Equus Point Capital Market Neutral Strategy

Performance Update 31 August 2021

Net Returns	1m	3m	6m	1Yr	2yr pa	Incept pa
Equus Point Capital	2.44%	5.66%	9.57%	11.90%	4.18%	5.83%
Cash	0.01%	0.03%	0.05%	0.13%	0.33%	0.61%
Excess v Cash	2.43%	5.64%	9.52%	11.77%	3.85%	5.21%

Risk Characteristics	
Volatility	7.7%
Beta	0.11
Correlation to S&P/ASX 200	0.26
Sharpe Ratio	0.68
Drawdown	12.6%

Commentary

The Strategy returned 2.44% 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 3.22% alpha for the month, with long exposures contributing 2.05% alpha and a modest short exposure contributing 0.52% alpha. Our beta positioning contributed 0.65% alpha.

The volatility of returns since inception is 7.7% annualized versus 17.7% for the S&P/ASX 200 Accumulation Index. Since inception the Strategy's drawdown has been limited to 12.6% versus that of the S&P/ASX 200 Accumulation Index of 35.9%.

Positive alpha contributions from stock positions included:

- Financials (+1.21%)
  - Hub24 +0.36%
  - Magellan (short position) +0.18%
  - Ingenia Communities +0.17%
  - Credit Corp +0.10%
  - Virgin Money +0.09%
- Energy (+0.54%)
  - Beach Petroleum (short position) +0.36%
  - Whitehaven Coal +0.14%
- Communication Services (+0.53%)
  - Uniti Group +0.63%
- Consumer Discretionary (+0.44%)
  - Domino's Pizza +1.09%
  - ARB Corporation +0.24%
- Consumer Staples (+0.43%)
  - Grain Corp +0.24%
  - Treasury Wine Estates +0.09%

Negative alpha contributions included:

- Material (-1.07%)
  - Champion Iron -0.72%
  - Mineral Resources -0.33%
  - Sims Group -0.27%
  - Orora -0.25%
- Industrials (-0.40%)
  - Reece -0.46%

This month we thought we would revisit and the attributes of the portfolio. We hope this provides some further information on how we manage the stock selection and risk management process, and in turn the resulting portfolio.

Stock selection and risk management

The stock selection and risk management processes are designed to diversify and manage the risks associated with momentum. The underlying research is grounded in industry experience across funds management and investment banking. This experience includes a combination of managing momentum and hedged portfolios within tight risk management budgets. Diversifying our selection parameters and the risk management process makes inherent sense given that experience.

The following chart demonstrates the risk and return outcomes for a standard long only index versus the 'momentum factor' and the approach adopted by EPC. The momentum factor (being a 12 month look-back and an equal weighted basket of both long and short positions) demonstrates a superior nominal return to the benchmark, albeit with significant additional risk (being volatility).

EPC's approach encapsulates the diversification of selection parameters and the layering of risk management. Importantly we are not seeking to obtain the highest return. What we are seeking is to achieve superior risk adjusted returns that will, over the medium to long term, provide a robust return stream that adds value in rising markets, provide style diversification benefits to broad equity portfolios and preserve capital in volatile negative markets.

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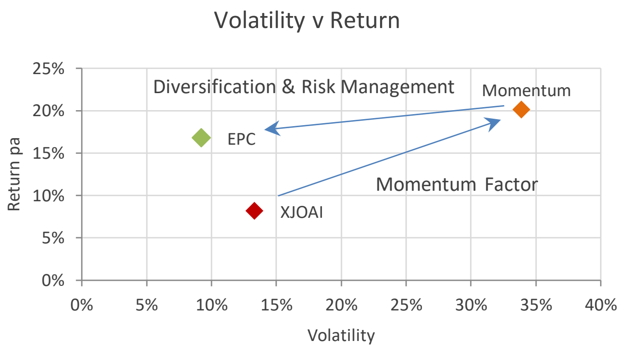


We are index unaware

We are index unaware and pay no attention to index weights at either a stock level or a sector level.

Our stock exposure will be a function of the strength of our stock selection process. Each index constituent has an equal opportunity to form part of the portfolio, subject to liquidity hurdles, momentum strength and reversion hurdles.

Our sector exposure is a function of the stock selection process. We will tend to have an exposure to particular sectors that have a deep pool of potential candidates (i.e. where a sector has a long list of constituents).

As a result, we offer a concentrated portfolio that is materially different to the index and large managers that inadvertently hug the index due to their size.

We are not style neutral

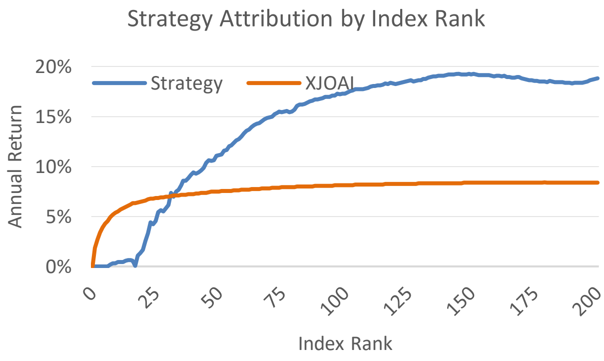
Obtaining a neutral exposure to style or factors (value, size momentum, volatility, quality etc.) can dilute any potential alpha source. Effectively the risk management process can dissipate the alpha generation process leading to poor outcomes.

We are unambiguously seeking to harvest the momentum premium. Our research and numerous academic studies support the existence of the momentum premium in the local equities market with risk and return attributes superior to other factors.

We will have a mid and small cap bias

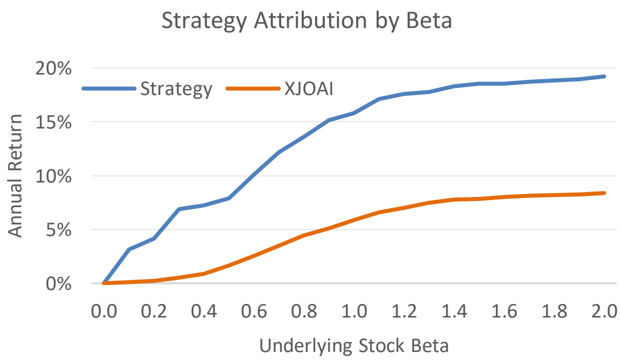
While we are seeking to harvest the momentum factor, we will also have a potential residual exposure to size (mid and small) and volatility (low) due to our stock selection process and our portfolio construction process, respectively.

The strategy will naturally have a bias towards mid and small cap stocks relative to the S&P/ASX 200 index. This makes inherent sense given the propensity for mid and small caps to produce returns as a multiple of index returns. Importantly it is not a small cap focused strategy.



We will derive returns from low beta and volatility

The Strategy derives meaningful returns from stocks that have a beta less and 1.0. This is also reflected in the returns from benchmark over the analysis period (Jun 00 to August 21). This is consistent with academic and our own research whereby lower beta stocks tend to out-perform high beta stocks (the so-called beta anomaly). This anomaly is contrary to the concept that higher beta names should reward investors with higher return given the higher risk. In reality, lower beta names consistently out-perform higher beta names.



Average stock volatility over the analysis period has been about 34%. Note, this is higher than the average index volatility due to diversification benefits. At exceeding low levels of individual stock volatility, the Strategy tends to under-perform that of the benchmark.

Note underlying stock volatility of less than 20% annualized occurs about 20% of the time in the analysis period (June 2000 to August 21). We would argue that low stock volatility periods tend to create an environment where all stocks do well, dispersion narrows and stock correlations increase, thereby reducing the opportunity set.

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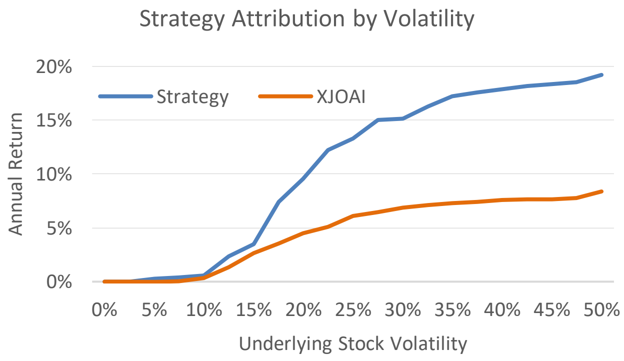
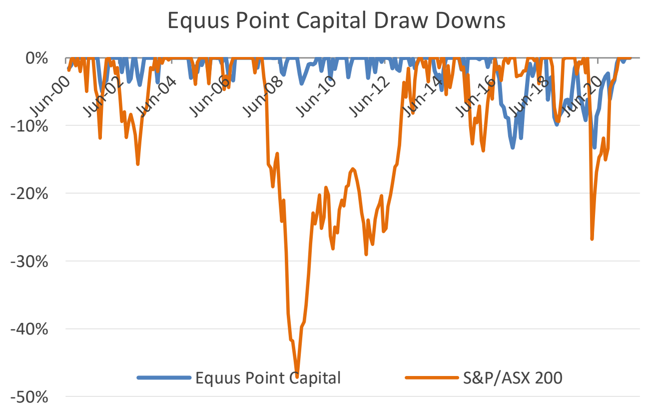
However, at moderate levels of volatility the Strategy successfully derives meaningful returns. At high levels of stock volatility the strategy continues to provide positive returns, albeit this is principally derived from the short side of the portfolio. The index, however, tends to flatline in terms of returns at higher levels of underlying stock volatility.



We will experience drawdowns

Drawdowns are an inevitable outcome of investing. We do however view capital preservation as one of the key outcomes of the strategy and ideally seek to have drawdowns limited in size and duration.



Assessing drawdown in isolation fails to consider whether the drawdown is consistent given the level of volatility a strategy possesses.

Generating a return stream cannot be achieved without taking on a degree of risk. That is, an investor needs to accept a degree of volatility and risk for any level of expected return. Higher returns invariably mean taking on additional risk (i.e. volatility). With increasing volatility the risk of larger drawdowns will also increase.

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Net Monthly Performance

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Risk Characteristics	
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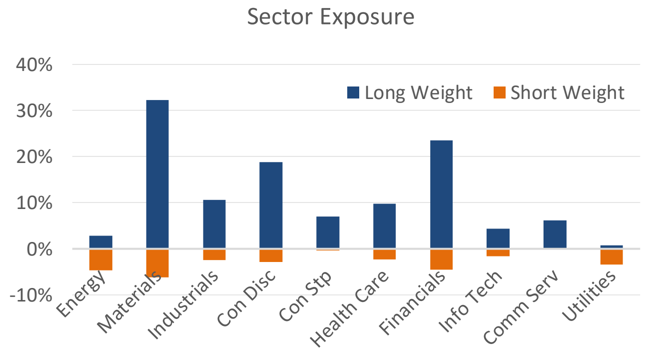
Gross Monthly Performance

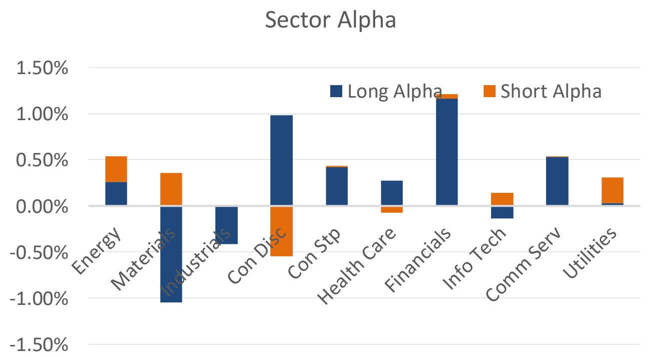
Asset	Positions	Weight	Contrib	Alpha
Long	82	116.1%	4.71%	2.05%
Short	33	-31.0%	-0.05%	0.52%
Futures		-53.2%	-1.44%	0.65%
Cash		14.9%	0.00%	0.00%
		100.0%	3.22%	3.22%
Cash				
Excess				

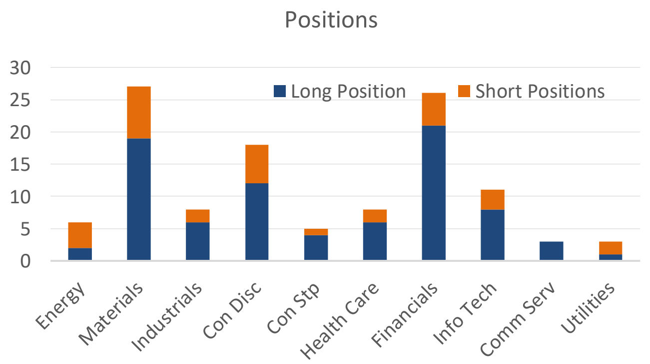


Exposure and Gross Monthly Alpha

Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	2.84%	-4.71%	-1.87%	0.54%
Materials	32.24%	-6.26%	23.30%	-0.68%
Industrials	10.58%	-2.42%	8.16%	-0.40%
Cons Disc	18.87%	-2.81%	16.05%	0.44%
Cons Staples	7.03%	-0.29%	6.73%	0.43%
Health Care	9.80%	-2.25%	7.55%	0.20%
Financials	23.46%	-4.56%	18.91%	1.21%
Info Tech	4.39%	-1.61%	2.78%	0.00%
Comm Serv	6.14%	0.00%	6.14%	0.53%
Utilities	0.77%	-3.44%	-2.66%	0.31%
Stock Total	116.12%	-28.34%	85.10%	2.58%
Futures			-53.21%	0.65%
Cash			14.90%	0.00%
Total			100.00%	3.22%

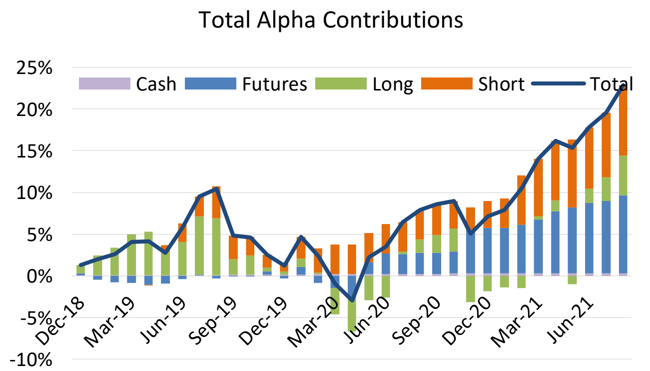
Net exposure including futures	31.9%
Gross exposure excluding futures	147.1%
Gross exposure including futures	200.3%





Major Alpha Contributors

Name	Weight	Contrib	Alpha
Top Five Contributors			
Domino's Pizza	3.77%	1.17%	1.09%
Uniti Group Limited	3.02%	0.67%	0.63%
Pilbara Minerals	1.95%	0.46%	0.42%
Hub 24	1.71%	0.39%	0.36%
Beach Petroleum	-2.42%	0.30%	0.36%
Bottom Five Contributors			
Codan Limited	2.35%	-0.25%	-0.30%
Mineral Resources	2.31%	-0.27%	-0.33%
Red Bubble	-1.09%	-0.38%	-0.36%
Reece Limited	3.35%	-0.39%	-0.46%
Champion Iron Ltd	1.65%	-0.63%	-0.72%



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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 using 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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