Australian Small Caps Systematic Alpha Fund (Wholesale)
Monthly Performance Report as at 31 December 2020

Fund performance

Global equity markets continued their upward trend in December, albeit at a much more modest rate than seen in November, capping off quite an extraordinary year. By the end of December, despite a once in a century global pandemic and the worst economic contraction since the Great Depression, most equity markets generated positive returns for the year. In the USA, both the S&P500 (18.4% for 2020) and NASDAQ Composite (44.9% for 2020) finished the year at all-time highs. The situation in Australia, while solid, was not quite to the same level, with the S&P/ASX Small Ordinaries Accumulation index returning 9.2% for the year, after posting a solid return of 2.8% in December. Confirming the attractiveness of small cap investing, the returns of the Small Ordinaries index were superior to its large cap counterparts, with those indices delivering negative returns for the year. Outpacing its Benchmark with a return of 3.2% for the month was the *Blue Orbit* Australian Small Caps Systematic Alpha Fund.

Aiding December returns, and allowing the optimism coming from COVID-19 vaccine approvals in November to continue, was the eventual approval of additional fiscal stimulus and the annual defence-spending bill in the USA. Further boosting investor optimism and prospects for economic growth in the first half of 2021, was the potential for additional consumer stimulus in the USA once the new Democratic administration takes control. Elsewhere, the successful completion of Brexit negotiations removed a level of uncertainty from the global economy. Specifically for the Australian market, despite China's attempts to curb various Australian imports, the all-important iron ore price surged due to continued supply issues in Brazil. This fed through into strong gains for the mid-cap iron ore companies.

In December, there was a noticeable deviation between, and within, the various S&P/ASX Small Ordinaries sectors. The commodity based Materials (8.2%) and Energy (6.7%) sectors strongly outperformed, with this outperformance tending to favour value stocks. The Fund's construction process has been able to capture the continued resurgence on value stocks without requiring wholesale process changes. The growth oriented sectors of IT (-0.1%) and Communication Services (-2.3%) sectors lagged the index considerably over the month.

Despite the strong finish to the year, risks around the COVID-19 pandemic still exist, as witnessed by new outbreaks in Australia and rising infections in the US and Europe, and investors should proceed with some caution in the short-term. Illustrating this point was the poor performance in December of many of the travel related stocks that had bounced back strongly in November, but fell with the return of COVID-19 related travel bans. Ultimately, the accommodative monetary policy and additional fiscal stimulus should limit any downside risks over the longer-term. Regardless of the market outcome, the strong foundations of the *Blue Orbit* investment process and the learnings of 2020 sees the Fund well positioned for 2021 and beyond.

As at 31 December 2020	1 Month	3 Month	6 Month	1 Year	Since Inception (Annualised)[2]
Blue Orbit Australian Small Cap Systematic Alpha Fund[1]	3.22%	11.38%	18.21%	0.29%	0.02%
Benchmark[3]	2.76%	13.83%	20.28%	9.21%	9.17%
Excess Return	0.46%	-2.45%	-2.08%	-8.92%	-9.15%

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)	$2,122,146
NAV unit price (Mid)	$0.9880
Inception date	11 October 2019
Performance benchmark	S&P/ASX Small Ordinaries Accumulation Index
Buy/sell spread	0.20%/ -0.20%
Distributions	Annually

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Portfolio Characteristics

Characteristics	Portfolio	Benchmark
Number of securities	104	201
Market Capitalization	3,022	2,251
Active Share	53.4	0.0
Dividend Yield	2.8	2.2
Price/Earnings	19.7	21.4
P/E using FY1 Est	15.4	19.2
Price/Cash Flow	8.1	10.7
Price/Book	1.8	1.9
ROE	13.5	4.5
LT Debt to Capital	28.6	25.1

Top Ten Holdings	Portfolio	Benchmark
Harvey Norman Holdings Ltd	3.75%	1.34%
Premier Investments Li	2.76%	0.98%
Janus Henderson Group	2.69%	0.61%
NRW Holdings Limited	2.47%	0.55%
Inghams Group Ltd.	2.44%	0.48%
Champion Iron Ltd.	2.41%	0.63%
Codan Limited	2.40%	0.55%
Nickel Mines Ltd.	2.13%	0.62%
Mineral Resources Limited	2.03%	0.00%
oOh media Ltd	2.02%	0.41%

Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Harvey Norman Holdings	3.75%	1.34%	2.42%
Janus Henderson Group	2.69%	0.61%	2.08%
Mineral Resources Lim	2.03%	0.00%	2.03%
Inghams Group Ltd.	2.44%	0.48%	1.95%
NRW Holdings Limited	2.47%	0.55%	1.92%

Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Polynovo Limited	0.00%	1.07%	-1.07%
Bapcor Ltd	0.00%	1.10%	-1.10%
Shopping Centres Australasia Property Group RE Ltd.	0.00%	1.13%	-1.13%
Chorus Limited	0.00%	1.36%	-1.36%
Steadfast Group Limited	0.00%	1.44%	-1.44%

GICS Sector Breakdown
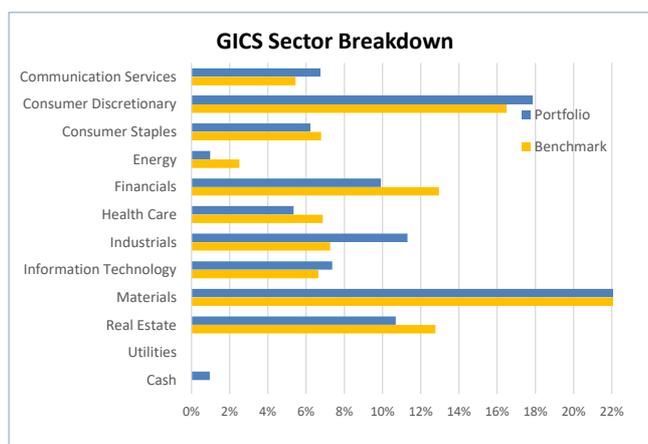
Alpha Signal Attribution

Alpha Signal	1 Month Return	1 Month Excess	2 Year Annualised Excess Return	2 Year Annualized Tracking Error	2 Year Information Ratio
Small Ordinaries	2.76%				
Defensive Alpha Signal	3.43%	0.68%	-1.01%	4.48%	-0.22
Quality Alpha Signal	5.06%	2.30%	6.27%	7.31%	0.84
Trend Alpha Signal	2.02%	-0.73%	2.71%	6.22%	0.43
Value Alpha Signal	4.19%	1.43%	1.36%	7.36%	0.18
Diversified Alpha Signal	3.64%	0.88%	1.38%	3.43%	0.39
Systematic Alpha Portfolio (Model)	3.72%	0.96%	-5.38%	5.56%	-0.95
Blue Orbit Australian Small Caps Systematic Alpha Fund*	3.29%	0.53%	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 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 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.

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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	17.74%	3.62%	0.68%	16.45%	1.23%	0.21%	-0.01%	0.43%	0.42%
Industrials	12.16%	4.90%	0.59%	8.33%	3.03%	0.28%	0.01%	0.21%	0.22%
Health Care	5.35%	3.91%	0.21%	6.96%	0.76%	0.06%	0.03%	0.15%	0.18%
Consumer Staples	5.94%	3.35%	0.16%	6.79%	0.83%	0.05%	0.02%	0.14%	0.15%
Energy	0.95%	27.76%	0.14%	2.47%	6.56%	0.15%	-0.04%	0.07%	0.03%
Communication Services	6.89%	-1.13%	-0.07%	5.58%	-2.15%	-0.12%	-0.06%	0.08%	0.02%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Financials	9.93%	0.74%	0.08%	12.62%	1.13%	0.16%	0.02%	-0.03%	-0.01%
Materials	21.54%	8.38%	1.69%	22.04%	8.17%	1.72%	-0.05%	0.03%	-0.02%
Real Estate	10.96%	1.06%	0.14%	12.19%	1.91%	0.24%	0.01%	-0.08%	-0.07%
Information Technology	7.92%	-1.69%	-0.13%	6.58%	-0.07%	-0.01%	-0.04%	-0.14%	-0.18%
Cash	0.62%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.01%	0.00%	-0.01%
Total	**100%**	**3.49%**	**3.49%**	**100%**	**2.76%**	**2.76%**	**-0.13%**	**0.87%**	**0.73%**

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	3.49	3.49	100.00	2.76	2.76	-0.15	0.89	0.73
Market Cap Quintile 1 (Large)	40.73	3.65	1.49	35.95	1.76	0.65	-0.03	0.75	0.72
Market Cap Quintile 2	21.52	3.38	0.72	27.23	3.71	0.97	-0.04	-0.07	-0.12
Market Cap Quintile 3	21.07	2.57	0.56	18.40	2.65	0.48	0.00	-0.01	-0.01
Market Cap Quintile 4	11.09	5.16	0.53	10.99	2.20	0.24	-0.00	0.31	0.31
Market Cap Quintile 5 (Small)	4.87	3.21	0.17	7.18	5.85	0.42	-0.07	-0.11	-0.18
Cash	0.62	0.00	0.00	--	--	--	-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							
Mesoblast Limited	0.00%	0.00%	0.00%	0.74%	-45.91%	-0.40%	0.42%
IDP Education Ltd.	0.30%	-17.86%	-0.10%	0.88%	-20.39%	-0.35%	0.28%
Mineral Resources Limited	2.16%	15.76%	0.31%	1.35%	3.00%	0.07%	0.24%
Sandfire Resources Limited	1.87%	21.97%	0.35%	0.40%	22.15%	0.07%	0.24%
NRW Holdings Limited	2.49%	10.69%	0.25%	0.52%	10.19%	0.05%	0.15%
Bottom 5							
Sims Ltd.	0.00%	0.00%	0.00%	0.87%	18.61%	0.15%	-0.12%
Nanosonics Limited	0.00%	0.00%	0.00%	0.81%	20.57%	0.15%	-0.13%
Pilbara Minerals Limited	0.00%	0.00%	0.00%	0.65%	31.54%	0.17%	-0.15%
IGO Limited	0.75%	46.49%	0.24%	1.36%	37.44%	0.41%	-0.16%
Polynovo Limited	0.00%	0.00%	0.00%	1.04%	20.87%	0.19%	-0.16%

Performance Commentary

Defensive Alpha Signal

The Defensive Signal (+3.4%) continued its recent form of outperforming when the Benchmark records a strong up market (+2.8%). While it is not the primary intention of the Signal, it is able to achieve this sort of performance by targeting stocks with a reliable dividend stream and strong fundamentals. This process saw stock selection deliver most of the Signal's outperformance during December, with an example of the design process being the contribution of overweight positions in Whitehaven (+57.4%) and Metcash (+17.2%). Both of these stocks continue to generate material free cash flows to fund significant dividends. Alternatively, underweight positions in firms that do not generate reliable free cash flows, such as IDP Education (-20.4%), Corporate Travel (-12.5%), and Webjet (-12.1%) aided outperformance. The diminished outlook for travel adversely effected the latter two as COVID-19 cases reappeared in Australia. Countering some of the positive stock selection was the overweight position in CIMIC (-4.7%).

Quality Alpha Signal

Rebounding strongly after the "COVID losers' rally" swamped it in November; the Quality Signal returned 5.1% (2.3% outperformance) for December. The outperformance came from superior stock selection, as investors again appreciated stocks that generate superior cash returns on their capital. The primary source of the outperformance was the Signal's stock selection in the Consumer Discretionary (1.7%) sector. Delivering a bulk of the outperformance were overweight positions in City Chic (45.7%) and Temple & Webster (12.5%), matched against an underweight holding in IDP Education (-18.9%). Also contributing to the outperformance were the Signal's selections in the Health Care sector (0.7%); namely an underweight position in Mesoblast (-45.9%) which gave up recent gains (and more) after poor trial results, along with an overweight in ProMedicus (15.9%). Unfortunately, the Signal lost some performance via the overweight positions in the IT sector, namely Technology One (-9.7%) and Integrated Research (-18.4%). Offsetting some of this was an underweight holding in Tyro Payments (-11.4%).

Trend Alpha Signal

After dealing with rapid and large fluctuations over the quarter, the Trend Signal suffered as investors realised recent profits and moved away from travel stocks. This effect was evident with the Signal's overweight positions in the Consumer Discretionary sector, via the travel stocks Corporate Travel and Webjet, with both positions generating significant underperformance. Compounding the underperformance was the poor performance of IDP Education. Offsetting some of the underperformance in the sector were the overweight positions in ARB (12.5%) and Temple and Webster.

The companies within the Small Ordinaries' Healthcare sector are susceptible to significant swings given the nature of their businesses; that is biotech companies with ongoing trials or business development programs. In November, an underweight position in Nanosonic (20.6%) and overweight position in Mesoblast were detrimental as both delivered performance contrary to the Signal's positioning. The underperformance was somewhat offset by an overweight position in Polynovo (20.9%).

Offsetting some of the underperformance from the Signal's stock selection was the Signal's positive sector allocation. An overweight position in the Materials sector and an underweight to the IT sector were the main contributors to this result. The Signal's overweight positioning in the Consumer Discretionary sector slightly diminished the allocation outperformance.

BlueOrbit
Asset Management

Value Alpha Signal

Continuing their resurgence in December were value stocks. Driving the outperformance was the performance of the Materials and Energy sectors. As such, the Value Signal (4.2%) outperformed the Benchmark mainly through superior selection in the Materials and Consumer Discretionary sectors, with the allocation performance being a minor drag due to an overweight in the Communication Services sector.

The booming iron ore and copper prices translated into major share price moves for various mid-tier mining stocks and the Signal successfully selected three such stocks, Sandfire Resources (22.1%), Mt Gibson (22.7%) and Western Area Resources (16.9%). These overweight positions delivered a majority of the Signal's outperformance for the month. However, underweight positions in Sims Metals (18.6%) and Pilbara Minerals (31.5%) slightly dented the outperformance. Assisting the Signal's outperformance was not holding the travel stocks (Corporate Travel and Webjet) and IDP Education.

Diversified Alpha Signal

Given the strong performance of several underlying Alpha Signals, the Diversified Alpha Signal (3.7%) generated material outperformance during the month. While there was a minor underperformance from the Signal's sector allocation, the Signal exhibited superior stock selection. Consistent with the Value and Quality Signals, the Fund's construction process correctly selected the best performing stocks in the Materials and Consumer Discretionary space, while avoiding some of the poorly performed stocks.

Systematic Model versus Diversified Alpha Signal

The Systematic model delivered a return of 3.3% for the month, thereby outperforming the Fund's Benchmark by 0.6%. This result was in line with the Diversified Signal, albeit the Systematic model had shown superior performance for most of the month.
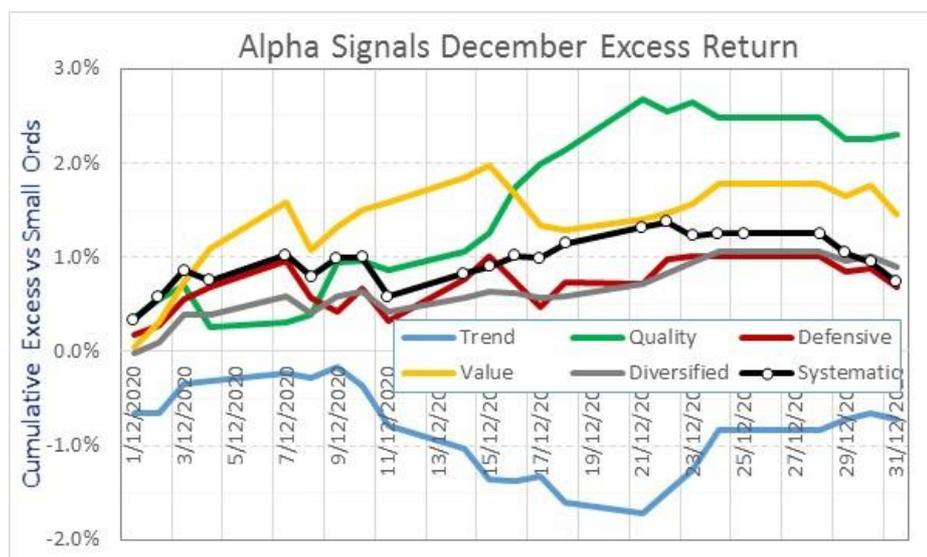
Seen in the chart above is the cumulative performance of the various Signals and the Systematic model. Unlike November, which saw the violent reversal after the successful COVID-19 vaccine trails, December was far less volatile, with the exception of the Trend Signal recovering late in the month. The chart also demonstrates the consistent outperformance of many of the Signals throughout the month.

A difference in the selection within and allocation to the Materials sector was the most significant factor in the divergence in the performance of the Systematic model and the Diversified Signal. The Systematic construction process reduced the exposure to the sector and did not hold positions in some of the aforementioned iron ore producers that had strong months. Also a preference for some underperforming IT stocks slightly diminished the overall performance of the Systematic model.

Blue Orbit Systematic Alpha Fund Performance

The *Blue Orbit* Australian Small Caps Systematic Alpha Fund finished the year on a positive note by outperforming its Benchmark. While the Fund lost some performance via some of its active sector allocations, the Fund's superior stock selection more than covered the shortfall. The major sector detractor was a minor overweight to the Communications Services sector.

In a consistent theme with many of the underlying Signals, strong stock selection in the Consumer Discretionary, Industrials and Healthcare sectors was responsible for most of the outperformance. The key selection decisions were to be underweight IDP Education, Webjet (both Consumer Discretionary stocks) – and the healthcare stock Mesoblast. An overweight position in the healthcare stock ProMedicus (15.6%) also aided performance. Eroding some of the Fund's performance in these sectors were underweight holdings in a number of well-performing stocks, namely City Chic (11.0%), Bapcor (45.7%) and Polynovo (20.9%). The Fund's positioning in the IT sector was another drag on performance, as overweight holding Integrated Research issued a profit downgrade, while the underweight holding Megaport (11.5%) reversed months of previous underperformance.

Conclusion

There is no doubt that 2020 will be remembered as one of the most extraordinary years in human and financial market history. Most striking was the manner in which pessimism overwhelmed investors as the COVID-19 pandemic took hold before optimism flooded back with the welcome economic responses of governments and central banks, and then again as vaccine approvals arrived. These upheavals made equity investing an extremely challenging affair and it may be years before the vindication, or otherwise, of particular investing styles. As investors turn their attention to 2021 it appears that many of the outstanding issues from 2020 have been, or are being, resolved. This scenario will provide investors with some confidence that they will face a more benign investing environment in 2021 which outcome should allow longer-term investment themes to return and reward patient investors. Regardless of the environment, given its solid foundation and the lessons learnt from 2020, December's performance demonstrates that the Blue Orbit Australian Small Caps Systematic Alpha Fund remains well placed to generate strong returns for its investors.