

Fund performance

Global markets had a flat month at the start of 2020, as global fears around Coronavirus rattled equity markets. The S&P 500 finished January down 0.04%, and MSCI World (Gross, in USD) fell 0.6%. The Aussie dollar fell 4.8% against the USD, as investors moved away from risk currencies.

By contrast, the Australian equities markets outperformed- helped in part by a weaker AUD. The S&P/ASX 100 climbed by 5.1% in January, outperforming smaller capitalisation stocks. The S&P/ASX Small Ordinaries finished January up only 3.4%.

Within small cap stocks, Health Care (+9.5%) and Financials (+6.7%) were the key positive contributors. Consumer Discretionary (-2.2%) and Energy (-7.8%) sectors were the key detractors over the month.

The Blue *Orbit* Australian Small Caps Systematic Alpha Fund returned 2.41% in January, underperforming its benchmark (S&P/ASX Small Ordinaries Accumulation index) which returned 3.38%.

As at 31 January 2020	1 Month	3 Month	FYTD	1 Year	Since Inception ²
Blue Orbit Australian Small Cap Systematic Alpha Fund ¹	2.41%	1.71%			2.13%
Benchmark ³	3.38%	4.69%			5.38%
Excess Return	-0.97%	-2.97%			-3.25%

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)	\$2,039,484
NAV unit price (Mid)	\$1.0213
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	77	196
Market Capitalization	2,838	2,190
Active Share	53.9	0.0
Dividend Yield	3.0	2.9
Price/Earnings	19.3	17.9
P/E using FY1 Est	19.0	18.7
Price/Cash Flow	13.5	13.2
Price/Book	2.4	1.9
ROE	17.2	12.0
LT Debt to Capital	16.5	20.1

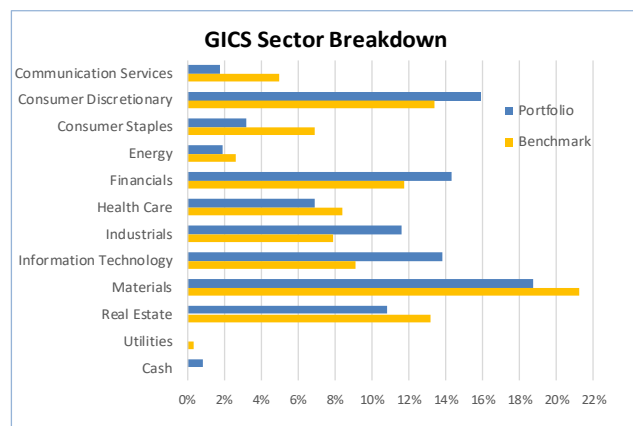
Top Ten Holdings	Portfolio	Benchmark
Harvey Norman Holdings Ltd	4.31%	1.38%
IGO Limited	4.02%	1.38%
Janus Henderson Group	3.92%	0.69%
Technology One Limited	3.91%	1.07%
EML Payments Ltd.	3.56%	0.76%
Perseus Mining Limited	3.19%	0.66%
Austral Limited	3.06%	0.61%
Super Retail Group Limited	2.90%	0.63%
Credit Corp Group Limited	2.80%	0.92%
Mcmillan Shakespeare Limited	2.37%	0.45%

Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Janus Henderson Group	3.92%	0.69%	3.23%
Harvey Norman Holdings Ltd	4.31%	1.38%	2.93%
Technology One Limited	3.91%	1.07%	2.84%
EML Payments Ltd.	3.56%	0.76%	2.80%
IGO Limited	4.02%	1.38%	2.64%

Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Charter Hall Long WALE REIT	0.15%	1.18%	-1.03%
Saracen Mineral Holdings Limited	0.96%	2.04%	-1.07%
Regis Resources Limited	0.00%	1.08%	-1.08%
IRESS Limited	0.06%	1.16%	-1.10%
Nextdc Limited	0.00%	1.27%	-1.27%



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	3.38%				
Defensive Alpha Signal	2.92%	-0.46%	2.81%	3.77%	0.73
Quality Alpha Signal	1.00%	-2.38%	3.99%	3.94%	0.99
Trend Alpha Signal	3.92%	0.54%	3.75%	3.78%	0.97
Diversified Alpha Signal	2.62%	-0.76%	3.28%	1.87%	1.72
Systematic Alpha Portfolio (Model)	2.70%	-0.67%	0.95%	3.67%	0.25
Blue Orbit Australian Small Caps Systematic Alpha Fund*	2.48%	-0.90%	N/A	N/A	N/A

*Fund Returns in this table are 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.

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
Financials	13.73%	8.13%	1.07%	11.46%	6.74%	0.75%	0.08%	0.17%	0.25%
Communication Services	1.69%	8.70%	0.14%	5.03%	4.32%	0.22%	-0.03%	0.07%	0.03%
Industrials	11.53%	2.59%	0.30%	7.96%	1.86%	0.15%	-0.05%	0.08%	0.03%
Energy	2.13%	-10.17%	-0.21%	2.82%	-7.80%	-0.21%	0.08%	-0.06%	0.02%
Consumer Staples	3.13%	2.88%	0.09%	6.82%	3.91%	0.26%	-0.02%	-0.03%	-0.05%
Utilities	0.00%	0.00%	0.00%	0.33%	21.54%	0.07%	-0.06%	0.00%	-0.06%
Real Estate	10.43%	4.82%	0.49%	12.85%	5.52%	0.69%	-0.05%	-0.07%	-0.12%
Information Technology	14.00%	3.37%	0.47%	9.03%	5.47%	0.48%	0.10%	-0.28%	-0.18%
Materials	18.86%	1.24%	0.24%	21.53%	2.30%	0.52%	0.02%	-0.20%	-0.18%
Consumer Discretionary	16.66%	-2.55%	-0.38%	14.10%	-2.21%	-0.26%	-0.14%	-0.06%	-0.20%
Health Care	6.92%	4.13%	0.27%	8.08%	9.46%	0.72%	-0.07%	-0.35%	-0.41%
Cash	0.93%	0.02%	0.00%	0.00%	0.00%	0.00%	-0.04%	0.00%	-0.04%
Total	100%	2.47%	2.47%	100%	3.38%	3.38%	-0.18%	-0.72%	-0.90%

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	2.47	2.47	100.00	3.38	3.38	0.44	-1.35	-0.90
Market Cap Quintile 1 (Large)	51.70	3.31	1.69	38.51	4.76	1.81	0.17	-0.71	-0.54
Market Cap Quintile 2	23.93	2.55	0.62	25.06	3.55	0.88	-0.01	-0.23	-0.24
Market Cap Quintile 3	17.85	0.42	0.08	18.71	2.63	0.49	0.00	-0.38	-0.37
Market Cap Quintile 4	4.45	2.28	0.10	10.97	2.73	0.31	0.04	-0.03	0.01
Market Cap Quintile 5 (Small)	1.14	-1.43	-0.02	6.49	-1.94	-0.11	0.27	-0.00	0.27
Cash	0.93	0.02	0.00	--	--	--	-0.04	--	-0.04

Stock Attribution

Stock Attribution	ASX Small Systematic			S&P/ ASX Small Ordinaries			Variation
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Contribution To Return
Top 5							
EML Payments Ltd.	3.35%	15.86%	0.49%	0.72%	15.86%	0.11%	0.38%
Janus Henderson Group	3.67%	8.92%	0.31%	0.65%	8.92%	0.06%	0.26%
Credit Corp Group Limited	2.55%	14.92%	0.36%	0.84%	14.92%	0.12%	0.24%
Silver Lake Resources Limited	1.61%	21.27%	0.31%	0.61%	21.27%	0.12%	0.19%
Pro Medicus Limited	2.38%	7.38%	0.16%	0.48%	7.38%	0.03%	0.12%
Bottom 5							
Saracen Mineral Holdings Limited	0.88%	19.34%	0.15%	1.88%	19.34%	0.33%	-0.18%
Alacer Gold Corp Shs Chess Depository Interests repr 1 Sh	1.57%	-13.99%	-0.23%	0.29%	-13.99%	-0.04%	-0.19%
Mesoblast Limited	0.00%	0.00%	0.00%	0.56%	44.23%	0.20%	-0.20%
Polynovo Limited	0.00%	0.00%	0.00%	0.74%	42.13%	0.26%	-0.26%
Nearmap Ltd.	1.29%	-33.27%	-0.43%	0.47%	-33.27%	-0.16%	-0.27%

Performance Commentary

Defensive Alpha Signal

The Defensive Alpha Signal underperformed in January, returning only 2.9%. Generally, we expect the Defensive Signal will be neutral or underperform in a positive market, as it is positioned to outperform during market drawdowns.

The key detractor to performance of the signal was within the Healthcare Sector, to which the Defensive signal is underweight. Within Healthcare, not holding PolyNovo Limited (+42.1%), Mesoblast Limited (+44.2%) or NanoSonics Limited (+9%) detracted from performance relative to the Benchmark. Additionally, an underweight position within gold miner Saracen Minerals (+19.4%) was another key detractor. Nearmap (-33.3%) was also not held, which was the largest contributor for the month.

Quality Alpha Signal

The Quality Alpha signal also had a weak month, underperforming the Benchmark by 2.4% in January. Again, Healthcare was a key sector detractor, due to the signal not holding Polynovo or Mesoblast- this detracted significantly more than the value added by the signal's overweight to Pro Medicus Limited (+7.4%).

Within Information Technology, an overweight position in Nearmap Limited (-33.3%) was a key detractor. Nearmap shares dropped sharply following a guidance downgrade. The signal's large overweight positions in Silver Lake Resources (+21%) and EML Payments (+15.9%) resulted in them being the best contributors to relative performance.

Trend Alpha Signal

The Trend Alpha Signal outperformed in January, up 3.92%. Key contributors were the overweight positions in strongly performing Healthcare stocks, with the Trend signal overweight both Polynovo and Mesoblast, due to their strong share price performance.

Outperformance was also helped by an overweight position in Silver Lake Resources (+21.3%), which climbed on the back of lowered costs and increased guidance announced in their quarterly activities report. An underweight position in Saracen Minerals (+19.3%) saw it as the largest relative detractor.

Diversified Alpha Signal

The Diversified Alpha Signal underperformed the Benchmark by 0.76% in January. Underperformance was driven by poor stock selection, as the Diversified Signal was underweight in Mesoblast and Polynovo limited. Overweight positions in the poorly performing Nearmap (-33.3%) and an underweight to Vocus group (+18.5%) also contributed to underperformance for the month. The best contributors were Silver Lake Resources and EML Payments, both due to overweight positions within the signal.

Systematic Model versus Diversified Alpha Signal

The Systematic Model outperformed the Diversified Alpha Signal by 0.09% over the month. The Systematic Model had larger overweight positions to strongly performing EML Payments (+15.9%), Credit Corp (+14.9%) and Janus Henderson Group (+8.9%), however this was offset by larger underweight positions to the strongly performing healthcare stocks PolyNovo Limited and Mesoblast.

Blue Orbit Systematic Alpha Fund Performance

The Fund underperformed in January with a gross performance of 2.47%, underperforming its Benchmark by 0.9%. The majority of the Fund's underperformance for the month was through poor stock selection within the Healthcare, Materials and Information Technology Sectors.

Relative to its Benchmark, the largest stock detractors for the Fund were its overweights to Nearmap Limited (-33.3%) and Alacer Gold (-14%), together with the Fund not holding Polynovo limited (+42.1%) or Mesoblast Limited (+44.2%).

Overweight positions in EML Payments Ltd (+15.9%), Janus Henderson Group (+8.9%) and Credit Corp (+14.9%) were the key positive contributors to performance over the month.

The live performance of the Fund underperformed its target Systematic model by 0.23% in January.

Conclusion

January saw two of the Healthcare stocks, Mesoblast and Polynovo, have very strong returns. They both have negative operating cash flows, have not yet paid any dividends, but have good growth and momentum. Unfortunately, they hadn't quite made it into the portfolio, while Nearmap's positive cash flow and good momentum resulted in an overweight position. In total these three positions detracted 73bp from Fund performance. In January, stocks without positive cash flows or dividends generally outperformed the rest of the market.

One of the risk controls we have included is to allow only a small active weight for the Gold GICS Sub-Industry. This Sub-Industry outperformed in January, and the Fund was a very small overweight. The Fund holds the six stocks (out of 14) with a positive cash flow, but the selection was wrong this month, for a net deduction of 21bp. This was a reversal from December, where Gold added 44bp.

The Fund has a structural tilt toward larger cap securities within the Small Ordinaries universe. In 2019 this was a headwind as very small stocks consistently outperformed in a strong equity market, in particular in December. But in January this trend reversed, with the desired tilt to larger stocks adding value.

The last four months have been characterised by an environment of value, low volatility and dividend seeking within the Small caps universe. The corresponding sharp correction in quality, momentum and larger cap styles has been the thematic backdrop for the underperformance in the Fund. Generally, the strategy is not expected to outperform in these environments where low quality, small cap and value are dominating. The last time we saw a similar environment in the back testing was in 2016, and prior to that 2011. In 2016 Value dominated, with Alpha Signals underperforming for 6-7 months. This was followed by a good period of outperformance in 2017.

Our expectation is that two or three of the individual Alpha Signals will outperform in the majority of market environments, with further support from the short-term signals and structural size tilt.

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