

Fund performance

Global markets continued to climb in June, despite spikes in the cases of COVID-19 infections, as economies reopened. A brief market pullback in early June stabilised as the US Federal Reserve stepped in with an increased bond buying program, together with improved US retail, unemployment and housing construction data.

The S&P 500 climbed 2% overall in June, however much of the US rally centred on technology and small cap names. The Nasdaq index rose 6%, and the small cap Russell 2000 was 3.5% higher. Globally, the MSCI World Index (in USD) closed the month up 2.7%.

Globally, volatility remains significantly elevated despite the market rally. The CBOE VIX volatility index spiked strongly again in early June, and remained elevated above its May levels for the majority of the month.

In Australia, a strong market rally at the start of June accompanied the easing of restrictions and the gradual reopening of businesses. However, this tapered off as the month progressed, with worsening infection rates and economic data from the US denting market confidence. Unlike the US, larger capitalisation shares strongly outperformed their smaller counterparts in June. The S&P ASX 100 ended the month up +3.02%, while the smaller capitalisation S&P/ASX Small Ordinaries fell -1.95%. The AUD continued its rally against the greenback, climbing 3.7% against the USD.

Within Australian small cap stocks, Consumer Staples was yet again the weakest performing sector (-6.52%), closely followed by Communication Services (-6.33%). Real Estate stocks were one of the few positively performing sectors in June, up 1.8% for the month.

Utilities also outperformed, with Infigen Energy (+57.9%) climbing on the announcement of a higher, rival takeover bid from Spanish company Iberdrola. The S&P/ASX quarterly index rebalance was implemented successfully in mid-June, after turbulent markets saw the cancellation of the March rebalance. Saracen Minerals and NextDC were promoted to the ASX100 Index, while Whitehaven Coal and Unibail-Rodamco-Westfield were demoted to the small caps universe.

The Blue Orbit Australian Small Caps Systematic Alpha Fund returned 0.19% in June, outperforming its benchmark (S&P/ASX Small Ordinaries Accumulation index) which returned -1.95%.

As at 30 June 2020	1 Month	3 Month	FYTD	1 Year	Since Inception ²
Blue Orbit Australian Small Cap Systematic Alpha Fund ¹	0.19%	23.15%			-15.38%
Benchmark ³	-1.95%	23.90%			-7.44%
Excess Return	2.15%	-0.76%			-7.94%

1. Returns shown are Net of Fees. Returns shown for the Lead Series (October 2019).

2. Inception Date is 11 October 2019.

3. Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

Portfolio Facts

Fund Details	
Fund Valuation (AUD)	\$1,589,316
NAV unit price (Mid)	\$0.8462
Inception date	11 October 2019
Performance benchmark	S&P/ASX Small Ordinaries Accumulation Index
Buy/sell spread	0.20% / -0.20%
Distributions	Annually

Portfolio Characteristics

Characteristics	Portfolio	Benchmark
Number of securities	103	200
Market Capitalization	2,698	2,217
Active Share	49.2	0.0
Dividend Yield	3.5	3.6
Price/Earnings	16.2	14.5
P/E using FY1 Est	18.2	18.1
Price/Cash Flow	11.6	10.2
Price/Book	1.8	1.5
ROE	17.7	10.5
LT Debt to Capital	17.7	20.8

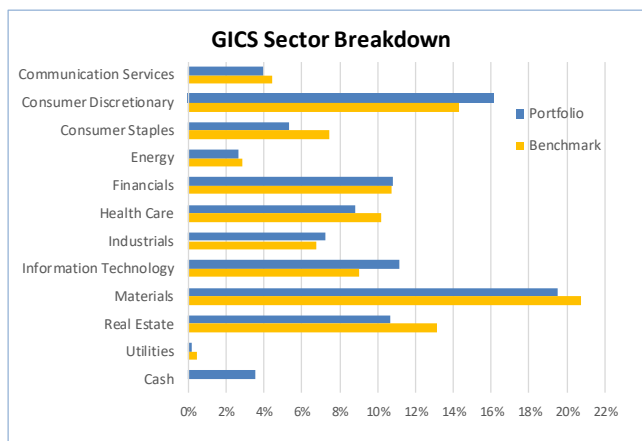
Top Ten Holdings	Portfolio	Benchmark
Technology One Limited	3.44%	1.21%
Super Retail Group Limited	3.33%	0.67%
Silver Lake Resources Limited	2.99%	0.98%
Appen Ltd.	2.97%	1.89%
Pro Medicus Limited	2.71%	0.58%
Seven Group Holdings Limited	2.70%	1.20%
Premier Investments Limited	2.68%	0.88%
Janus Henderson Group	2.59%	0.64%
Mineral Resources Lim	2.46%	1.78%
Bega Cheese Limited	2.37%	0.50%

Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Super Retail Group Limited	3.33%	0.67%	2.66%
Technology One Limited	3.44%	1.21%	2.23%
Pro Medicus Limited	2.71%	0.58%	2.13%
Silver Lake Resources Limited	2.99%	0.98%	2.00%
Janus Henderson Group	2.59%	0.64%	1.96%

Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
IOOF Holdings Ltd	0.00%	0.84%	-0.84%
Vocus Group Limited	0.00%	0.96%	-0.96%
IRESS Limited	0.00%	1.02%	-1.02%
IDP Education Ltd.	0.19%	1.36%	-1.16%
Steadfast Group Limited	0.00%	1.52%	-1.52%



Alpha Signal Attribution

Alpha Signal	1 Month Return	1 Month Excess	2 Year Annualised Excess Return	2 Year Annualized Tracking Error	2 Year Information Ratio
Small Ordinaries	-1.95%				
Defensive Alpha Signal	0.55%	2.50%	2.25%	4.42%	0.50
Quality Alpha Signal	-1.57%	0.38%	4.52%	6.79%	0.65
Trend Alpha Signal	0.21%	2.16%	0.06%	5.91%	0.01
Diversified Alpha Signal	-0.14%	1.81%	0.91%	3.40%	0.26
Systematic Alpha Portfolio (Model)	0.10%	2.05%	-3.65%	4.62%	-0.77
Blue Orbit Australian Small Caps Systematic Alpha Fund*	0.26%	2.21%	N/A	N/A	N/A

*Fund Returns in this table is shown Gross of Fees.

The Blue Orbit Systematic Alpha process is built from three individual underlying Alpha Signals, developed using proprietary internal quantitative research processes. The three individual Signals are well diversified with low to negative correlations, and designed to outperform in differing market environments.

The Diversified Alpha Signal is the combination of the individual underlying Alpha Signals, and is used as the main alpha input to construct the portfolio.

The Systematic Alpha Model is the target model portfolio that the strategy is traded towards. This model is a theoretical target, and its returns do not include fees or transaction costs.

The returns shown here for the Blue Orbit Systematic Alpha Fund are the gross returns of the live Fund for the relevant period, shown after transaction costs but before management or performance fees.

Australian Small Caps Systematic Alpha Fund (Wholesale)

Monthly Performance Report as at 30 June 2020



Sector Attribution

Sector Attribution	ASX Small Systematic			S&P/ ASX Small Ordinaries			Attribution		
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation	Selection + Interaction	Total
Consumer Discretionary	15.04%	6.82%	0.89%	13.30%	-1.52%	-0.28%	-0.01%	1.24%	1.23%
Information Technology	12.48%	-0.71%	-0.06%	9.99%	-4.31%	-0.40%	-0.07%	0.47%	0.40%
Materials	19.66%	0.68%	0.09%	22.10%	-0.66%	-0.24%	0.11%	0.26%	0.36%
Industrials	7.31%	0.43%	-0.02%	6.79%	-4.65%	-0.32%	-0.07%	0.39%	0.33%
Energy	2.19%	7.13%	0.12%	2.53%	-1.28%	-0.05%	-0.01%	0.18%	0.17%
Communication Services	4.21%	-2.14%	-0.11%	4.60%	-5.60%	-0.26%	-0.01%	0.15%	0.13%
Real Estate	10.68%	3.44%	0.35%	12.81%	1.84%	0.18%	-0.06%	0.17%	0.11%
Financials	11.67%	-3.02%	-0.32%	10.50%	-1.91%	-0.25%	0.04%	-0.15%	-0.10%
Utilities	0.12%	55.28%	0.05%	0.42%	56.67%	0.17%	-0.13%	0.00%	-0.13%
Health Care	8.48%	-1.79%	-0.14%	9.27%	-0.21%	0.00%	-0.03%	-0.14%	-0.17%
Consumer Staples	5.70%	-10.39%	-0.64%	7.68%	-6.52%	-0.50%	0.06%	-0.24%	-0.18%
Cash	2.47%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.01%	0.00%	-0.01%
Total	100%	0.20%	0.20%	100%	-1.95%	-1.95%	-0.20%	2.34%	2.15%

Size Attribution

Size Attribution	ASX Small Systematic			S&P/ASX Small Ordinaries			Attribution		
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation	Selection	Total
Total	100.00	0.20	0.20	100.00	-1.95	-1.95	0.87	1.28	2.15
Market Cap Quintile 1 (Large)	51.38	1.11	0.53	39.34	-0.02	0.02	0.32	0.51	0.82
Market Cap Quintile 2	20.01	-2.52	-0.51	26.80	-1.29	-0.35	-0.06	-0.22	-0.28
Market Cap Quintile 3	17.62	0.28	0.02	17.31	-3.39	-0.63	0.02	0.63	0.65
Market Cap Quintile 4	7.58	2.99	0.16	11.01	-1.11	-0.22	-0.02	0.30	0.28
Market Cap Quintile 5 (Small)	0.94	-0.93	0.00	5.31	-7.25	-0.40	0.23	0.07	0.30
Cash	2.47	--	--	--	--	--	-0.01	--	-0.01

Stock Attribution

Stock Attribution	ASX Small Systematic			S&P/ ASX Small Ordinaries			Attribution
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Total Effect
Top 5							
Kogan.com Ltd.	1.45%	31.22%	0.41%	0.45%	31.08%	0.11%	0.32%
Saracen Mineral Holdings Limited	2.04%	5.82%	-0.04%	1.68%	-7.63%	-0.22%	0.22%
Netwealth Group Ltd.	1.98%	8.21%	0.15%	0.39%	8.20%	0.03%	0.16%
Nick Scali Limited	1.12%	15.86%	0.16%	0.22%	15.71%	0.03%	0.15%
Sandfire Resources Limited	1.28%	15.63%	0.18%	0.44%	15.75%	0.06%	0.14%
Bottom 5							
Pro Medicus Limited	2.82%	-8.26%	-0.24%	0.59%	-8.22%	-0.05%	-0.14%
Data#3 Limited.	1.67%	-15.34%	-0.26%	0.41%	-14.98%	-0.06%	-0.17%
Healius Limited	0.02%	0.67%	0.00%	0.75%	25.51%	0.17%	-0.18%
Zip Co Ltd.	0.16%	-17.81%	-0.03%	0.72%	39.47%	0.13%	-0.19%
Bega Cheese Limited	2.55%	-16.67%	-0.46%	0.54%	-16.67%	-0.10%	-0.33%

Performance Commentary

Defensive Alpha Signal

The Defensive Alpha Signal outperformed the Benchmark by 2.5% in June.

The signal's stock selection within the Consumer Discretionary sector was a key contributor to outperformance in June. The overweight position in Harvey Norman (+10.5%) was the key stock contributor within this sector, together with the signal not holding PointsBet Holdings (-21.7%), which fell following promotion to the Small Ordinaries.

The signal's underweight to the gold sub industry went from a detractor in May to one of the key contributors in June. Key gold decliners over the month included Red 5 Limited (-38.5%) and Westgold Resources (-10.7%).

Quality Alpha Signal

The Quality Alpha performed in line with the benchmark, with an excess return of 0.38% in June.

Materials was the key sector contributor to outperformance for this signal, particularly strong stock selection within the gold sub industry. Saracen Minerals was elevated to the ASX 100 as part of the June index rebalance, with the benchmark missing out on the performance uplift from its strong price rally in the latter half of the month. The signal however maintained its holding in Saracen to the end of the month, which added 0.44% alone in relative outperformance. The signal was also overweight Kogan.com, whose price rose 31% during the month.

Additionally, the signal did not hold the poorly performing Red 5 limited (-38.5%) or Gold Road Resources (-7.7%), while being overweight in Alacer Gold (+4.5%).

The signal's stock selection within the Information Technology sector was a detractor, with an overweight to Data#3 Limited (-15%) and an underweight to Appen Ltd (+10.1%) a drag on performance.

Trend Alpha Signal

The Trend Alpha Signal performed strongly in June, outperforming the benchmark by 2.16%.

The signal's outperformance was primarily due to strong stock selection in the Materials and Information Technology sectors. Within Materials, the Gold subindustry was again a key contributor, with the signal overweight the strongly performing Ramelius Resources (+13.4%) and Bellevue Gold (+24.7%), while being underweight in Red 5 Resources (-38.5%). The signal maintained its overweight to Saracen Minerals post its elevation into the ASX 100 index, which saw it also benefit from the strong price rally in late June. In other materials, an overweight to Mineral Resources (+12.6%) was also a key contributor.

Within Information Technology, the signal was overweight in Appen Limited (+10.1%) and did not hold iSignthis Limited (an index deletion due to an extended market suspension since October 2019).

Diversified Alpha Signal

The Diversified Alpha signal outperformed in June, with an excess return of 1.81% over the Benchmark.

The outperformance of all three of its underlying component signals in June saw the Diversified signal similarly outperform the Benchmark. The Diversified signal benefited from the same strong stock selection within the gold sector, maintaining its overweight to Saracen Minerals post the Benchmark elevation to the ASX 100, and not holding Red 5 Limited (-38.5%). Underweights to CSR Limited (-9.6%) and Nufarm Limited (-24.3%) also added value.

The Signal's overweight position in Kogan Limited (+31.1%) and zero holding in iSignthis Limited (index deletion due to suspension) were also key contributors to outperformance in June.

Value Alpha Signal

The Value Alpha Signal is not currently in the model, but is managed as a paper portfolio in FactSet.

The Value Alpha Signal outperformed the Small Ordinaries in June by 2.7%. The signal benefited from good stock selection within Materials and Information Technology, and saw nearly 1.5% of value added through strong sector allocation.

The signal's key contributor was a large overweight to Infigen Energy (+56.7%), which rallied on the back of the second competing takeover offer from Iberdrola. Overweights to Aurelia Minerals limited (+35.9%) and Western Areas Limited (+15.8%) added value, as did the signal not holding iSignthis Limited.

Systematic Model versus Diversified Alpha Signal

The Systematic Model outperformed the Diversified Alpha Signal by 0.25% in June, and outperformed the benchmark by 2.05%.

The outperformance was primarily due to size allocation, with large stocks reversing their underperformance to beat the smaller end in June. The smallest quintile of stocks (returning -6.6%) significantly underperformed the largest quintile of stocks (returning 1.6%). As the Systematic model has a larger cap tilt than the Diversified signal, this overall size tilt added value in June.

Blue Orbit Systematic Alpha Fund Performance

The Fund returned a gross performance of 0.26% in June, an outperformance over its benchmark of 2.21%.

Sector based attribution shows the Fund's outperformance in June was entirely due to stock selection, with the Fund's sector constraints leading to near zero sector allocation effect on performance. Stock selection in the Consumer Discretionary, Information Technology and Materials sectors added the most value, with the signal overweight in Kogan Limited (+31.1%), Sandfire Resources (+15.8%) and Saracen Minerals (+6.1%). The signal also benefited from not holding iSignthis Limited (index deletion due to suspension) or Webjet Limited (-19.8%).

SpeedCast Limited (index deletion due to extended suspension in June) was a stock that was not held by the Fund - this had been triggering as a potential 'torpedo' on our filters since late 2019, so we had this marked as a 'do not hold' position in the Fund. SpeedCast went into suspension in January, and was finally removed from the benchmark in June. It has subsequently filed for US Chapter 11 Bankruptcy in July.

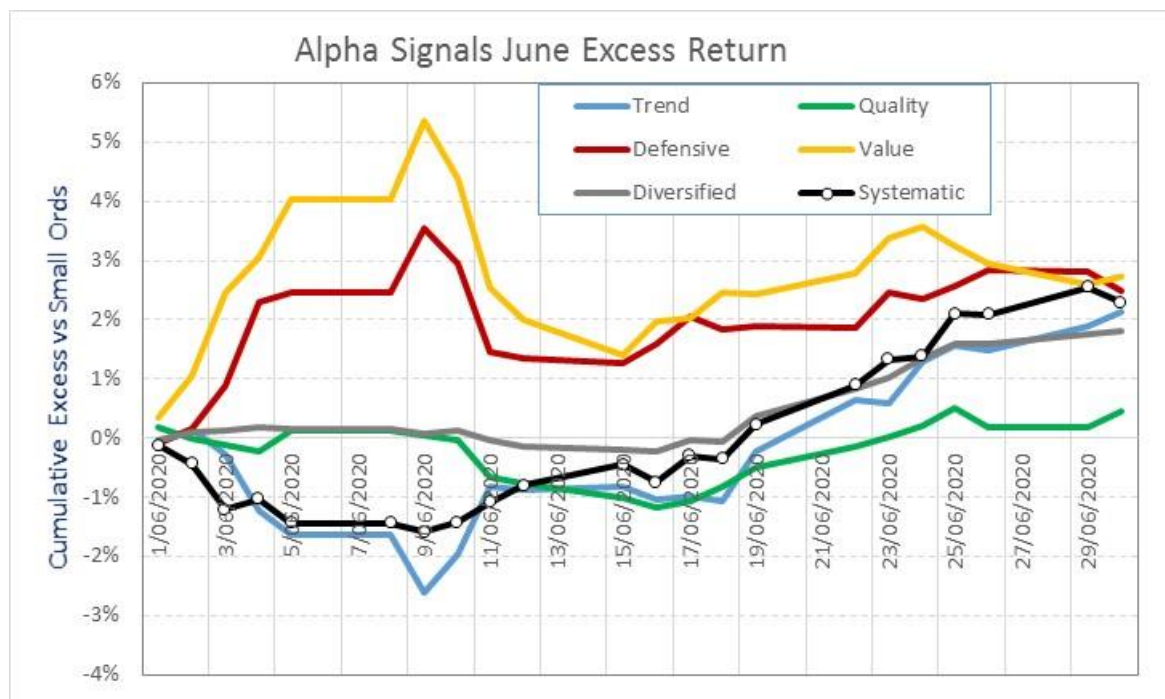
The size based attribution on page 3 shows that the fund overweight position to the largest stocks, and underweight to the smallest stocks, also contributed to the outperformance. This 7% outperformance is a minor turnaround from April and May, when the smallest stocks outperformed the largest by 24% and 9% respectively.

The utilisation of the torpedo finder is a key portfolio protection against stocks which are in serious distress and at risk of bankruptcy- being able to avoid positions in these stocks is a key contributor to protecting the Fund's performance in the longer term.

The live Fund also had a small outperformance of 0.16% against its Systematic model target over the month.

Signal Performance During the Month

The following chart shows the cumulative excess performance of the Alpha Signals during the month. The Value and Defensive Alpha Signals were very strong at the start of the month, continuing the rally from the end of May. At the same time Trend underperformed, as did the Systematic model. Interestingly there was a large divergence here between the Systematic and the Diversified, mostly due to smaller stocks outperforming. This rally reversed from the 10th onwards, with Trend outperforming, and Systematic outperforming the Diversified.



We have seen these short term rallies several times during April and May, where signals have good performance for 2-3 weeks before reversing direction.

Conclusion

Although overall the market continues to edge higher, the exuberance seems to be tapering across the higher risk ends of the spectrum. Market falls are almost immediately being met with ever larger and more extravagant stimulus measures, as governments and central banks step in to support their ailing economies and keep liquidity in the financial system. Despite the market rallies, there is still a huge deal of uncertainty as to how long and how severe the COVID-19 crisis will be globally. After a small respite in May, market volatility spiked strongly again in June, and remains at highly elevated levels.

The month of June saw the signals again perform in line with our longer-term back testing and expectations. All three alpha signals outperformed in June, with the portfolio construction adding value over and above the alpha signals as large capitalisation stocks also outperformed. We remain positioned for this period of higher volatility in the medium term, and will continue to monitor the market environment closely to see if any adjustments are required.

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