

## Performance Overview

Global stock indices commenced the quarter in a strong fashion. Locally the S&P/ASX Small Ordinaries Accumulation Index returned 4.98%, outpacing its larger counterpart, the ASX100 Accumulation, which returned 3.5%. Despite the strong returns, the Small Ordinaries did finish 1.5% below its mid-month highs due to profit taking late in the month. Consistent with similar months of strong market performance, the drivers of investor optimism were the release of comforting economic data, dovish central bank comments, and, outside of India, the belief that the COVID-19 vaccine rollout had broken the back of the pandemic. In addition, buoying investors in US stocks were robust quarterly company earnings updates. Like the Australian market in February, these results reinforced the belief that the global economy has shed the effects of the pandemic and a full recovery is well underway. At this point in the recovery, the major concern for companies appears to be disrupted supply chains, with a lack of computer chips seemingly the main obstacle.

The crucial economic data releases for Australian investors were the unemployment rate (5.6%) and increase in the consumer price index (CPI) (0.6%), both of which were well below expectations. These data points coupled with the Reserve Bank of Australia (RBA) reaffirming their commitment to keeping the official cash rate at current levels until 2024 meant investors discarded last month's fears of rising bond yields. The Australian market also benefited from the continued growth in commodity prices, with the critical commodities of iron ore and copper hitting levels not seen since 2008. Further, after being in a downtrend since August last year, gold staged a recovery with many of the smaller explorers and producers posting strong price returns as a result.

With the strong growth in commodity prices, it was no surprise that the Materials sector posted a 9.1% gain for the month. However, following a number of positive company updates the Information Technology (IT) sector surpassed those returns with growth of 10.1%. The Financials sector also had a strong month with a return of 7.3%. The laggards for the month were the Energy (-2.9%) and Consumer Staples (-1.2%) sectors, which suffered as investors favoured the growth narrative over value or defensive exposures. Amongst the ups and downs the Blue Orbit Australian Small Caps Systematic Alpha Fund posted a total return of 5.24% for April, thereby continuing its recent record of generating meaningful alpha for investors.

Underlining the strength of the market in April was the fact 142 (out of 200) stocks in the Small Ordinaries generated positive returns, with 100 outperforming their benchmark. The highest returning stocks for the month were miners Galaxy Resources (+55.3%), De Grey Mining (+48.2%) and Orocobre (+41.8%). Coronado Global Resources (-33.9%), Whitehaven Coal (-27.5%) and, recent index entrant, Nuix (-19.8%) were the worst performing stocks for the month.

## Blue Orbit Systematic Alpha Fund Performance

The Blue Orbit Australian Small Caps Systematic Alpha Fund posted a total return of 5.24% for April, outperforming its Benchmark by 0.26%.

As at 30 April 2021	1 Month	3 Month	6 Months	FYTD	1 Year	Since Inception (Annualised) <sup>2</sup>
Blue Orbit Australian Small Cap Systematic Alpha Fund <sup>1</sup>	5.24%	8.59%	20.03%	29.84%	43.36%	6.25%
Benchmark <sup>3</sup>	4.98%	7.44%	21.44%	28.91%	39.78%	12.05%
Excess Return	0.26%	1.14%	-1.41%	0.93%	3.58%	-5.80%

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)	\$2,329,593
NAV unit price (Mid)	\$1.0852
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	99	200
Market Capitalization	3,369	2,457
Active Share	53.3	0.0
Dividend Yield	2.8	2.1
Price/Earnings	17.2	15.5
P/E using FY1 Est	15.2	18.5
Price/Cash Flow	10.3	11.6
Price/Book	2.1	2.0
ROE	13.3	5.4
LT Debt to Capital	28.6	25.1

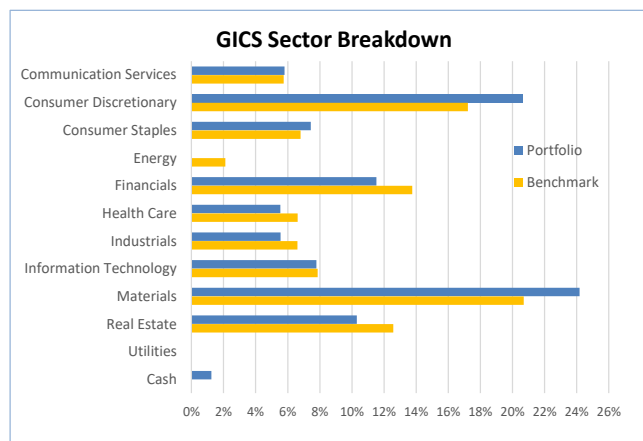
Top Ten Holdings	Portfolio	Benchmark
Harvey Norman Holdings Ltd	3.49%	1.40%
Champion Iron Ltd.	3.07%	0.86%
Eagers Automotive Limited	2.81%	1.04%
Codan Limited	2.80%	0.82%
Pro Medicus Limi	2.51%	0.88%
Janus Henderson Group	2.41%	0.49%
News Corporation	2.38%	0.68%
Sandfire Resources Limited	2.36%	0.46%
Metcash Limited	2.21%	1.41%
Platinum Asset Management Ltd	2.18%	0.55%

#### Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Champion Iron Ltd.	3.07%	0.86%	2.20%
Harvey Norman Holdings	3.49%	1.40%	2.09%
Codan Limited	2.80%	0.82%	1.98%
Janus Henderson Group	2.41%	0.49%	1.93%
Sandfire Resources Limited	2.36%	0.46%	1.89%

#### Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Sims Ltd.	0.00%	1.02%	-1.02%
Chorus Limited	0.00%	1.09%	-1.09%
Iluka Resources Limited	0.00%	1.27%	-1.27%
Vocus Group Limited	0.00%	1.32%	-1.32%
Steadfast Group Limited	0.00%	1.40%	-1.40%



### Performance Attribution

The Fund generated strong absolute and relative returns during April, with the Quality Signal being the main source of the outperformance. Adding to the Fund's alpha was the final portfolio construction process. This step resulted in the Fund outperforming the Diversified Alpha Signal in April. In terms of attribution, the contribution from sector allocation and stock selection was broadly equal. The allocation gains came from an overweight position in the Materials sector while being underweight the Energy sector. Trimming these gains were an overweight to the Consumer Discretionary (+2.8%) sector and an underweight allocation to the outperforming Financials sector.

While the Fund was overweight the underperforming Consumer Discretionary sector, stock selection in the sector was a key source of outperformance. The main contributors to these gains were overweight positions in Accent Group (+30.7%) and Eagers Automotive (+12.0%) along with underweight holdings in Webjet (-10.4%) and Breville (-3.4%). Providing a drag on these selection gains were an overweight holding in Harvey Norman (-8.0%) and an underweight in rebounding retailer Temple and Webster (+17.6%). The Fund also picked up outperformance within the Healthcare (+1.7%) sector. This alpha came through an overweight position in ProMedicus (+14.2%) and an underweight position in StarPharma (-12.0%).

Stock positioning in the Communications Services (+4.3%) and the Financials sector dented some of the selection gains. Chief selection offenders from the Communications Services were an underweight in Uniti Group (+20.4%) and overweights in the underperforming Spark NZ (+0.2%) and News Corp (+1.1%). The key source of underperformance from the Financials sector, after a strong run, was the overweight holding in Platinum Asset Management (-5.6%). An underweight to HUB24 (+21.7%) detracted, but was partially offset by an overweight to Janus Henderson (+9.3%).

# Australian Small Caps Systematic Alpha Fund (Wholesale)

## Monthly Performance Report as at 30 April 2021



### 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	20.73%	5.69%	1.17%	17.23%	2.85%	0.50%	-0.07%	0.57%	0.50%
Health Care	5.54%	6.43%	0.35%	6.77%	1.71%	0.13%	0.04%	0.25%	0.29%
Real Estate	9.63%	4.42%	0.43%	12.41%	3.20%	0.40%	0.06%	0.12%	0.18%
Energy	0.00%	0.00%	0.00%	2.16%	-2.91%	-0.06%	0.17%	0.00%	0.17%
Information Technology	8.17%	10.94%	0.88%	7.63%	10.10%	0.74%	0.03%	0.07%	0.10%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Materials	24.49%	8.30%	1.99%	21.51%	9.11%	1.91%	0.12%	-0.19%	-0.07%
Consumer Staples	7.48%	-2.38%	-0.18%	6.94%	-1.19%	-0.07%	-0.03%	-0.09%	-0.12%
Industrials	5.76%	0.99%	0.07%	6.39%	3.64%	0.24%	0.01%	-0.14%	-0.13%
Communication Services	5.89%	-0.04%	0.00%	5.60%	4.26%	0.24%	-0.01%	-0.25%	-0.25%
Financials	11.35%	5.20%	0.59%	13.36%	7.28%	0.95%	-0.05%	-0.23%	-0.28%
Cash	0.95%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.05%	0.00%	-0.05%
<b>Total</b>	<b>100%</b>	<b>5.31%</b>	<b>5.31%</b>	<b>100%</b>	<b>4.98%</b>	<b>4.98%</b>	<b>0.21%</b>	<b>0.11%</b>	<b>0.33%</b>

### 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
<b>Total</b>	100.00	5.31	5.31	100.00	4.98	4.98	-0.43	0.76	0.33
Market Cap Quintile 1 (Large)	51.92	4.56	2.42	35.84	2.40	0.92	-0.40	1.10	0.71
Market Cap Quintile 2	14.34	3.99	0.58	26.25	5.63	1.47	-0.06	-0.22	-0.28
Market Cap Quintile 3	16.50	4.77	0.79	18.13	6.96	1.22	-0.02	-0.35	-0.37
Market Cap Quintile 4	14.11	10.66	1.45	12.10	8.81	1.03	0.08	0.24	0.32
Market Cap Quintile 5 (Small)	2.18	3.48	0.08	7.67	4.46	0.34	0.03	-0.02	0.01
Cash	0.95	--	--	--	--	--	-0.05	--	-0.05

### 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
<b>Top 5</b>							
Champion Iron Ltd.	2.85%	24.27%	0.61%	0.79%	24.27%	0.17%	0.35%
Sandfire Resources Limited	2.06%	25.84%	0.49%	0.40%	25.84%	0.09%	0.32%
Codan Limited	2.82%	15.81%	0.44%	0.80%	15.74%	0.12%	0.22%
Mineral Resources Limited	1.15%	25.59%	0.27%	0.00%	0.00%	0.00%	0.21%
Accent Group Ltd	1.31%	30.67%	0.36%	0.39%	30.67%	0.11%	0.21%
<b>Bottom 5</b>							
De Grey Mining Ltd	0.00%	0.00%	0.00%	0.53%	48.22%	0.20%	-0.18%
Platinum Asset Management Ltd	2.28%	-5.60%	-0.13%	0.56%	-5.60%	-0.03%	-0.19%
Regis Resources Limited	1.94%	-10.34%	-0.19%	0.68%	-6.96%	-0.07%	-0.20%
Orocobre Limited	0.00%	0.00%	0.00%	0.68%	41.81%	0.23%	-0.21%
Harvey Norman Holdings Ltd	3.76%	-8.03%	-0.30%	1.49%	-8.03%	-0.12%	-0.30%

## Alpha Signal Attribution

The Blue *Orbit* Systematic Alpha construction process combines four individual underlying Alpha signals – Defensive, Quality, Trend, and Value, developed using our proprietary internal quantitative research processes. The design intention of the four signals is to insure they will outperform in a variety of market environments through their diversified nature and low to negative correlations between each other. The Diversified Alpha Signal is the combination of the individual underlying Alpha Signals, and is the primary alpha input in the construction of the final portfolio, namely the Systematic Alpha Model. This model is the target model portfolio and determines the strategy underlying the implemented portfolio, that is, the Fund. The model is a theoretical target, and its returns do not include fees or transaction costs.

Alpha Signal	1 Month Return	1 Month Excess	2 Year Annualised Excess Return	2 Year Annualized Tracking Error	2 Year Information Ratio
Small Ordinaries	4.98%				
Defensive Alpha Signal	3.37%	-1.61%	-0.71%	6.36%	-0.11
Quality Alpha Signal	6.76%	1.78%	5.57%	6.59%	0.85
Trend Alpha Signal	4.54%	-0.44%	3.47%	7.20%	0.48
Value Alpha Signal	5.12%	0.14%	4.71%	7.57%	0.62
Diversified Alpha Signal	4.88%	-0.10%	1.34%	2.91%	0.46
Systematic Alpha Portfolio (Model)	5.47%	0.49%	-3.31%	5.57%	-0.59
Blue Orbit Australian Small Caps Systematic Alpha Fund*	5.31%	0.33%	N/A	N/A	N/A

\*Fund Returns in this table are shown Gross of Fees.

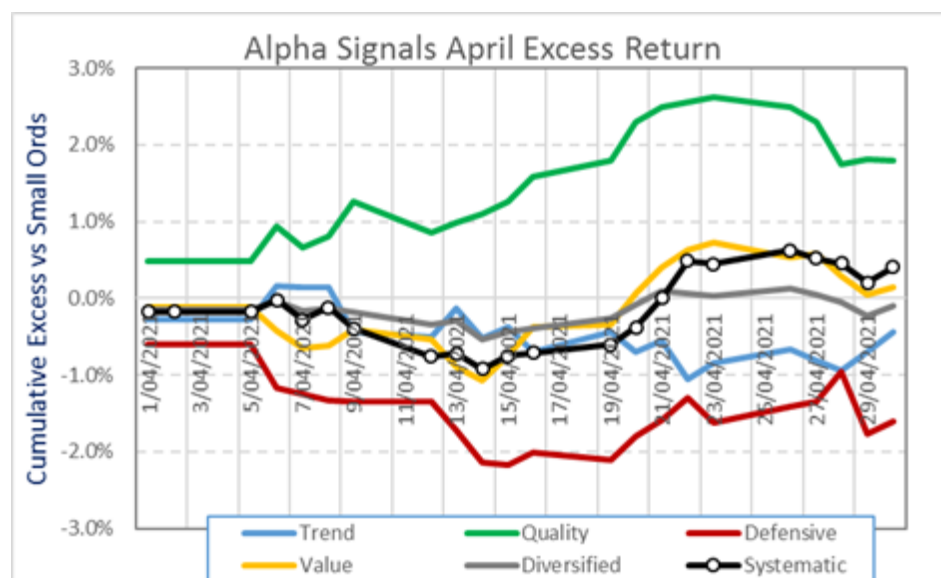


Figure 1: Accumulative Signal Performance

Figure 1 illustrates the cumulative relative returns for each of the Alpha Signals and the Fund throughout April against their Benchmark. The Quality Signal was the standout performer for the month, with only some late month profit taking in its better performing overweights removing some of the shine. Both the Defensive and Trend Signals had a difficult month. Despite these results, the overall outperformance of the Fund demonstrates the benefits and intent of the diversified nature of the Blue Orbit investment process; that is, in any one month the outperformance of one or more Signals will offset any weakness in the remaining Signals.

## Performance Commentary

### Defensive Alpha Signal

With the strong performance of the market, it came as no surprise that the Defensive Signal underperformed for the month. The core driver of the underperformance was the strong returns within the Materials sector, a fact that contributed to poor allocation and selection attribution for the month. Apart from an underweight allocation to the Materials sector, the Signal was also underweight the outperforming IT sector, yet overweight Real Estate Investment Trusts (REIT) (+3.2%). Countering some of the allocation underperformance was an underweight position in the Healthcare sector and an overweight to the Financials sector.

The Signal's largest performance detractor was from not holding numerous rare earth and gold miners, such as Galaxy Resources, Orocobre, De Grey Mining, and Chalice Mining. The Signal was underweight these stocks due to their lack of a dividend, and in some cases revenue. The Signal was also underweight Lynas Rare Earths (-10.2%), however its underperformance added value to the Signal. Within Financials, the Signal suffered from its overweight to Platinum Asset Management and underweight to HUB24, but overweights in Janus Henderson and Pental (+13.4%) assisted performance. Minimizing some of the underperformance was the Signal's positioning in the Consumer Discretionary sector, with an underweight to travel stocks and an overweight to Accent Group the stand outs.

### Quality Alpha Signal

The Quality Signal's exceptional month came off the back of strong stock selection in the Consumer Discretionary sector, with some further gains coming from the Materials sector. Overweight positions in Accent Group, City Chic Collective (+17.6%), Temple and Webster, Adairs (+22.1%), and an underweight to RedBubble (-18.2%) were the main drivers of performance. Stock selection attribution from the Materials sector, while strong, was mixed with the performance of profitable companies in line with that of explorers and low return firms. The highlights were an overweight in Champion Iron (+24.3%), Ramelius Resources (+15.3%), Sandfire Resources (+25.8%) and an underweight in Lynas Rare Earths. Countering the outperformance were underweight positions in a bundle of the previously mentioned Materials stocks, Galaxy Resources, Orocobre, DeGrey Mining and Chalice Mining. Stock selection in the IT sector was a negative contributor after the performance of overweights, Data#3 (+19.9%), Codan (+15.7%) and Tyro Payments (+14.0%) could not neutralize the impact of the performance of underweight Megaport (+29.7%) and the poor performance of overweights Nuix (-19.8%) and Technology One (1.5%).

Despite the muted allocation attribution, there were some noteworthy results. Notably, the Signal's poor selections in the IT sector negated the benefit coming from the Signal maintaining an overall overweight position in the sector. A similar situation arose within the Consumer Discretionary sector where the overall overweight allocation dented the stock selection gains. Underweight positions in the REIT and Energy sectors were other sources of outperformance.

### Trend Alpha Signal

The Trend Signal's performance was marginally behind the Benchmark for the month. Propelling the positive allocation attribution was an underweight allocation to the REIT sector and an overweight to the Materials sector. However, an underweight to the recovering IT sector and an overweight to the previously strong Consumer Discretionary sectors tapered some of the Signal's performance.

Stock selection was the main drag on the Signal's returns. Unsurprisingly given their lacklustre performance prior to April, the Trend Signal was underweight the strongly performing gold stocks. An underweight to De Grey was a major drag along with the poor performance of overweights Lynas Rare Earths, Coronado Global Resources, and Nickel Mines. Beneficially, the Signal was overweight Galaxy Resources, Chalice Mining and Orocobre, and this added to performance. The Signal was not well positioned in the Financials sector, with an overweight to Credit Corp (-11.2%) and Platinum Asset Management and underweight to HUB24 and Pental generating underperformance. On a more positive note, overweight holdings in Communication Services stock Uniti Group and IT name EML Payments (+16.5%), plus underweights to Chorus (-0.8%) and Nuix added to performance.

### Value Alpha Signal

The decision to wind back the contribution of the Value Signal in the final portfolio construction process has been initially vindicated by an only modest outperformance in April. The performance mainly came from being overweight some of the better performing Consumer Discretionary and Materials stocks, for example the Accent Group, Adairs, Sandfire Resources and Champion Iron. The Signal also gained from being underweight Flight Centre and Lynas Rare Earths. Trimming these gains were the underweight positions to outperforming Uniti Group (Communications Services) and to the Financials sector stocks of HUB24, Australian Ethical (+23.3%) and Zip (+9.2%). Sector allocation was also detrimental to the Signal's performance. The main issues were an underweight allocation to the Materials and IT sectors while being overweight the Consumer Staples sector.

### Diversified Alpha Signal

While the Fund outperformed for the month, this was not the case for the Diversified Signal. This fact highlights the benefits of the final portfolio construction process, including a tilt towards larger stocks and tighter risk controls. At a headline level, sector allocation had a negligible effect. This outcome came about through the gains of being underweight the Healthcare, REIT and Energy sectors offsetting the large overweight to the Consumer Discretionary sector. The more damaging issue was the Signal's poor stock selection in the Materials, Financial, and IT sectors offsetting the gains from the correct stock selections in the Consumer Discretionary sector.

The gains from the Consumer Discretionary sector came from overweight holdings in Accent Group, Eagers Automotive, and Adairs. However, trimming these gains were overweight positions in Harvey Norman and RedBubble. Delivering greater damage were underweight positions in several Materials stocks, including De Grey, Orocobre and West African (+26.8%). Offsetting gains came from overweight holdings Champion Iron and Sandfire Resources. The main concern from the Financials sector was an overweight to Platinum Asset Management along with an underweight position in HUB24. Underweight positions in the following IT stocks were another source of underperformance, Megaport, Life 360 (+20.2%) and Brain Chip (+11.5%). On a positive note, overweights in Codan and Data#3 trimmed these losses.

### Conclusion

April saw investors confirming their confidence in a "stronger for longer" recovery theme in the global economy. The "lowest for longer" outlook for global interest rates, which is driven by central banks continuing to reassure investors that the inflationary environment is benign, and their focus is on lowering the unemployment rate, appears to be driving this confidence. Compounding this confidence is the continual release of positive economic and earnings data, which has the added benefit of moderating valuation metrics. Previously, the elevated nature of certain valuation metrics had been a source of concern after aggressive investors had positioned themselves well ahead of any potential recovery in earnings. With the short-term outlook for equities remaining positive, outside of any exogenous geo-political shock, Blue Orbit investors should continue to feel confident that they are well positioned to benefit from rising markets.

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