Suitable for wholesale/sophisticated investors

Adding returns and resilience to Australian equities

Volatility markets are well suited to provide investors with both **attractive returns** and **cost-effective protection***. This paper explores how the **SouthPeak Australian Equity Fund** combines passive equities with volatility strategies to target higher returns and better resilience.

The SouthPeak Australian Equity Fund ('SAEF') aims to consistently outperform the S&P/ASX200 Index, with additional outperformance in large equity falls. Our goal is to provide a differentiated fund that investors can use to improve their expected returns while also making their portfolios more resilient.

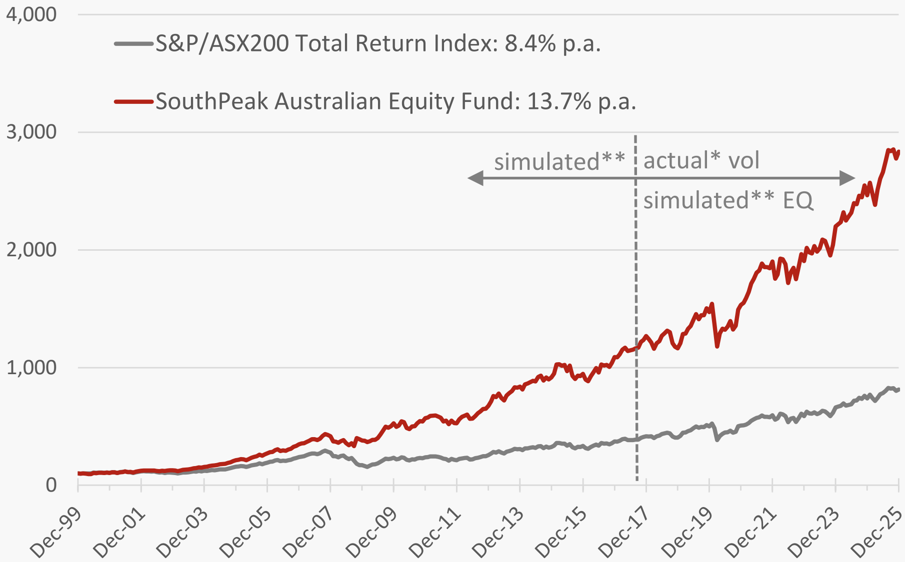
> *for equity investors seeking consistent outperformance with lower drawdowns, lower sequencing risk and greater compounding benefits*

While the fund is expected to launch in early 2026, we have been using the underlying systematic volatility alpha and protection strategies in our alternative fund since 2017. Further, one of the benefits of a systematic approach is that performance can be simulated over a longer period.

The performance presented in this paper combines the actual performance of SouthPeak's systematic volatility strategies since October 2017 (sized as per the equity fund) with simulated performance of the same strategies from January 2000 to October 2017.

** For a discussion of how volatility can be used to create defensive alpha and cost-effective protection see our paper 'Volatility for alpha and protection'.*

Figure 1: Performance of the strategies in the SouthPeak Australian Equity Fund



annualised return	1 year	3 years	5 years	since Oct 2017	since Jan 2000
SAEF	15.0%	14.2%	13.1%	11.3%	13.7%
S&P/ASX 200	10.3%	11.4%	9.9%	9.4%	8.4%
outperformance	+4.7%	+2.8%	+3.2%	+1.9%	+5.3%

**Fund returns from Oct 2017 are estimated from the actual returns of the SAEF's strategies in SouthPeak's real diversification fund together with simulated equity index total returns. Returns are in AUD, estimated, unaudited, subject to adjustment, and net of fees and expenses.*

***Returns until Sep 2017 are simulated. Simulations have been created using models with assumptions and may have the benefit of hindsight. No actual investments were made during the simulation period. There can be sharp differences between simulated and actual results for many reasons. Actual investment techniques and trading decisions made vary over time and may be different from those used in the periods shown. Fund returns are in AUD and are net of fees and expenses.*

Equities returns are the S&P/ASX200 Total Return Index, AS51T Index.

See important information on the last page. Past performance is not an indicator of future performance. Source: Bloomberg, SouthPeak.

Investment approach

The SouthPeak Australian Equity Fund combines three building blocks.

Passive equity portfolio

Systematic approach that invests in physical equities in line with the index, aiming to minimise tracking error and deliver a tax-efficient equity market return.

Volatility alpha to improve returns

Systematic, dynamic, defensive volatility alpha aiming to capture the volatility risk premium while mitigating the impact of extreme market events.

Protection to improve resilience

Systematic, dynamic, cost-effective protection aiming to deliver strong and reliable gains during large equity falls while limiting the cost at other times.

Reliable outperformance

We believe the 'structural alpha' that is the volatility risk premium provides a tail wind that is logical and sustainable and is well-placed to deliver persistent returns going forward, against a backdrop of a potentially changing macro environment in which some investment approaches may struggle.

We also believe that cost-effective protection strategies have a role to play in managing the risk of equity portfolios*.

It is the combination of these strategies that allows the fund to target the dual goals of consistent outperformance and resilience to large equity falls.

** For further information see our paper 'Efficient equity protection to improve returns'.*

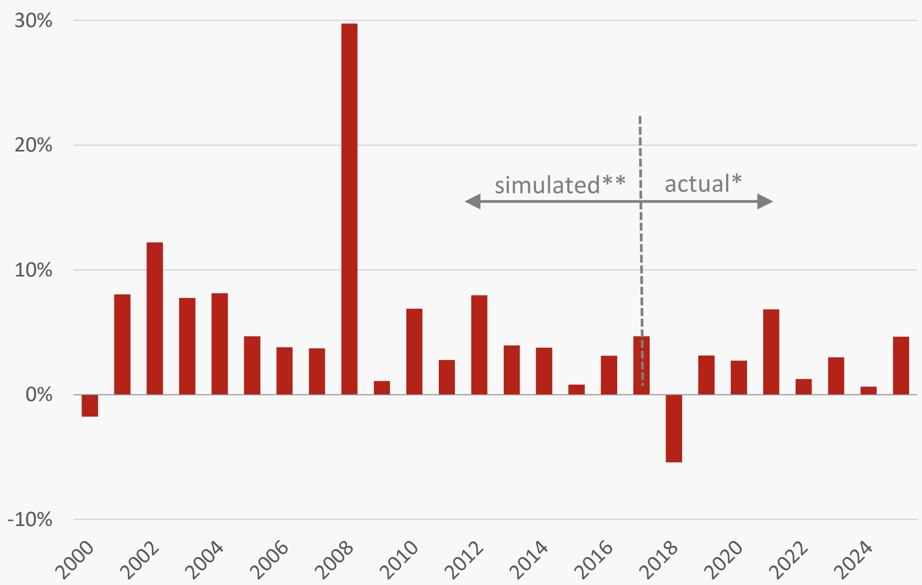
Better resilience

As well as aiming to provide consistent outperformance, we also try to improve the resilience of an equity investment by targeting greater outperformance in large equity falls.

While the figure below highlights the outperformance in 2008, over the performance period there were eight times that Australian equities lost more than 10%. Across these periods SouthPeak's volatility strategies would have added an average outperformance of 6.6%.

Over this period, the worst drawdown for the S&P/ASX200 Total Return Index would have cost an investor 5.6 years of average annual returns, compared to 1.7 years for the SouthPeak Australian Equity Fund.

Figure 2: Annual outperformance added by SouthPeak's volatility alpha and protection



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persistent outperformance most years would have been generated by the volatility alpha strategy, while the spike of additional outperformance in 2008 (GFC) would have been driven by the protection strategy

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Reducing equity risk without sacrificing returns

The SouthPeak Australian Equity Fund could be considered as part of any equity portfolio, as it aims to provide consistent outperformance with low tracking error. But, because of its objective to provide greater outperformance in large equity falls, it may be particularly relevant for retirees or individuals approaching retirement.

Investors seeking higher returns often invest in portfolios that have a large allocation to growth assets. While this approach should result in higher long-term returns, growth assets are subject to large and sudden losses. For investors that are in or near retirement, the timing of these losses introduces sequencing risk, which could result in lower long-term returns despite being invested in a growth portfolio.

To address this risk, investors should explore ways to decrease the risk of their growth assets without decreasing their expected return. The goal of the protection strategy in the SouthPeak Australian Equity Fund is to improve resilience to large equity falls.

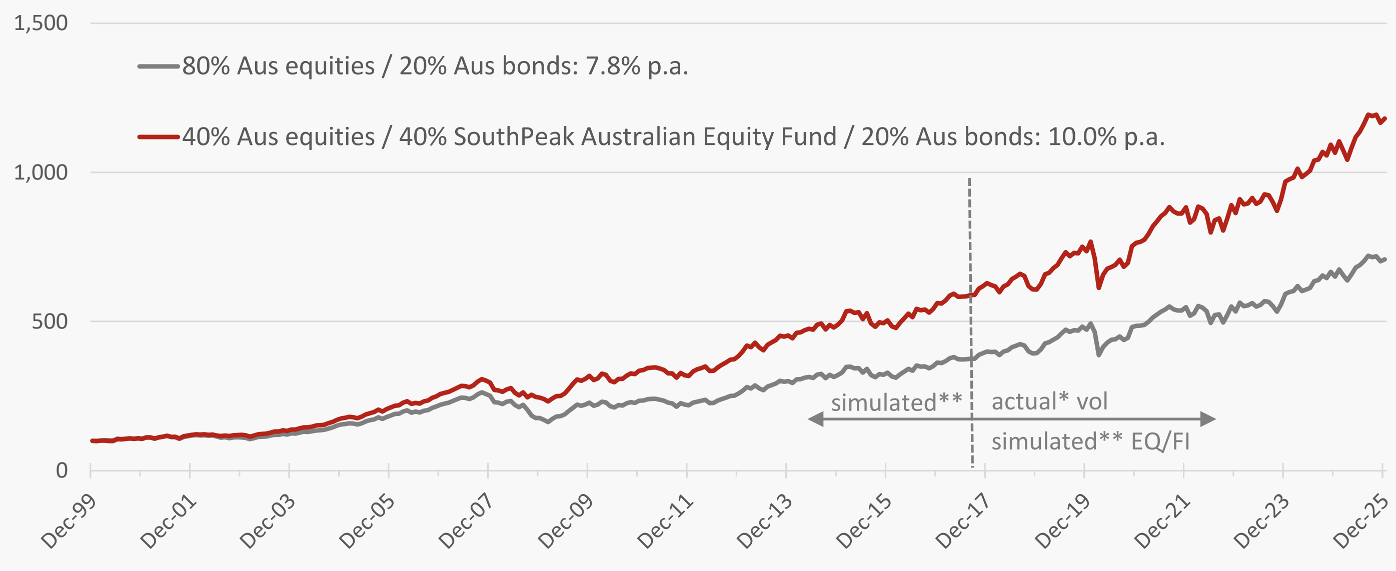
Including the fund as part of an equity allocation could allow investors to reduce the risk of their portfolio without reducing their allocation to growth assets.

To illustrate, the figure below simulates a growth portfolio of 80/20 Australian equities and bonds and a portfolio that moves half of its equities to the SouthPeak Australian Equity Fund.

Over the period examined this portfolio would have earned an additional 2.2% p.a. and experienced lower drawdowns, with the worst drawdown losing 2.5 years of average annual returns, compared to 4.8 years for the 80/20 portfolio.

> “ *the SouthPeak Australian Equity Fund aims to help investors reduce portfolio risk while improving returns*

Figure 3: Adding the SouthPeak Australian Equity Fund to a growth portfolio of Australian bonds and equities



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Equities returns are the S&P/ASX200 Total Return Index, AS51T Index. Bond returns are the AusBond Composite 0+ Yr Index, BACM0 Index. See important information on the last page. Past performance is not an indicator of future performance. Source: Bloomberg, SouthPeak.

Why combine volatility alpha with equities

While asset allocation is the most important decision facing investors, the next challenge is how to gain access to the desired asset classes. As part of this step, investors often look to add outperformance or 'alpha' to the underlying asset class returns.

A common way for investors to try to outperform an equity index is to use an active manager who applies their 'stock picking' skill. But not only is stock selection difficult, it is also difficult for investors to identify managers that will deliver persistent stock selection alpha.

Another way is for investors to implement specific 'style' tilts (such as value, growth, quality), in the hope that their selected styles will outperform the index. While this approach may have a clearer return driver than idiosyncratic stock picking skill, styles can go through long periods of underperformance, and it may be challenging to forecast when a particular style will do well.

A third way is to use so called 'portable alpha', which involves separating the alpha source from the underlying asset class. This may allow a broader and potentially diversifying alpha universe.

However, it's important to understand the driver behind the alpha and assess its likely persistence, including how it may perform in different market conditions.

The SouthPeak Australian Equity Fund combines passive equities with portable alpha from equity volatility markets.

Being driven by a clear risk premium that we believe will persist, we think volatility strategies can be an excellent source of portable alpha.

Finally, it is also important to consider efficient implementation, including avoiding unfavourable tax outcomes* (e.g. treatment of franking credits and capital gains).

** This is not tax advice. Investors should seek their own tax advice.*

Why SouthPeak

We are an independent boutique that has managed money for large institutional investors in Australia since 2012. We seek to harvest persistent and differentiated returns from global volatility markets using a proprietary systematic approach that has been used and refined over more than a decade.

We use volatility or options markets to generate returns because, even though options can be mathematically complex, at a high level we think they are intuitive; they're like an insurance contract that transfers risk between two parties, like car insurance or house insurance. And, like other insurance, options tend to be priced with a risk premium, which we expect to persist. In an environment where many assets may be expensive, asset correlations may be uncertain and it is hard to know what investments will do well, we especially like the simplicity and expected persistency of the volatility risk premium and the tail wind it can provide for returns.

> *"options have features that can help us shape the return profile of our investments; we can incorporate risk-management into our volatility alpha strategies to make them more defensive, and we can use cost-effective protection strategies to further improve resilience*

Important information

DISCLAIMER. This document has been prepared for wholesale investors for the purpose of providing general information, without taking account any particular investor's objectives, financial situation or needs. It does not constitute a recommendation, offer, solicitation or invitation to invest. Investors should obtain their own independent advice.

This document contains "forward looking statements" which are based on assumptions that contain risk and uncertainty, and the views of SouthPeak's principals at a point in time. These are subject to change without notice. Actual results and events may differ materially from those in any forward-looking statements.

No representation is made that SouthPeak's strategies, investment process or risk management will be successful, or that any investor will not suffer loss of principal. Subject to any law to the contrary, SouthPeak disclaims all liability for any loss or damage suffered by any person acting on information provided in, or omitted from, this document.

Contact us

Level 21, 25 Bligh Street, Sydney NSW 2000, Australia

t: +61 2 8071 4321 | invest@southpeakim.com | www.southpeakim.com

About SouthPeak

SouthPeak is a specialist volatility manager providing alpha and protection.

We aim to deliver attractive outperformance with low correlation to bonds and equities.