

## Highlights

- Following two strong months of outperformance, the *Blue Orbit* Global Small Caps Systematic Alpha Fund underperformed the Benchmark in December by 1.2%, returning -0.21%.
- The Defensive and Value Signals posted modest outperformance in a volatile market. Trend was the weakest Alpha Signal for the month, underperforming by more than 1.5%.
- For the calendar year 2021 (which includes both the live and paper portfolio), all four Signals have outperformed despite a strong Benchmark performance of 23.5%. Value led the way outperforming by +15.4% followed by Quality (+12.3%), Trend (+9.2%) and Defensive (+4.1%).

As at 31 December 2021	1 Month	3 Month	6 Months	1 Year	Since Inception
Blue Orbit Global Small Cap Systematic Alpha Fund <sup>1</sup>	-0.21%				5.77%
Benchmark <sup>3</sup>	1.03%				1.95%
Excess Return	-1.24%				3.82%

1. Returns shown are Net of Fees.

2. Fund inception Date is 5<sup>th</sup> October 2021.

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

## Performance Commentary

Market volatility returned at the end of November as the Omicron COVID variant spread worldwide. In early December the VIX Volatility index spiked above 30 for the first time since January, and remained at elevated levels for most of the month. Following a weak November, the Australian dollar slowly climbed +2.5% against the USD, with similar returns against the Euro and Yen. Defensive sectors performed well, particularly Real Estate (+3.7%) and Utilities (+2.7%), with Consumer Discretionary (-0.6%) and Communication Services (-0.7%) weak.

Stock level profit selling drove the weak relative Fund performance, with the 6 biggest detractors all among the best performers over the previous two months. Consumer Discretionary stocks were sold down, including Williams-Sonoma (-15.3%), Signet Jewelers (-12.6%), Macy's (-10.1%) and Crocs (-23.4%). Transportation stocks Mitsui O.S.K.Lines (+26.3%) and Kawasaki Kisen Kaisha (+36.6%) were among the best performers, although Avis Budget (-26.4%) was a big detractor. Within Health Care, diagnostic test provider Quidel shipped 77 million rapid immunoassay tests during Q4, only to see its share price fall 10.8%. Country allocation was a modest contributor, particularly from Japan and Sweden, while the underweight to United Kingdom was a small detractor.

Stocks that were elevated from MSCI World Small Caps to MSCI World at the November index rebalance performed quite poorly, contributing over a third of the underperformance. This group includes Bill.com (-13.5%), AB Sagax (-15.6%), Open House (-10.1%) and Benefit One (-10.8%), along with TFI International (+11.0%), Lifco AB (+7.9%) and Bachem (+6.8%). Generally, stocks elevated to the large cap indices see outperformance on average, helped by index fund purchases.

# Global Small Caps Systematic Alpha Strategy

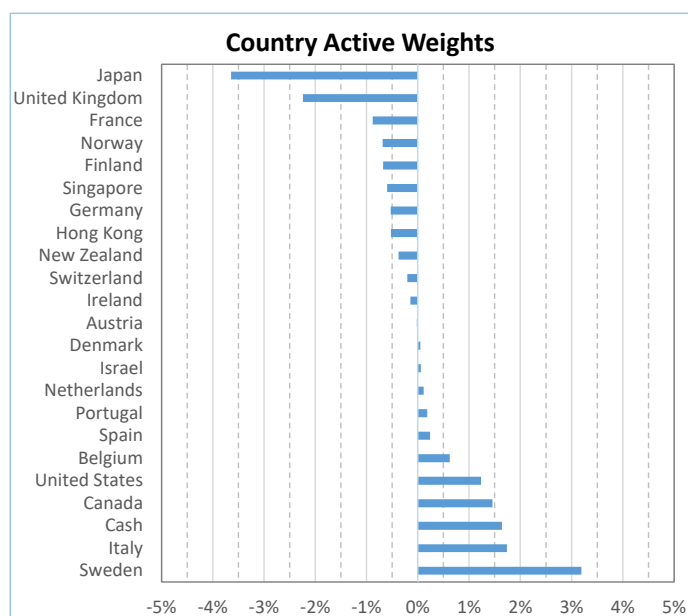
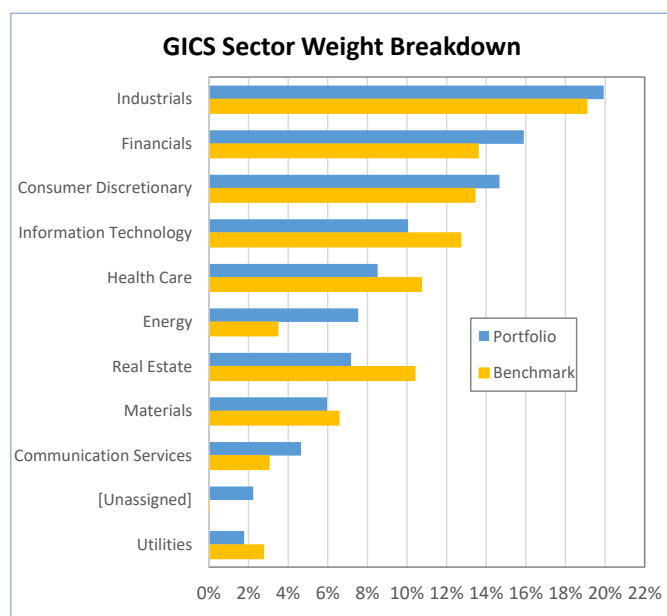
## Monthly Performance Report as at 31 December 2021



### Strategy Characteristics

Characteristics	Portfolio	Benchmark
Number of securities	281	4350
Market Capitalization	10,317	6,583
Active Share	87.6	0.0
Dividend Yield	1.3	1.5
Price/Earnings	12.0	15.5
P/E using FY1 Est	11.9	15.7
Price/Cash Flow	10.8	11.6
Price/Book	2.7	2.0
ROA	6.8	2.2
ROE	14.8	5.1
LT Debt to Capital	38.9	37.9

Top 10 Holdings	Portfolio	Benchmark	Active
Targa Resources Corp.	1.69%	0.13%	1.56%
Credit Acceptance Corporation	1.54%	0.07%	1.47%
Louisiana-Pacific Corporation	1.51%	0.09%	1.42%
Builders FirstSource, Inc.	1.47%	0.20%	1.27%
Williams-Sonoma, Inc.	1.38%	0.15%	1.23%
Dick's Sporting Goods, Inc.	1.35%	0.09%	1.26%
Synaptics Incorporated	1.25%	0.14%	1.11%
AutoNation, Inc.	1.17%	0.07%	1.10%
Tetra Tech, Inc.	1.12%	0.11%	1.01%
Jones Lang LaSalle Incorporated	1.11%	0.16%	0.94%



### Sector Attribution

Sector Attribution	Global Small Systematic			Benchmark			Attribution			Total
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation	Selection + Interaction	Currency	
Health Care	8.62%	0.87%	0.06%	10.73%	-0.31%	-0.02%	0.02%	0.06%	0.03%	0.11%
Materials	5.94%	2.74%	0.15%	6.52%	2.38%	0.15%	0.00%	0.05%	-0.02%	0.02%
Communication Services	4.94%	-0.67%	-0.03%	3.05%	-0.67%	-0.02%	-0.04%	-0.02%	0.02%	-0.04%
Consumer Staples	1.36%	1.01%	0.02%	4.27%	2.05%	0.09%	-0.03%	-0.01%	0.01%	-0.04%
Energy	7.36%	-0.08%	0.00%	3.49%	0.01%	0.00%	-0.04%	0.01%	-0.01%	-0.04%
Utilities	1.94%	0.39%	0.00%	2.75%	2.69%	0.07%	0.00%	-0.06%	0.01%	-0.05%
Information Technology	10.54%	-1.53%	-0.14%	12.73%	-0.12%	-0.02%	0.03%	-0.13%	0.00%	-0.10%
Real Estate	6.61%	3.17%	0.18%	10.29%	3.72%	0.38%	-0.09%	-0.05%	0.00%	-0.14%
Industrials	19.90%	0.57%	0.15%	19.08%	1.55%	0.29%	-0.01%	-0.19%	0.01%	-0.19%
Financials	16.54%	-0.12%	0.00%	13.62%	1.47%	0.21%	0.00%	-0.23%	-0.02%	-0.25%
Consumer Discretionary	14.53%	-4.92%	-0.76%	13.47%	-0.59%	-0.09%	-0.02%	-0.66%	0.00%	-0.68%
Cash	1.71%	2.18%	0.03%	0.00%	0.00%	0.00%	-0.05%	0.00%	0.08%	0.03%
<b>Total</b>	<b>100%</b>	<b>-0.33%</b>	<b>-0.33%</b>	<b>100%</b>	<b>1.04%</b>	<b>1.04%</b>	<b>-0.24%</b>	<b>-1.23%</b>	<b>0.10%</b>	<b>-1.36%</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>Total</b>	100%	-0.36%	-0.36%	100%	1.03%	1.03%	-1.38%
<b>Top 5</b>							
Mitsui O.S.K.Lines,Ltd.	0.75%	26.34%	0.17%	0.09%	26.34%	0.02%	0.15%
Louisiana-Pacific Corporation	1.27%	16.92%	0.17%	0.09%	16.92%	0.01%	0.14%
Builders FirstSource, Inc.	0.79%	20.37%	0.15%	0.19%	20.37%	0.03%	0.09%
Jones Lang LaSalle Incorporated	1.15%	11.82%	0.13%	0.16%	11.82%	0.02%	0.10%
Kawasaki Kisen Kaisha, Ltd.	0.42%	36.64%	0.12%	0.03%	36.64%	0.01%	0.11%
<b>Bottom 5</b>							
AB Sagax Class B	1.00%	-15.59%	-0.18%	0.00%	0.00%	0.00%	-0.19%
Bill.com Holdings, Inc.	1.09%	-13.48%	-0.19%	0.00%	0.00%	0.00%	-0.19%
Crocs, Inc.	0.70%	-23.76%	-0.19%	0.11%	-23.76%	-0.03%	-0.16%
Williams-Sonoma, Inc.	1.56%	-15.34%	-0.29%	0.16%	-15.34%	-0.03%	-0.27%
Avis Budget Group, Inc.	1.35%	-26.35%	-0.43%	0.14%	-26.35%	-0.04%	-0.40%

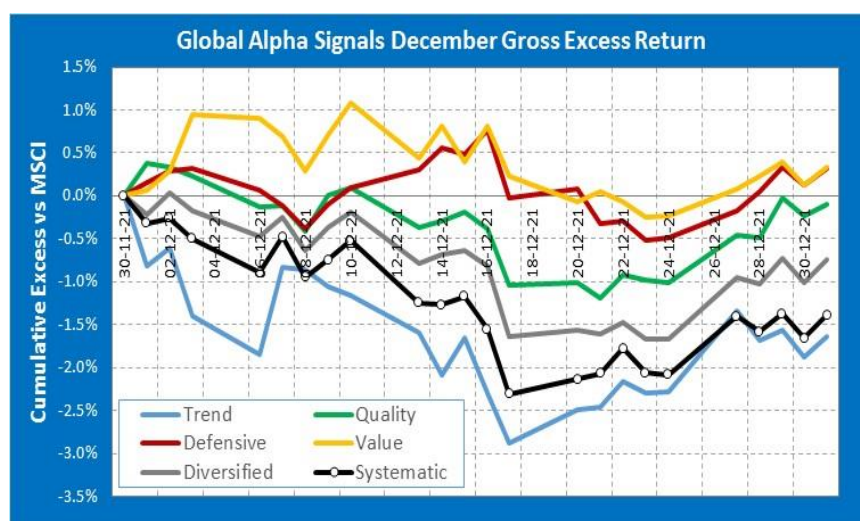
## Alpha Signal Attribution

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)	1 Month Return	1 Month Excess	1 Year Return	1 Year Excess
Benchmark	1.03%		22.78%	
Defensive Alpha Signal	1.42%	0.39%	28.71%	5.93%
Quality Alpha Signal	0.98%	-0.05%	35.89%	13.11%
Trend Alpha Signal	-0.65%	-1.68%	32.83%	10.04%
Value Alpha Signal	1.41%	0.38%	38.39%	15.61%
Diversified Alpha Signal	0.31%	-0.72%	36.07%	13.28%



The above chart shows excess cumulative Alpha Signal performance for December. Despite their different construction, both Defensive and Value finished the month similarly, with a small outperformance over the Benchmark (+0.4%). Quality had a volatile month, giving up early gains to underperform mid-month, before recovering to end flat against the Benchmark. Trend had a poor month, being sold off heavily to mid-month before clawing back some of its losses, ending up -1.7% against Benchmark.

### Defensive Alpha Signal

The Defensive Alpha Signal focuses on holding a combination of lower volatility and stable dividend paying stocks to minimise drawdowns in falling markets. Despite the market closing December higher, the high volatility environment over the month saw this signal outperform, adding a moderate amount of value over Benchmark. Sector positioning was a large contributor to outperformance, particularly the Signal's substantial overweight to Real Estate, the strongest performing sector.

### Quality Alpha Signal

Quality Alpha had a volatile month, moving from outperformance to underperformance, before finally ending the month flat against Benchmark. Quality had very good stock selection in both IT and Industrials, but lost that performance from a few stocks in Consumer Discretionary. Overweights to Williams-Sonoma (-15.3%), YETI Holdings (-12.4%) and Signet Jewellers (-12.6%) were key detractors.

### Trend Alpha Signal

Trend's strong recent performance turned in December, as recent winners in Consumer Discretionary, Industrials, IT and Financials sectors were sold down heavily. Trend's first two weeks were very weak, but then rallied late in the month to underperform only -1.7% against Benchmark. The Signal's holdings in IT, Industrials and Consumer Discretionary drove most of the underperformance, with these sectors amongst the weakest performers for the month. Holdings in Avis Budget Group (-26.4%), Bill.com Holdings (-13.5%), Crocs Inc (-23.8%) and Asana Inc (-30%) were the key detractors.

### Value Alpha Signal

Value Alpha had a strong start to December as globally value stocks rallied. It gave up some of its gains as the month progressed, finishing up +0.4% against Benchmark. Stock selection across IT, Materials, and Healthcare drove outperformance, with a small drag from the Signal's overweight position to the poorly performing Consumer Discretionary sector. Key stock positions were overweights to Louisiana Pacific Corp (+16.9%), AerCap Holdings (+13.9%) and Builders FirstSource Inc (+20.4%),

### Diversified Alpha Signal

The Diversified Signal underperformed the simple average of the four underlying Alpha Signals over the month. With mixed Signal performance, the conviction upweighting (where stocks overweight in multiple signals are additionally upweighted) detracted 0.47% over a simple average of the Alpha Signals.

The underperformance of the Fund relative to Diversified was mostly from stocks elevated to the Large cap Indices, but also from the Fund having more of a tilt toward the larger stocks than Diversified.

## Conclusion

December saw market volatility spike, as fears of the new COVID Omicron variant combined with persistent inflation and supply chain concerns. Value saw a resurgence over Growth, with corresponding sell offs in larger cap and technology growth names, with investors rotating into more defensive sectors such as Real Estate and Utilities. As we enter 2022, the market focus continues to be on inflation, economic impacts of COVID and the pace of central bank activity in unwinding stimulus measures. The Blue Orbit Global Small Cap Systematic strategy is well positioned to perform in this environment of expected higher volatility, style rotation and uncertainty that lies ahead.

### Disclaimer

This report has been prepared for the general information of clients and professional associates of Blue Orbit Asset Management Pty. Ltd., ABN: 74 623 916 816 | AFSL: 513710 (Blue Orbit AM). This presentation has been prepared for use by wholesale clients only (within the meaning of the Corporations Act 2001 (Cth) and no other persons. Information presented in this document is general information only, and is not intended to constitute personal advice or recommendations. This information has not taken into account your investment objectives, financial situation or needs. We strongly recommend that you seek your own professional financial and legal advice prior to any investment decision. While every effort has been made to ensure accuracy at the time of compilation, Blue Orbit AM makes no warranties or representations as to the accuracy, completeness or reliability of this information, nor that it is free from error. You should read the information memorandum or other offer document for the Fund and consider whether an investment is appropriate for you. Unless otherwise stated, all returns shown in this presentation are simulated returns, and do not represent actual returns that an investor received. Neither Blue Orbit AM nor any other party guarantees any income or capital return from an investment and past performance is not an indication of future returns. Any forward looking statements in this presentation are based upon Blue Orbit AM's current views and assumptions and involve known and unknown risks and uncertainties, many of which are beyond Blue Orbit AM's control and could cause actual results, performance or events to differ materially from those expressed or implied. These forward-looking statements are not guarantees or representations of future performance and should not be relied upon as such. Blue Orbit AM undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of this presentation. For more information please visit [www.blueorbitam.com](http://www.blueorbitam.com)

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. ([www.msci.com](http://www.msci.com))