Equus Point Capital Market Neutral Strategy

Performance Update 30 September 2021

Net Returns	1m	3m	6m	1Yr	2yr pa	Incept pa
Equus Point Capital	-1.75%	2.06%	4.58%	9.31%	5.66%	4.99%
Cash	0.01%	0.03%	0.05%	0.11%	0.29%	0.60%
Excess v Cash	-1.76%	2.03%	4.53%	9.20%	5.37%	4.39%

Risk Characteristics	
Volatility	7.7%
Beta	0.12
Correlation to S&P/ASX 200	0.27
Sharpe Ratio	0.57
Drawdown	12.6%

Commentary

The Strategy returned -1.75% 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 -1.49% alpha for the month, with long exposures contributing -1.68% alpha and a modest short exposure contributing +0.19% alpha. Our beta positioning contributed -0.58% alpha.

The volatility of returns since inception is 7.7% annualized versus 17.5% 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%. Over the same period the beta and correlation of returns to the market has been 0.12 and 0.27, respectively. Effectively the Strategy's returns have been achieved with lower volatility than the index independent of market movements and direction.

Positive alpha contributions from stock positions included:

- Gold (+0.78% alpha)
  - Regis Resources +0.43%
  - St Barbara +0.32%
  - Evolution Mining +0.16%
- Financials (+0.41% alpha)
  - Magellan Financial 0.23% short position
  - AMP +0.22% short position
  - Virgin Money +0.11%
  - Ingenia Communities +0.11%
- Consumer Discretionary (+0.24% alpha)
  - IDP Education +0.22%
  - Domino's Pizza +0.13%
  - Corporate Travel +0.09%

Negative alpha contributions included:

- Energy (-0.66% alpha)
  - Beach Petroleum -1.07%
- Materials ex gold (-1.66% alpha)
  - Mineral Resources -0.38%
  - Bluescope Steel -0.34%
  - Orica -0.24
  - Sims Group -0.16
  - Orora -0.14%
  - Iluka -0.12%
- Healthcare (-0.45% alpha)
  - Pro Medicus -0.28%
  - Resmed -0.17%
- Communication Services (-0.18% alpha)
  - Uniti Group -0.30%

Recently there has been a multitude of issues that have alarmed investors and put both equity and bond markets on notice. Whilst we are a manager of a systematic strategy, we are not immune to, and take great interest in the threats to economies / markets and how they might play out.

The current risk issues include (but are not limited to):

- Energy crisis in Britain where oil imports and logistics have severely impacted transportation, and by inference the delivery of goods
- B,lackouts in China as a result of insufficient coal supplies. Normally heavy industry is required to reduce energy use when supply is tight, but his has now extended to residential use. We would note that the lack of coal to supply China's electricity generators is partly self-induced given the restriction of Australian coal to Chinese ports in retaliation to the request for an investigation of origins of Covid.
- A doubling of oil prices over the last twelve months, which will feed into inflation concerns
- Gas supply constraints in Europe leading to a 500% increase in gas prices this calendar year
- A halving in the price of iron ore from $220 USD a tonne to $110 USD a tonne over the last two months as China has reduced steel production, partly due to energy scarcity and partly due to the over investment in infrastructure and apartments.
- Collapse of the property developer Evergrande in China with more than $300b US in debt and fears that this will be China's Lehman moment.
  - Now we are not Chinese experts and it is still early days, but one would expect the Chinese government will not let the risk of failure to ripple through the economy. What is clear is equity holders will be wiped out and debt holders are more likely to be sophisticated and foreign investors, and as

such will bear the brunt of the Evergrande fallout. Restructuring of induvial projects will ensure home buyers are not disadvantaged and civil unrest avoided.

- Geopolitical risks between the US and China, particularly over Taiwan and the South China Sea's
- Debate and uncertainty on the raising of the US debt ceiling
- The delta variance of Covid 19 surging both home and abroad, and the threat of new variants emerging
- Closer to home, the ongoing lock downs in NSW and Victoria, although vaccination rates point to a relaxation of these lockdowns in coming weeks. Certainly overseas experience indicates vaccination reduces transmission rates, reduces the severity of symptoms and reduces the likelihood of hospitalization and mortality rates.
- Expectations of the US Federal Reserve tapering its unprecedented bond buying program, which have played a major role in supporting asset prices since the GFC and rapidly expanded during the last year in response to the economic issues brought about by Covid.

Much of the above is temporary in nature, meaning that whilst they individually represent a risk to markets, they do tend to find a resolution and digested.

In more recent weeks the immediate concern has been rising inflation in the US. Inflation represents a potentially greater structural risk that can dominate markets for an extended period. And remember there is an entire generation of professional money managers that have not had to manage investments through inflation.

In September the US annual inflation rate was running at 5.2%, with the US Federal Reserve stating that this is viewed as 'transitory' (note: in March, not a single one of the two dozen or so Federal Reserve Board members and Federal Reserve Bank presidents saw consumer inflation higher than 2.6 per cent over the course of 2021). Whilst time will tell if the rise in inflation is transitory or structural it is worth considering how the risk-on / risk-off is being viewed by market practitioners. The risk-on camp is firmly of the view that the recent rise in inflation is temporary and reflects short term supply bottlenecks. The risk-off camp is more cautious and fear that the rise in inflation is a longer-term issue that will dominate bond and equity markets going forward. Add to the equation low growth and we have the conditions for stagflation.

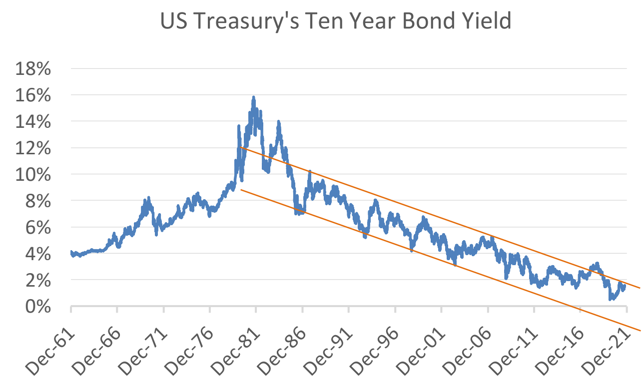
To quote Wharton's finance professor Jeremy Siegel, the biggest threat facing Wall Street is Federal Reserve chair Jerome Powell stepping away from easy money policies much sooner than expected due to surging inflation.

"We all know that a lot of the levity of the equity market is related to the liquidity that the Fed has provided. If that's going to be taken away faster, that also means that interest rate hikes are going to occur sooner," he noted. "Both those things are not positives for the equity market."

The following chart is US annual inflation over the last 25 years. At 5.3% US inflation is at its highest level since the temporary spike during the GFC, otherwise you need to really go back to the end of the previous inflationary period in the 1980's.

Put simply, rising inflation would require the US Federal Reserve to reverse its current dovish stance and bring forward tapering plans, which have largely supported asset prices post the GFC and accelerated through Covid.

To cut a long story short, the ingredients are there for inflation to be more than transitory. Higher inflation will lead to higher bond rates (i.e. higher risk-free rates). This in turn will place pressure on equity markets. We have already seen a doubling of US and Australian ten year bond yields over the last twelve months that now threatens to break out of the long term downward trend established in the 1980's.



To put the US equity market into perspective, the following two charts are from Chart of the Day. The first chart is the Dow Jones adjusted for inflation going all the way back to 1900. The second is the S&P 500 adjusted for inflation from 1950. If history is a guide, when US indices have traded at or above resistance in the past, markets have struggled thereafter.

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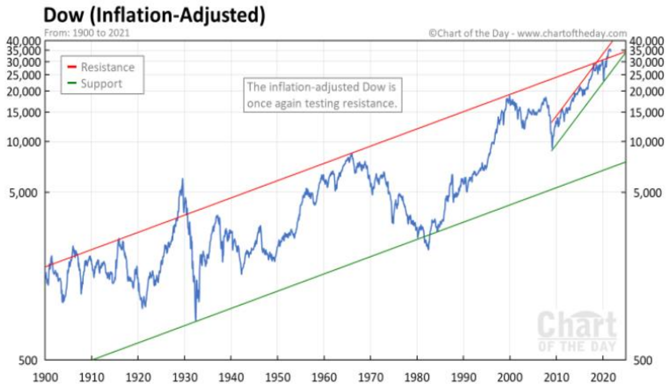
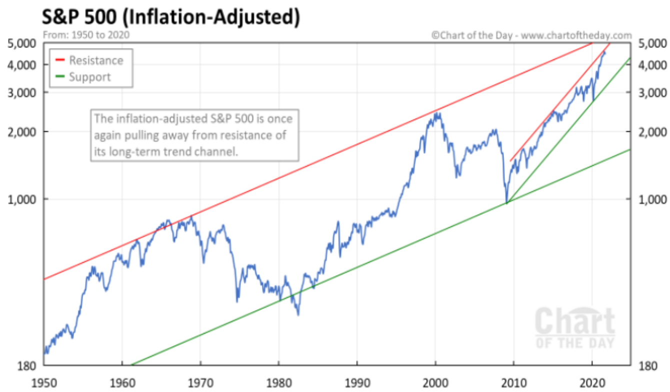
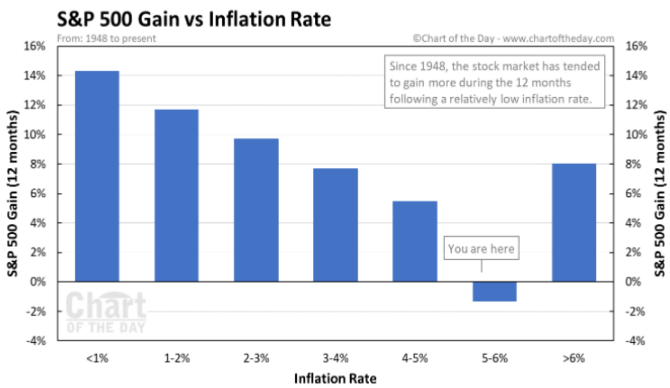




Furthermore, elevated inflation levels are more commonly associated with periods of equity under-performance. The following chart, again courtesy of Chart of the Day, summarizes the returns of the S&P500 since 1948.



So what does all this mean for equity markets. Well, lets bring it back to the required excess return equity markets require over the risk-free rate. This return compensates investors for taking on the higher risk of equity investing. In Australia the equity risk premium (ERP) has averaged about 5% over the last twenty years, but has been as low as 4% and as high as 8% during the depths of the GFC and Covid.

If we were to assume a constant equity risk premium of 5% and the risk-free rate doubles from 1.5% to 3%, then that would imply a near 20% decline in equity markets.

With elevated equity market valuations supported by unprecedented monetary policy, risks to the downside are rising. Atul Lele, Bridgewater's portfolio strategist, proposed recently that diversification is both more important and more difficult than ever in a global environment where there are "risks everywhere".

"From an alpha perspective, it's never been more important to find that broad and uncorrelated alpha and broaden the sources of potential alpha to alpha streams such as defensive alpha, which can be very valuable in this type of environment," he said.

We would concur. We offer a strategy that provides investors with a more balanced approach to investing in these testing times provides greater protection, including:

- participation to the upside should markets continue to appreciate;
- has some inbuilt protection should markets become more volatile to the downside;
- a less volatile return stream; and
- uncorrelated to equity market direction, or other asset classes, providing diversification benefits.

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Net Monthly Performance

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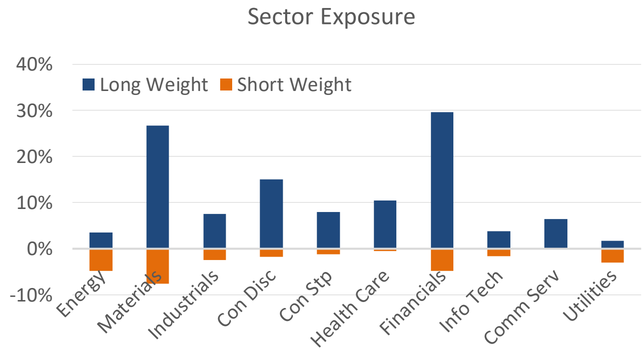
Gross Monthly Performance

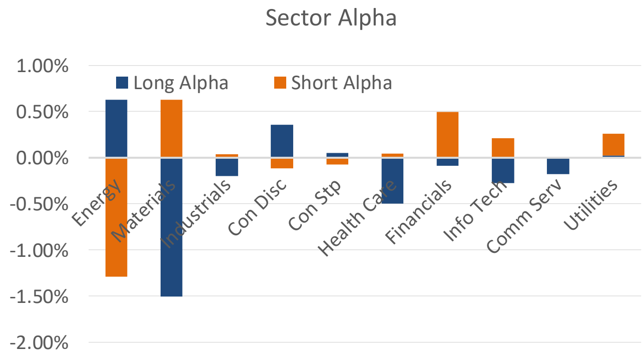
Asset	Positions	Weight	Contrib	Alpha
Long	82	112.9%	-3.90%	-1.68%
Short	33	-31.2%	0.88%	0.19%
Futures		-44.6%	0.95%	-0.58%
Cash		18.3%	0.00%	0.00%
		100.0%	-2.07%	-2.07%
Cash				0.01%
Excess				-2.08%

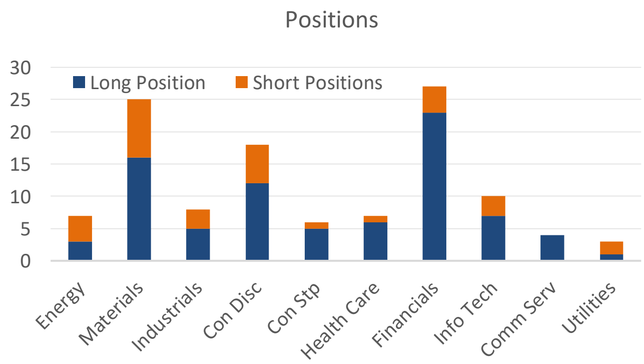


Exposure and Gross Monthly Alpha

Sector Name	Long Weight	Short Weight	Active Weight	Alpha Contrib
Energy	3.57%	-4.74%	-1.17%	-0.66%
Materials	26.75%	-7.56%	15.60%	-0.88%
Industrials	7.49%	-2.43%	5.06%	-0.16%
Cons Disc	15.05%	-1.73%	13.32%	0.24%
Cons Staples	7.96%	-1.18%	6.78%	-0.02%
Health Care	10.43%	-0.45%	9.99%	-0.45%
Financials	29.61%	-4.86%	24.74%	0.41%
Info Tech	3.81%	-1.59%	2.22%	-0.06%
Comm Serv	6.47%	0.00%	6.47%	-0.18%
Utilities	1.74%	-3.06%	-1.31%	0.26%
Stock Total	112.88%	-27.59%	81.70%	-1.49%
Futures			-44.56%	-0.58%
Cash			18.30%	0.00%
Total			100.00%	-2.07%

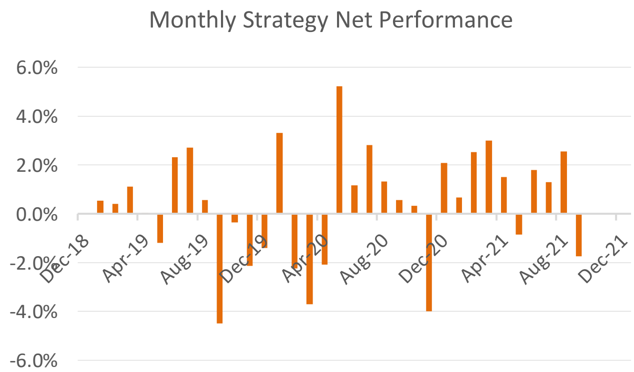
Net exposure including futures	31.2%
Gross exposure excluding futures	144.1%
Gross exposure including futures	188.6%





Major Alpha Contributors

Name	Weight	Contrib	Alpha
Top Five Contributors			
Whitehaven Coal Ltd	1.74%	0.40%	0.44%
Regis Resources Ltd	-2.31%	0.46%	0.43%
St Barbara Limited	-2.28%	0.36%	0.32%
Magellan Financial	-1.43%	0.28%	0.23%
AMP Limited	-2.69%	0.27%	0.22%
Bottom Five Contributors			
Iress Market Technology Ltd	1.33%	-0.32%	-0.29%
Uniti Group Limited	2.75%	-0.34%	-0.30%
Bluescope Steel	2.46%	-0.41%	-0.34%
Mineral Resources	2.17%	-0.44%	-0.38%
Beach Petroleum	-2.60%	-0.98%	-1.07%



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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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