

# Global Small Caps Systematic Alpha Fund

## Quarterly Performance Report as at 30 June 2022



### Highlights

- The second quarter of 2022 saw the Blue Orbit Global Small Caps Systematic Alpha Fund return -9.38%, slightly down on the Benchmark return of -9.19%.
- AUD total returns of the Fund and Benchmark were helped by an 8.4% fall in the Australian dollar. Compare this with a >16% fall in the S&P 500 (in USD terms) over the quarter.
- There was significant signal volatility towards the end of June, with Value giving up much of its gains and Defensive rallying to be the best performing Signal.

| As at 30th June 2022                                           | 1 Month | 3 Month | 6 Months | 1 Year | Since Inception |
|----------------------------------------------------------------|---------|---------|----------|--------|-----------------|
| Blue Orbit Global Small Cap Systematic Alpha Fund <sup>1</sup> | -7.71%  | -9.38%  | -18.34%  |        | -13.63%         |
| Benchmark <sup>2</sup>                                         | -5.82%  | -9.19%  | -18.02%  |        | -16.42%         |
| Excess Return                                                  | -1.90%  | -0.19%  | -0.32%   |        | 2.79%           |

1. Fund inception Date is 5<sup>th</sup> October 2021. Performance for periods less than 1 year has not been annualised.

2. Benchmark is the MSCI World Ex Australia Small Caps index (with Net Dividends reinvested) in AUD. Source: MSCI

3. Fund returns shown are Total returns, calculated from unit prices. Returns are presented net of fees. Past performance is no indication of future performance

### Performance Commentary

The second quarter of 2022 saw continued high levels of uncertainty across all markets. The S&P500 was down 8.8% in April, fell another 8% in early May before recovering, but then lost 8.4% in June, to finish the quarter down 16.5%. The NASDAQ was down 22.4% for the quarter, with weakness across FTSE100 (-4.6%), DAX (-11.3%), CAC (-11.1%) and Nikkei (-5.1%). Brent Crude Oil increased 7.1% to close at US\$115/bbl, with gold dropping a little to US\$1817/oz. The Australian dollar fell 8.4% for the quarter against the US Dollar, fell 2.5% vs the Euro, and rose 2.5% against the Yen.

The Energy sector (-2.8%) was strong in April and May, but pulled back strongly in June. The defensive sectors of Utilities (+1.6%) and Consumer Staples (+0.1%) were positive. Six sectors dropped more than 10%, with Information Technology (-14.2%) and Communication Services (-13.8%) the worst. Portugal (+8.9%) and Hong Kong (+5.2%) were the standout countries for the quarter, with Singapore and Ireland the only other positive countries. Sweden (-23.0%) and Norway (-17.7%), NATO's newest applicants, both fell heavily, another 10 countries fell more than 10%, and United States (-9.0%) was also weak.

The MSCI World ex AU Small Cap Value index (-6.4%) outperformed the Growth index (-12.0%). Large stocks slightly outperformed small, with the two larger quintiles of stocks returning around -9.0%, and the smallest -12.0%.

For the Fund, sector allocation was good, evenly spread across Energy, Information Technology, Financials and Real Estate. The small underweight to Consumer Staples was a detractor. Good stock selection within Consumer Discretionary and Communication Services was lost from poor selection within Real Estate, Industrials and Materials. Country allocation was a small detractor, mainly from the underweight position to Japan (-3.2%), but also the overweight to Israel (-14.2%). Underweights to Sweden and Norway were positive. The Fund's biggest stock contributors were LPL Financial (+12.4%), Murphy Oil (+27.3%), and Marathon Oil (+31.3%). Pense Automotive (+22.4%), Autonation (+22.6%) and Beazley (+19.5%) were strong. Tenet Healthcare (-33.2%) was the biggest detractor, followed by Capstone Copper (-51.4%), Samhallsbyggnadsbolaget (-59.6%) and Avis Budget (-39.0%).

The Fund had very good allocation in terms of P/E quintiles, but had very poor stock selection within those quintiles. Similarly, the overweight position in larger stocks was positive, but this was lost from poor stock selection within the largest stock quintile.

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### Portfolio Facts

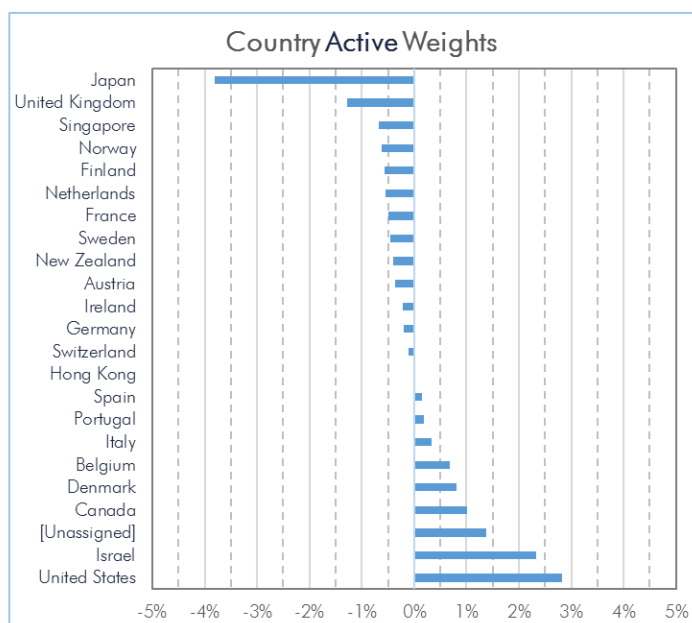
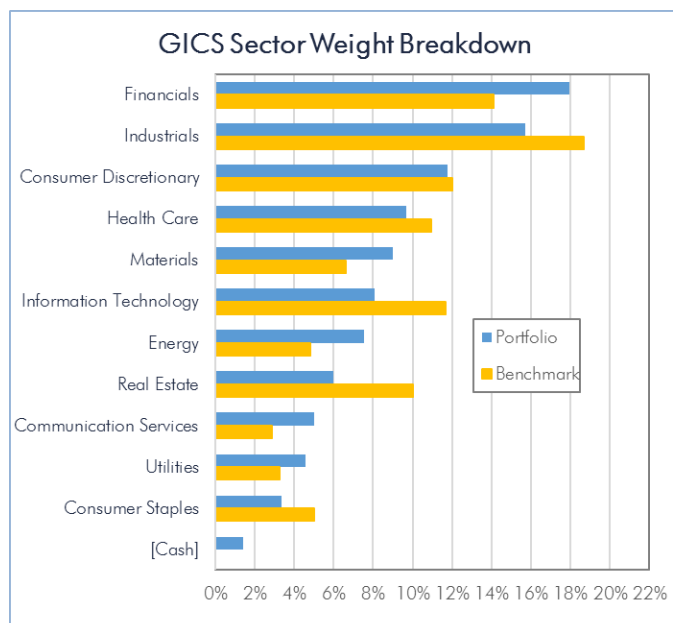
| Fund Details          |                                                                           |
|-----------------------|---------------------------------------------------------------------------|
| NAV unit price (Mid)  | \$0.8637                                                                  |
| Inception date        | 5th October 2021                                                          |
| Performance benchmark | MSCI World ex Australia Small Cap Index (Net Dividends Reinvested) in AUD |
| Buy/sell spread       | 0.30%/ -0.30%                                                             |
| APIR                  | ETL2441AU                                                                 |

### Strategy Characteristics

The strategy aims to hold 250-350 names, is Benchmark aware with a tracking error range of 4-6%, with active weight controls applied to stocks, sectors and countries.

| Characteristics       | Portfolio | Benchmark |
|-----------------------|-----------|-----------|
| Number of securities  | 290       | 4360      |
| Market Capitalization | 7,151     | 5,255     |
| Active Share          | 85.5      | 0.0       |
| Dividend Yield        | 2.3       | 2.0       |
| Price/Earnings        | 7.1       | 11.2      |
| P/E using FY1 Est     | 7.9       | 11.4      |
| Price/Cash Flow       | 5.5       | 7.7       |
| Price/Book            | 1.7       | 1.6       |
| ROA                   | 12.5      | 4.8       |
| ROE                   | 27.3      | 11.5      |
| LT Debt to Capital    | 35.9      | 35.8      |

| Top 10 Holdings                   | Portfolio | Benchmark | Active |
|-----------------------------------|-----------|-----------|--------|
| Reliance Steel & Aluminum Co.     | 1.41%     | 0.16%     | 1.25%  |
| Louisiana-Pacific Corporation     | 1.40%     | 0.07%     | 1.33%  |
| Atkore Inc                        | 1.21%     | 0.06%     | 1.15%  |
| Huntsman Corporation              | 1.18%     | 0.08%     | 1.10%  |
| Builders FirstSource, Inc.        | 1.02%     | 0.16%     | 0.86%  |
| Credit Acceptance Corporation     | 0.89%     | 0.06%     | 0.83%  |
| Tetra Tech, Inc.                  | 0.89%     | 0.12%     | 0.77%  |
| United Therapeutics Corporation   | 0.84%     | 0.17%     | 0.67%  |
| Nexstar Media Group, Inc. Class A | 0.81%     | 0.10%     | 0.70%  |
| OneMain Holdings, Inc.            | 0.79%     | 0.07%     | 0.72%  |



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### Sector Attribution

| Sector Attribution     | Global Small Systematic |               |                        | Benchmark      |               |                        | Attribution  |                         |              |               |
|------------------------|-------------------------|---------------|------------------------|----------------|---------------|------------------------|--------------|-------------------------|--------------|---------------|
|                        | Average Weight          | Total Return  | Contribution To Return | Average Weight | Total Return  | Contribution To Return | Allocation   | Selection + Interaction | Currency     | Total         |
| Industrials            | 17.20%                  | -11.51%       | -2.03%                 | 18.68%         | -9.37%        | -1.79%                 | 0.00%        | -0.54%                  | 0.16%        | -0.38%        |
| Financials             | 18.05%                  | -6.54%        | -1.04%                 | 13.75%         | -5.91%        | -0.77%                 | 0.12%        | -0.28%                  | 0.20%        | 0.05%         |
| Consumer Discretionary | 11.45%                  | -7.64%        | -0.89%                 | 12.12%         | -11.58%       | -1.44%                 | 0.01%        | 0.44%                   | 0.02%        | 0.47%         |
| Information Technology | 7.62%                   | -13.79%       | -1.09%                 | 11.53%         | -14.20%       | -1.68%                 | 0.22%        | 0.16%                   | -0.15%       | 0.23%         |
| Real Estate            | 5.77%                   | -21.89%       | -1.31%                 | 10.11%         | -12.24%       | -1.23%                 | 0.12%        | -0.63%                  | 0.03%        | -0.48%        |
| Health Care            | 7.87%                   | -10.74%       | -0.77%                 | 9.92%          | -10.03%       | -0.85%                 | 0.03%        | -0.03%                  | -0.07%       | -0.08%        |
| Materials              | 10.99%                  | -16.00%       | -1.70%                 | 7.11%          | -12.97%       | -0.95%                 | -0.07%       | -0.38%                  | 0.08%        | -0.38%        |
| Energy                 | 8.70%                   | -4.74%        | -0.42%                 | 5.44%          | -2.71%        | -0.18%                 | 0.24%        | -0.20%                  | 0.08%        | 0.13%         |
| Consumer Staples       | 2.83%                   | 7.71%         | 0.23%                  | 4.64%          | 0.10%         | 0.03%                  | -0.17%       | 0.14%                   | 0.07%        | 0.04%         |
| Utilities              | 3.76%                   | -3.32%        | -0.15%                 | 3.13%          | 1.61%         | 0.05%                  | 0.08%        | -0.14%                  | -0.06%       | -0.13%        |
| Communication Services | 4.23%                   | -3.87%        | -0.13%                 | 2.86%          | -13.76%       | -0.40%                 | -0.06%       | 0.42%                   | 0.00%        | 0.36%         |
| Cash                   | 1.32%                   | 4.05%         | 0.05%                  | 0.00%          | 0.00%         | 0.00%                  | 0.18%        | 0.00%                   | -0.02%       | 0.16%         |
| <b>Total</b>           | <b>100%</b>             | <b>-9.24%</b> | <b>-9.24%</b>          | <b>99%</b>     | <b>-9.18%</b> | <b>-9.18%</b>          | <b>0.64%</b> | <b>-1.03%</b>           | <b>0.33%</b> | <b>-0.06%</b> |

### Stock Attribution

| Stock Attribution             | Global Small Systematic |              |                        | S&P/ ASX Small Ordinaries |              |                        | Attribution  |
|-------------------------------|-------------------------|--------------|------------------------|---------------------------|--------------|------------------------|--------------|
|                               | Average Weight          | Total Return | Contribution To Return | Average Weight            | Total Return | Contribution To Return | Total Effect |
| <b>Top 5</b>                  |                         |              |                        |                           |              |                        |              |
| LPL Financial Holdings Inc.   | 1.66%                   | 10.4%        | 0.26%                  | 0.14%                     | 12.4%        | 0.02%                  | 0.32%        |
| Marathon Oil Corporation      | 1.14%                   | -2.0%        | 0.15%                  | 0.19%                     | 31.3%        | 0.08%                  | 0.17%        |
| Murphy USA, Inc.              | 0.68%                   | 27.3%        | 0.14%                  | 0.08%                     | 27.3%        | 0.02%                  | 0.17%        |
| Penske Automotive Group, Inc. | 0.61%                   | 22.4%        | 0.10%                  | 0.05%                     | 22.4%        | 0.01%                  | 0.14%        |
| AutoNation, Inc.              | 0.57%                   | 22.6%        | 0.10%                  | 0.07%                     | 22.6%        | 0.01%                  | 0.13%        |
| <b>Bottom 5</b>               |                         |              |                        |                           |              |                        |              |
| Capstone Copper Corp          | 0.35%                   | -51.4%       | -0.22%                 | 0.02%                     | -51.4%       | -0.01%                 | -0.17%       |
| Samhallsbyggnadsbolaget       | 0.27%                   | -59.6%       | -0.23%                 | 0.04%                     | -59.6%       | -0.03%                 | -0.17%       |
| Aurubis AG                    | 0.52%                   | -38.7%       | -0.23%                 | 0.04%                     | -38.7%       | -0.02%                 | -0.16%       |
| Avis Budget Group, Inc.       | 0.63%                   | -39.0%       | -0.27%                 | 0.12%                     | -39.0%       | -0.05%                 | -0.17%       |
| Tenet Healthcare Corporation  | 0.84%                   | -33.2%       | -0.30%                 | 0.09%                     | -33.2%       | -0.04%                 | -0.20%       |

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### Alpha Signal Attribution

The Blue Orbit Systematic Alpha process is built from four individual underlying Alpha Signals, developed using proprietary internal quantitative research processes. The 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 the main alpha input to construct the Strategy portfolio.

The returns shown here for the Alpha Signals are paper returns as calculated by Blue Orbit. These returns do not represent live or actual performance, and do not include fees or transaction costs.

| Alpha Signal Returns (AUD) | 3 Month Return | 3 Month Excess | 1 Year Return | 1 Year Excess |
|----------------------------|----------------|----------------|---------------|---------------|
| Benchmark                  | -9.18%         |                | -14.80%       |               |
| Defensive Alpha Signal     | -5.28%         | 3.90%          | -3.99%        | 10.81%        |
| Quality Alpha Signal       | -9.42%         | -0.23%         | -12.50%       | 2.30%         |
| Trend Alpha Signal         | -7.69%         | 1.49%          | -12.80%       | 2.00%         |
| Value Alpha Signal         | -8.00%         | 1.19%          | -5.99%        | 8.82%         |
| Diversified Alpha Signal   | -8.36%         | 0.83%          | -8.86%        | 5.94%         |

The Alpha Signals returns shown are for theoretical, paper strategies only. Performance numbers are gross returns and calculated in FactSet. Alpha Signal inception date was 31 December 2020.



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### Trend Alpha Signal

Trend Alpha was strong through most of the quarter until mid-June, before recent winners were quickly sold down. Trend Alpha's outperformance was all through good sector allocation, with overweights in Energy and Financials, and underweights to Real Estate and Information Technology. The underweight to Sweden was a modest contributor, but the underweight to Japan, and overweights to Israel and Canada all detracted. Key stock contributors to performance were LPL Financial (+12.4%), Murphy USA (+27.3%) and Rheinmetall (+19.2%). Alcoa (-44.7%) was the main detractor, along with Lithium Americas (-43.1%).

### Defensive Alpha Signal

Defensive Alpha again performed as expected, outperforming as the market dropped. Of the 35 days in the quarter when the benchmark fell, Defensive outperformed on 30 of them. Sector allocation was positive across most sectors, in particular overweights to Utilities and Financials and underweights to Information Technology and Consumer Discretionary. Country allocation was a small positive, coming from the underweight to Sweden and overweight to Hong Kong. Defensive's large underweight to stocks with negative earnings was also a good contributor. The low volatility positioning of the Signal contributed, as it was underweight the highest volatility group of stocks (which significantly underperformed). H&R Block (+48.9%), Flower Foods (+12.5%) and PCCW (+9.0%) were the only significant stock contributors, with many small positive contributors. B&M European Value Retail (-29.0%) and Qurate Retail (-34.2%) were modest detractors.

### Value Alpha Signal

As the markets were sold down the Value Alpha Signal performed strongly, passing 5% excess return, before losing most of this outperformance in the last two weeks of the quarter. Stocks with negative earnings returned -16.6% for the quarter, with the most expensive group of stocks down 12.2%. Allocation to the cheaper group of stocks was very strong, although stock selection within the group was weak. Sector allocation was mixed, with good allocation for Energy, IT, Real Estate, but poor to Consumer Discretionary and Materials. The big overweight position to Japan was a large contributor, along with the underweight to Sweden. There was modest stock contribution from Sanderson Farms (+25.7%) and H&R Block (+48.9%). Large detractors were Cleveland-Cliffs (-24.7%), Kohl's (-35.0%), United States Steel (-48.1%) and Tenet Healthcare (-33.2%).

### Quality Alpha Signal

Quality Alpha underperformed for the quarter. Sector allocation was a big detraction, with underweights to Utilities, Energy and Consumer Staples. Good stock selection within Health Care and Communication Services was balanced by poor selection in Real Estate and Financials. Country allocation was a major detractor, particularly the large underweight to Japan, and overweight to Sweden. The very large underweight position to stocks with negative earnings was a significant positive. Key contributors were the Signal's overweights to LPL Financial (+12.4%), AutoNation (+22.6%) and Gaztransport & Technigaz (+22.1%). Significant stock detractors were BE Semiconductor (+36.4%), Synaptics (-35.4%) and Williams-Sonoma (-16.1%).

### Diversified Alpha Signal

The Diversified Alpha Signal had a small outperformance against the Benchmark for the quarter. Sector allocation was positive, with stock selection a small detractor. The underweight position in Information Technology was the biggest contributor, followed by the overweights to Financials and Energy.



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For the quarter, the Fund had a moderate underperformance against the Diversified Signal. The Fund had improved stock selection within Consumer Discretionary, and in Consumer Staples. However, some of the overweights in Industrials and Health Care performed poorly. Additionally, the slightly tighter sector controls for the Fund, particularly for Health Care and Information Technology, was negative for the Fund. The Fund has active weight controls on sector limits as part of the risk management process within portfolio construction. Active exposures at the Signal level can be higher than in the Fund.

## Conclusion

Market volatility remained elevated during the second quarter of 2022. Market moves of more than 2% in either direction were frequent, with the VIX volatility index staying decisively in the moderate volatility 20-30 level band throughout the quarter.

Across global developed markets, interest rates are increasing quickly as central banks balance the risk of current high inflation with potential recessions in 2023. The uncertain geo-political scene is not making this easier for central bankers. While some investors are seeing the large recent fall in the equity market as a clear buying opportunity, others are being more cautious and targeted in re-entering the equity markets. The dramatic reversal in Value performance towards the end of June (despite its dominating performance year to date and accommodative macroeconomic environment), has again shown the importance of style diversification in the current environment.

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The Fund's Target Market Determination is available here <https://www.eqt.com.au/insto> A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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