# Equus Point Capital Market Neutral Strategy

**Performance Update 30 April 2021**

| Net Returns | 1m | 3m | 6m | 1Yr | 2yr pa | Incept pa |
|---|---|---|---|---|---|---|
| Equus Point Capital | 1.50% | 7.20% | 5.80% | 18.41% | 3.99% | 4.61% |
| S&P/ASX 200 Accum | 3.47% | 7.54% | 20.33% | 30.76% | 9.05% | 13.16% |
| Cash | 0.01% | 0.02% | 0.05% | 0.18% | 0.52% | 0.69% |
| Excess v Cash | 1.49% | 7.17% | 5.74% | 18.23% | 3.47% | 3.93% |

| Risk Characteristics | |
|---|---|
| Volatility | 8.0% |
| Beta | 0.11 |
| Correlation to S&P/ASX 200 | 0.26 |
| Sharpe Ratio | 0.49 |

**Commentary**

The Strategy returned 1.50% 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 1.13% alpha for the month, with long exposures contributing 0.90% alpha and a modest short exposure contributing 0.23% alpha. Our beta positioning contributed 0.90% alpha.

The volatility of returns since inception is 8.0% annualized versus 18.9% for the S&P/ASX 200 Accumulation Index.

Positive alpha contributions from stock positions included:

- Materials (+0.89%)
  - Mineral Resources 0.49%
  - Champion Iron 0.24%
  - Bluescope Steel 0.18%
  - Boral 0.17%
  - Regis Resources 0.17% from short position
  - St Barbara 0.18% from short position
  - Gold Road -0.18%
- Industrials (+0.71%)
  - Reece 0.47%
  - Reliance Worldwide 0.11%
  - Aurizon 0.11%
- Healthcare (+0.43%)
  - Mesoblast 0.25%
  - Pro Medicus 0.18%
- Utilities (+0.29%)
  - AGL 0.29% from short position

Negative alpha contributions were limited:

- Energy (-0.31%)
  - Soul Pattinson & Co -0.22%
- Consumer Discretionary (-0.35%)
  - Harvey Norman -0.40%
  - Webjet -0.15%
- Consumer Staples (-0.28%)
  - Metcash -0.10%
- Financials (-0.19%)
  - Credit Corp -0.29%
  - Challenger -0.17%

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.

Last month we demonstrated how low beta stocks produced higher risk adjusted returns than high beta stocks. The so-called beta anomaly. This is contrary to the concept that the higher the risk, the higher the expected return from an investment.

Following on from that theme we have dissected the alpha returns for the S&P/ASX 200 across the volatility spectrum.

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: $a = R_s - (\beta_s * R_m)$

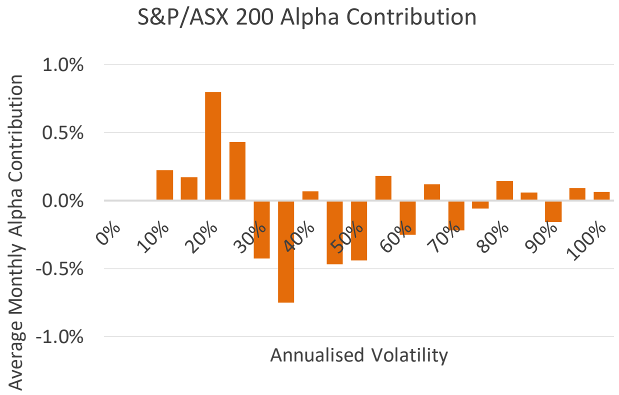
Where: $R_s$ = stock return
$\beta_s$ = stock beta
$R_m$ = market return

For example, consider the following table that includes two stocks and an index return. At first glance stock A has out-performed both the index and stock B. However, when adjusted for each stocks beta it is apparent that the 'alpha' of stock B is superior to stock that of stock A.

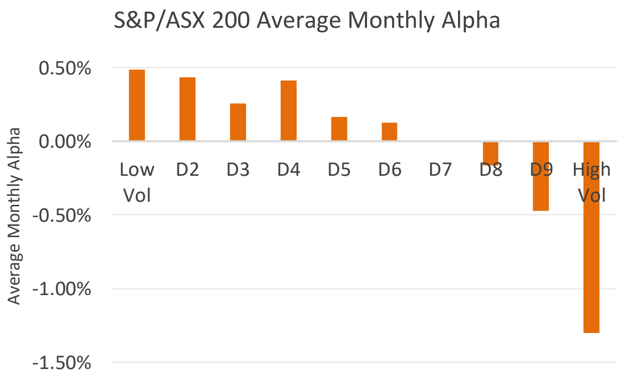
| | Return | Beta | Expected Return | Alpha |
|---|---|---|---|---|
| Stock A | 30% | 2.0 | 40% | -10% |
| Stock B | 15% | 0.5 | 10% | +5% |
| Index | 20% | | | - |

We can dissect volatility by measuring the average monthly alpha for each given level of volatility 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 volatility less than 30% produce positive alpha. Conversely, stocks with volatility greater than 30% tend to on balance produce negative alpha.

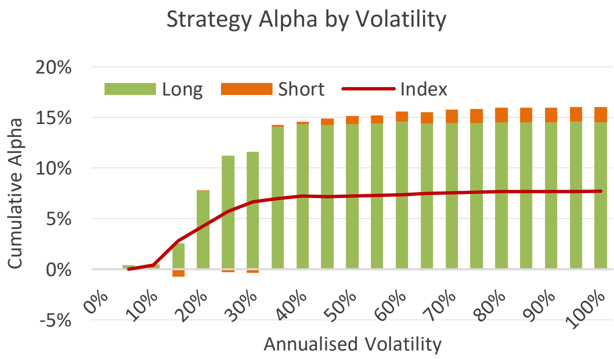



We can also view alpha through the prism of deciles where we rank each month the S&P/ASX 200 constituents for volatility and calculate the average subsequent monthly alpha. Again, we see the prevalence of low volatility stocks producing positive risk adjusted returns, while higher volatility stocks produce negative risk adjusted returns. Admittedly volatility changes through time and the impact of the overall market's volatility will play a role in how performance is derived. For example, the GFC and COVID are both periods of heightened volatility where all stocks displayed elevated volatility outcomes, but these periods also represented an environment where returns were also negative.




Why is this important? A portfolio skewed towards higher volatility names is not rewarded with additional risk adjusted returns. Investors would be better served by focusing on lower volatility names for superior risk adjusted returns.

Taking this concept of lower volatility stocks tending to out-perform higher volatility 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 volatility names. Above volatility of 30% the marginal additional alpha generation is minimal for the long side of the portfolio. However, alpha for the short portfolio is derived from higher volatility stocks – perhaps not unsurprisingly if higher volatility names tend to under-perform.




In the table on the following page we assign alpha across the various sectors, along with average beta and stock volatility, for both the Strategy and the S&P/ASX 200 Index. We have summarized some key points for the Index and for the Strategy below.

As one might expect, given the dominance of the large banks and resources in the S&P/ASX 200 Index, the majority of the nominal returns come from these two sectors. However, if one adjusts these returns for the underlying beta and volatility 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.

*Index Trends*

- From a purely nominal contribution basis, the index returns are driven by banks and large resources.
- On a risk adjusted basis Resources and Banks have produced negative alpha.
- On a risk adjusted basis Consumer Staples and Healthcare provide the greatest alpha. This superior alpha is also reflected in the generally lower beta and volatility for these sectors. We would note that Health Care has been largely driven by the likes of CSL, the best performing S&P/ASX 200 constituent over the last two decades.

- The sectors with the lowest alpha include Energy, Financials and Banks, with the worst sector being Communication Services. These sectors tend to, but not always, have a higher weighted average beta and volatility.

*Strategy Trends*

- The portfolio exposure is derived around a core long only portfolio and a constrained and more opportunistic short portfolio. This is reflected in the return outcomes on both a nominal return and alpha return basis, with a greater contribution from the long portfolio.
- Across all sectors the long portfolio has a consistently lower beta than that of the short portfolio. This is also consistent with last month's report highlighting the fact that lower beta stocks tend to out-perform higher beta stocks (the so-called beta anomaly). The higher beta exposure in the short portfolio is also consistent with higher beta stocks under-performing.
- The long portfolio also has a lower volatility than that of the short portfolio. This is consistent with this month's report highlighting how low / high volatility stocks tend to produce superior / inferior returns on both a nominal and alpha basis.
- The Strategy has been efficient at extracting alpha from both the long portfolio and the short portfolio from Resources (ex Gold), despite the largely flat alpha result at an Index level. We would suggest at an anecdotal level that this reflects a sector with clearly defined trends that can be exploited along with a deep pool of potential candidates.
- We are not effective at extracting meaningful alpha from both long and short positions in Banks. As we exclude the more liquid names from our investible universe (as these names tend to crowd out better opportunities from mid and smaller companies) we do not have an exposure to the large banks. Consequently, this negative alpha is derived from an exposure to banks outside the top four bank names.
- We are not efficient at extracting positive alpha from short positioning in Consumer Staples. Given that this is also the sector at an Index level that produced positive alpha, there is perhaps a level of swimming against the current. That is, Consumer Staples on balance do well on a risk adjusted basis and opportunistically shorting names tends to erode return outcomes.
- We are also not efficient at extracting alpha from the short portfolio in Consumer Discretionary and REIT's.

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.

| | Nom Contrib | Alpha | Long Alpha | Short Alpha | Long Beta | Short Beta | Long Vol | Short Vol | Index Contrib | Index Alpha | Index Beta | Index Vol |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Energy | 136.4% | 120.3% | 54.3% | 66.1% | 1.09 | 1.27 | 35.3% | 37.3% | 6.9% | -15.1% | 1.05 | 30.5% |
| Materials | 753.1% | 572.7% | 303.6% | 269.0% | 1.02 | 1.21 | 32.4% | 39.6% | 83.3% | -2.6% | 1.26 | 30.6% |
| Gold | 274.8% | 259.0% | 127.4% | 131.6% | 0.62 | 0.92 | 43.0% | 52.8% | 5.8% | -1.8% | 0.68 | 39.2% |
| Industrials | 309.6% | 241.5% | 170.8% | 70.7% | 0.85 | 0.91 | 27.1% | 33.1% | 19.1% | -1.8% | 0.83 | 28.0% |
| Cons Staples | 106.9% | 34.5% | 107.9% | -73.4% | 0.63 | 0.73 | 26.1% | 30.3% | 42.8% | 19.5% | 0.71 | 21.2% |
| Cons Discret | 646.3% | 373.2% | 420.1% | -46.9% | 0.77 | 0.83 | 26.7% | 33.1% | 14.6% | 1.6% | 0.81 | 28.3% |
| Health Care | 376.6% | 392.0% | 345.8% | 46.2% | 0.69 | 0.88 | 26.9% | 36.6% | 43.2% | 25.1% | 0.77 | 25.5% |
| Financials | 182.9% | 111.4% | 98.7% | 12.7% | 0.97 | 1.11 | 26.1% | 30.2% | 28.2% | -7.9% | 1.02 | 25.8% |
| Banks | -0.7% | -16.8% | -9.8% | -7.0% | 0.80 | 1.03 | 21.2% | 22.4% | 98.1% | -10.7% | 1.01 | 19.7% |
| Info Tech | 273.7% | 154.3% | 154.8% | -0.4% | 1.00 | 1.10 | 31.7% | 49.2% | 10.1% | 3.7% | 0.98 | 33.0% |
| Comm Serv | 259.4% | 199.6% | 177.2% | 22.4% | 0.73 | 0.88 | 25.7% | 36.5% | 1.6% | -20.7% | 1.08 | 25.8% |
| Utilities | 177.6% | 140.9% | 118.6% | 22.3% | 0.56 | 0.79 | 22.0% | 29.4% | 6.7% | 2.8% | 0.60 | 22.1% |
| Real Estate | 54.3% | 63.4% | 103.5% | -40.1% | 0.59 | 0.59 | 19.5% | 18.5% | 22.5% | 1.3% | 0.69 | 22.6% |
| Futures | -530.4% | 374.2% | | | | | | | | | | |
| Cash | 87.9% | 87.9% | | | | | | | | | | |
| Total | 3109.3% | 3109.3% | 2173.9% | 473.3% | 0.81 | 0.97 | 27.6% | 35.4% | 390.1% | 0.0% | 1.00 | 25.9% |

Note 1: Nominal and alpha returns represent the cumulative returns for the analysis period. Beta and Volatility figures represent weighted average for each sector. Analysis period Jun 2000 to Mar 2012. All figures are gross before any costs or fees. Past performance is no guarantee of future performance.

Note 2: we separate out Gold from Resources as gold stocks tend to behave independently from broader resources stocks, driven by inflation fears and/or a perceived store of value during times of uncertainty. We also separate out Banks (given their size in the Index) and REIT's (due to unique bond proxy behaviour) from Financials.

# Equus Point Capital Market Neutral Strategy

**Performance Update 30 April 2021**

## Net Monthly Performance

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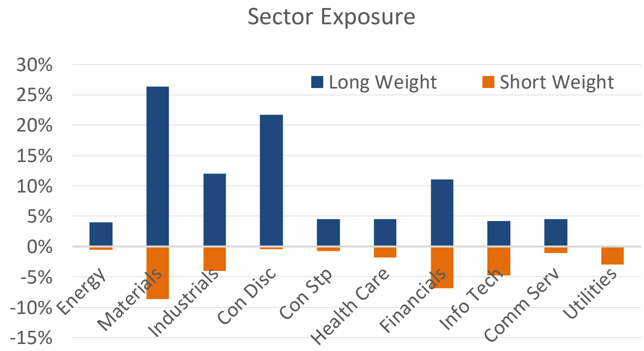
| Cash | 0.01% | 0.02% | 0.05% | 0.18% | 0.52% | 0.69% |
| Excess v Cash | 1.49% | 7.17% | 5.74% | 18.23% | 3.47% | 3.93% |

| Risk Characteristics | |
|---|---|
| Volatility | 8.0% |
| Beta | 0.11 |
| Correlation to S&P/ASX 200 | 0.26 |
| Sharpe Ratio | 0.49 |

## Gross Monthly Performance

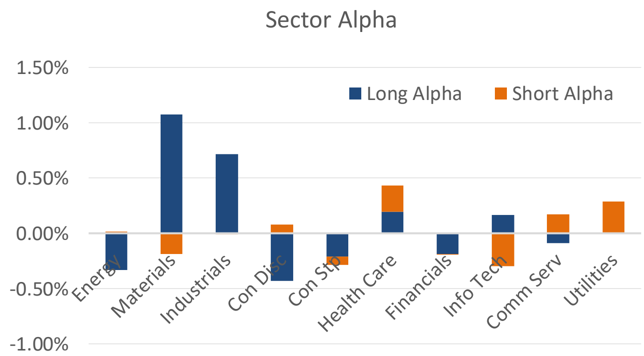
| Asset | Positions | Weight | Contrib | Alpha |
|---|---|---|---|---|
| Long | 78 | 92.6% | 4.26% | 0.90% |
| Short | 34 | -32.0% | -0.78% | 0.23% |
| Futures | | -48.8% | -1.45% | 0.90% |
| Cash | | 39.4% | 0.00% | 0.00% |
| | | 100.0% | 2.04% | 2.04% |
| Cash | | | | 0.01% |
| Excess | | | | 2.03% |

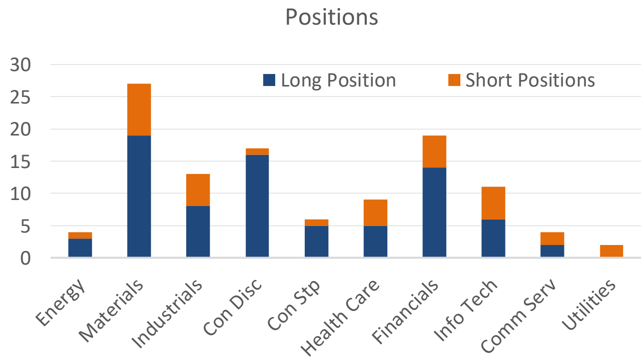



## Exposure and Gross Monthly Alpha

| Sector Name | Long Weight | Short Weight | Active Weight | Alpha Contrib |
|---|---|---|---|---|
| Energy | 3.95% | -0.59% | 3.35% | -0.31% |
| Materials | 26.32% | -8.64% | 17.68% | 0.89% |
| Industrials | 11.96% | -3.97% | 7.99% | 0.71% |
| Cons Disc | 21.72% | -0.49% | 21.23% | -0.35% |
| Cons Staples | 4.49% | -0.79% | 3.70% | -0.28% |
| Health Care | 4.51% | -1.83% | 2.68% | 0.43% |
| Financials | 11.06% | -6.87% | 4.19% | -0.19% |
| Info Tech | 4.16% | -4.80% | -0.64% | -0.13% |
| Comm Serv | 4.48% | -1.06% | 3.42% | 0.09% |
| Utilities | 0.00% | -2.97% | -2.97% | 0.29% |
| Stock Total | 92.63% | -32.02% | 60.62% | 1.14% |
| Futures | | | -48.83% | 0.90% |
| Cash | | | 39.38% | 0.00% |
| Total | | | 100.00% | 2.04% |

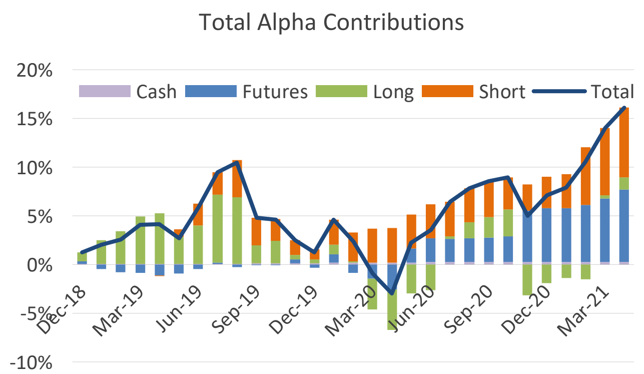
| | |
|---|---|
| Net exposure including futures | 11.7% |
| Gross exposure excluding futures | 124.7% |
| Gross exposure including futures | 173.5% |




## Major Alpha Contributors

| Name | Weight | Contrib | Alpha |
|---|---|---|---|
| **Top Five Contributors** | | | |
| Mineral Resources | 2.42% | 0.56% | 0.49% |
| Reece Limited | 3.32% | 0.56% | 0.47% |
| AGL Energy | -2.84% | 0.22% | 0.29% |
| Mesoblast Limited | -1.40% | 0.20% | 0.25% |
| Champion Iron Ltd | 1.56% | 0.27% | 0.24% |
| **Bottom Five Contributors** | | | |
| Gold Road Resources | -1.18% | -0.22% | -0.18% |
| Lynas Corporation | 1.32% | -0.15% | -0.21% |
| Soul Pattinson & Co. | 3.47% | -0.11% | -0.22% |
| Credit Corp Group | 1.71% | -0.20% | -0.29% |
| Harvey Norman | 3.41% | -0.29% | -0.40% |



# Equus Point Capital Market Neutral Strategy

**Performance Update 30 April 2021**

## 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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