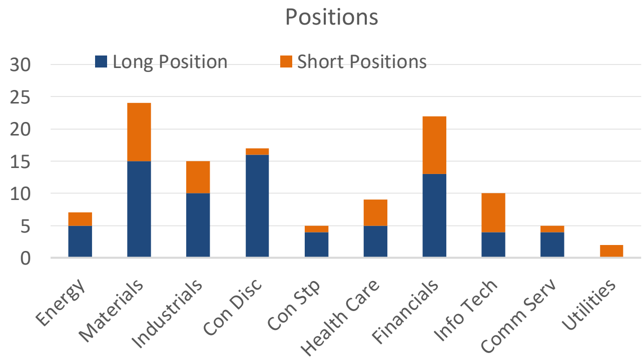


Exposure and Gross Monthly Alpha

Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	4.13%	-1.97%	2.16%	-0.03%
Materials	24.39%	-10.04%	14.34%	1.50%
Industrials	14.16%	-5.18%	8.98%	0.39%
Cons Disc	22.79%	-0.16%	22.63%	0.73%
Cons Staples	5.20%	-0.68%	4.52%	0.24%
Health Care	4.74%	-1.43%	3.31%	0.08%
Financials	10.69%	-8.24%	2.45%	-0.17%
Info Tech	1.26%	-4.95%	-3.70%	0.20%
Comm Serv	5.07%	-0.55%	4.52%	-0.03%
Utilities	0.00%	-3.23%	-3.23%	-0.05%
Stock Total	92.42%	-36.43%	55.98%	2.85%
Futures			-35.73%	0.63%
Cash			44.02%	0.00%
Total			100.00%	3.48%

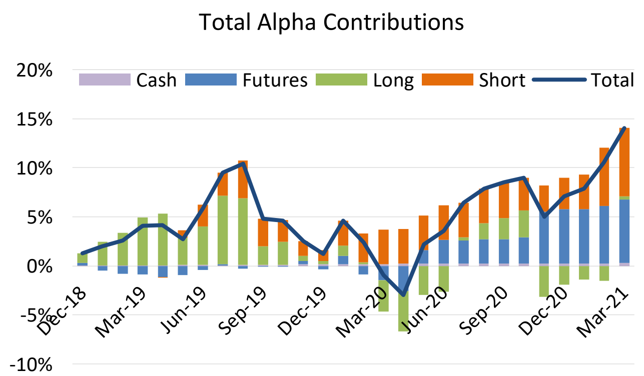
Net exposure including futures	20.3%
Gross exposure excluding futures	128.9%
Gross exposure including futures	164.6%





Major Alpha Contributors

Name	Weight	Contrib	Alpha
Top Five Contributors			
Resolute Mining Ltd	-1.80%	0.66%	0.71%
Bluescope Steel	2.73%	0.41%	0.33%
Harvey Norman	3.19%	0.39%	0.33%
JB Hi-Fi Limited	1.46%	0.26%	0.23%
Sims Group Limited	2.52%	0.28%	0.21%
Bottom Five Contributors			
IOOF Holdings Limited	-1.43%	-0.19%	-0.13%
Pro Medicus	1.53%	-0.11%	-0.13%
Orica Limited	-1.83%	-0.19%	-0.13%
Origin Energy	-1.90%	-0.21%	-0.14%
IDP Education	1.11%	-0.13%	-0.16%



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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
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