

## Performance Overview

The New Year delivered a mixed gambit of developments to equity investors. For most of the month, markets progressed positively, driven by the continuing risk-on environment that was fuelled by the continuation of accommodative monetary policies, the US election process concluding, and hope of further stimulus for the US economy. These developments along with positive financial reports from several US large-cap stocks saw several of the US market indices set new all-time highs by mid-month. The Australian market followed the US lead with the S&P/ASX Small Ordinaries Accumulation Index climbing 2.9% by the end of the third week, with mid-tier miners and explorers leading the charge. However, the promising start unwound quickly in the final week of the month. Lingering concerns regarding the coronavirus, stalled US stimulus talks, and the Reddit GameStop short squeeze phenomenon saw investors quickly reduce their equity exposure.

The late month sell-off saw the S&P/ASX Small Ordinaries Accumulation Index finish the month down -0.25%, a 3% decline from its intra-month high. The Blue Orbit investment process performed strongly despite the volatile environment, with the Australian Small Caps Systematic Alpha Fund outperforming its Benchmark with a total return of +1.16% for the month.

In addition to, and partially because of, the late-month sell-off, January saw some dramatic variations between stocks and the market sectors. The impetus was a combination of stock specific news items and broader themes, for example, the boom in rare earth stocks after the US government announced funding support for the sector. The consequences of these differences will become more evident in the performance discussion of the various signals and the Fund but in summary, the Fund's current positioning in many of the better performing stocks delivered the outperformance for the month. In terms of the sector variation in January, Communications Services (+3.6%) and Consumer Discretionary (+2.4%) were the best performing sectors, with a host of positive earnings updates being responsible for the latter's performance. At the other end, Energy (-8.0%) and Real Estate (-3.0%) both fell. Regarding individual stocks, while the median return for the month was close to flat, 12 stocks had returns greater than 15%, while six had declines greater than 15%. The best stock of the month, Australian Ethical Investors, rose 39%, while the worst, Polynovo Ltd, fell 32%.

## Blue Orbit Systematic Alpha Fund Performance

The Blue Orbit Australian Small Caps Systematic Alpha Fund commenced the year on a positive note by posting a return of 1.4% in excess of its Benchmark. While the Fund picked up some outperformance from sector allocation, the Fund's stock selection delivered the bulk of the outperformance.

As at 31 January 2021	1 Month	3 Month	6 Month	FYTD	1 Year	Since Inception (Annualised) <sup>2</sup>
Blue Orbit Australian Small Cap Systematic Alpha Fund <sup>1</sup>	1.16%	10.54%	16.33%	19.57%	-0.93%	0.90%
Benchmark <sup>3</sup>	-0.25%	13.03%	18.33%	19.98%	5.38%	8.34%
Excess Return	1.41%	-2.49%	-2.00%	-0.41%	-6.31%	-7.44%

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)	\$2,145,940
NAV unit price (Mid)	\$0.9994
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	103	201
Market Capitalization	3,140	2,323
Active Share	53.0	0.0
Dividend Yield	2.8	2.2
Price/Earnings	19.1	20.6
P/E using FY1 Est	14.9	18.5
Price/Cash Flow	8.3	10.8
Price/Book	1.8	1.9
ROE	14.9	5.1
LT Debt to Capital	28.7	25.3

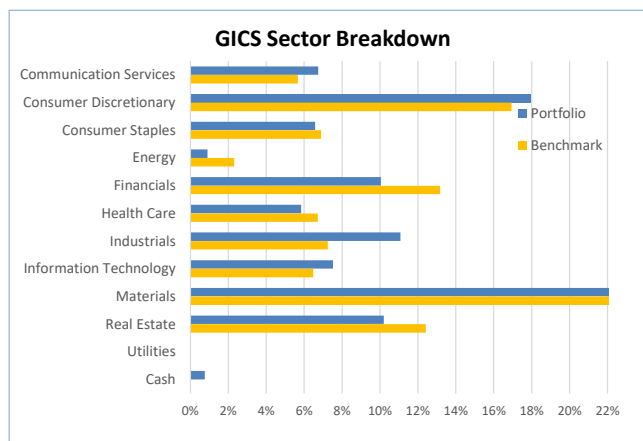
Top Ten Holdings	Portfolio	Benchmark
Harvey Norman Holdings Ltd	4.23%	1.53%
Janus Henderson Group	2.62%	0.60%
Champion Iron Ltd.	2.56%	0.68%
Inghams Group Ltd.	2.54%	0.51%
Codan Limited	2.54%	0.60%
Nickel Mines Ltd.	2.41%	0.71%
NRW Holdings Limited	2.39%	0.54%
Premier Investments Limited	2.31%	0.94%
News Corporation Shs B Chess D	2.10%	0.56%
Pro Medicus Limited	1.98%	0.86%

#### Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Harvey Norman Holdings	4.23%	1.53%	2.70%
Inghams Group Ltd.	2.54%	0.51%	2.03%
Janus Henderson Group	2.62%	0.60%	2.02%
Codan Limited	2.54%	0.60%	1.94%
Champion Iron Ltd.	2.56%	0.68%	1.89%

#### Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Bapcor Ltd	0.00%	1.06%	-1.06%
Breville Group Limited	0.00%	1.14%	-1.14%
Zip Co Ltd.	0.00%	1.15%	-1.15%
Steadfast Group Limited	0.00%	1.45%	-1.45%
Chorus Limited	0.00%	1.47%	-1.47%



### Performance Attribution

The largest performance gains came from being underweight Polynovo Ltd (-32.2%) and Nanosonics Ltd (-14.8%), and overweight Pro Medicus Ltd (25.4%), in the Healthcare (-2.4%) sector. These gains were somewhat offset by the underweight holding in Avita Medical (34.2%). The gains from the IT sector came from a significant overweight in the strongly performed Codan Ltd (7.2%) , along with avoiding underperformers Tyro Payments (-21.0%) and IRESS Ltd (-5.75%). The gains from the Consumer Discretionary sector came from large overweights, Harvey Norman (13.9%) and Super Retail (6.9%), outperforming the market while a significant underweight position in Flight Centre -11.2% also assisted. Offsetting these gains, to a minor degree, was not holding the strongly performed Pointsbet Holdings (31.5%) and Breville Group (13.5%). Finally, selection performance from the Communications Services sector was a noticeable detractor, with the catalysts being not holding Chorus (7.2%) and Domain (11.1%) and having an overweight holding in OohMedia (-4.5%).

# Australian Small Caps Systematic Alpha Fund (Wholesale)

## Monthly Performance Report as at 31 January 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
Health Care	5.47%	10.49%	0.55%	6.65%	-2.44%	-0.17%	0.04%	0.67%	0.72%
Information Technology	7.31%	3.25%	0.22%	6.39%	-2.76%	-0.18%	-0.01%	0.43%	0.42%
Consumer Discretionary	17.90%	4.02%	0.71%	16.72%	2.44%	0.40%	0.03%	0.28%	0.32%
Consumer Staples	6.34%	4.45%	0.27%	6.78%	1.38%	0.09%	0.00%	0.19%	0.18%
Energy	0.97%	-6.90%	-0.06%	2.48%	-7.84%	-0.19%	0.11%	0.01%	0.12%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	10.17%	-2.97%	-0.31%	11.82%	-2.60%	-0.31%	0.04%	-0.04%	0.00%
Financials	9.99%	1.05%	0.11%	13.57%	0.88%	0.12%	-0.04%	0.02%	-0.02%
Industrials	11.24%	-0.94%	-0.09%	7.23%	-0.47%	-0.03%	-0.01%	-0.05%	-0.05%
Communication Services	6.69%	0.89%	0.06%	5.50%	3.64%	0.19%	0.04%	-0.18%	-0.13%
Materials	23.08%	-1.60%	-0.37%	22.86%	-0.75%	-0.18%	0.00%	-0.20%	-0.20%
Cash	0.86%	13.88%	0.13%	0.00%	0.00%	0.00%	0.14%	0.00%	0.14%
<b>Total</b>	<b>100%</b>	<b>1.23%</b>	<b>1.23%</b>	<b>100%</b>	<b>-0.25%</b>	<b>-0.25%</b>	<b>0.34%</b>	<b>1.14%</b>	<b>1.48%</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>	<b>100.00</b>	<b>1.23</b>	<b>1.23</b>	<b>100.00</b>	<b>-0.25</b>	<b>-0.25</b>	<b>0.05</b>	<b>1.43</b>	<b>1.48</b>
Market Cap Quintile 1 (Large)	40.42	3.18	1.25	36.87	0.21	0.07	0.02	1.18	1.20
Market Cap Quintile 2	23.45	0.85	0.18	26.19	0.95	0.24	-0.03	-0.03	-0.06
Market Cap Quintile 3	19.21	-1.51	-0.27	17.89	-2.25	-0.39	-0.02	0.15	0.12
Market Cap Quintile 4	12.11	-0.83	-0.10	11.57	-2.09	-0.24	-0.01	0.15	0.14
Market Cap Quintile 5 (Small)	3.94	0.60	0.03	7.21	1.03	0.07	-0.04	-0.01	-0.06
Cash	0.86	13.88	0.13	--	--	--	0.14	--	0.14

### Stock Attribution

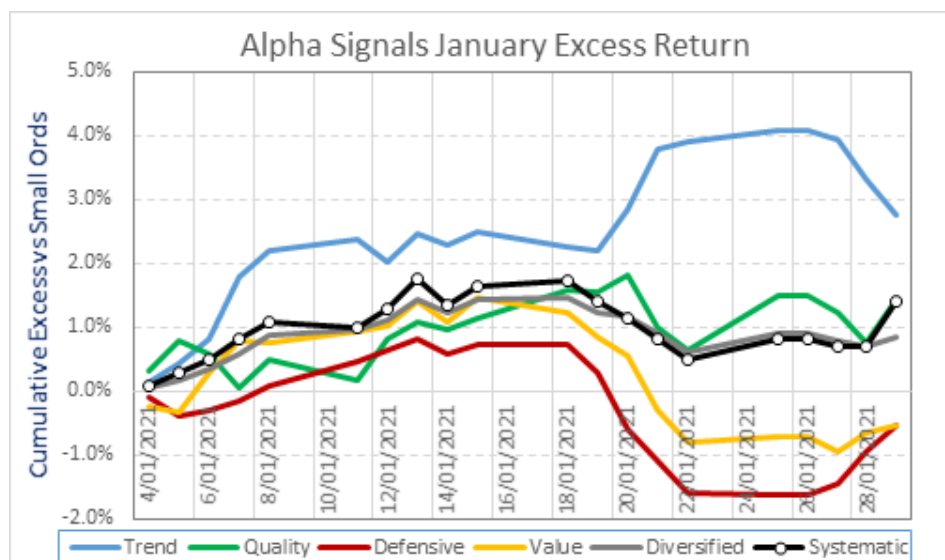
Stock Attribution	ASX Small Systematic			S&P/ ASX Small Ordinaries			Attribution
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Total Effect
<b>Top 5</b>							
Polynovo Limited	0.00%	0.00%	0.00%	0.83%	-32.22%	-0.34%	0.34%
Harvey Norman Holdings Ltd	4.00%	13.86%	0.51%	1.44%	13.86%	0.18%	0.33%
Pro Medicus Limited	1.71%	25.41%	0.40%	0.74%	25.41%	0.17%	0.23%
Champion Iron Ltd.	2.59%	7.58%	0.18%	0.68%	7.58%	0.05%	0.14%
Australian Dollar	0.62%	19.87%	0.13%	0.00%	0.00%	0.00%	0.14%
<b>Bottom 5</b>							
Sandfire Resources Limited	1.78%	-10.65%	-0.19%	0.39%	-10.65%	-0.04%	-0.15%
Bingo Industries Ltd.	0.00%	0.00%	0.00%	0.52%	32.38%	0.14%	-0.15%
Mineral Resources Limited	2.05%	-8.28%	-0.16%	0.00%	0.00%	0.00%	-0.16%
PointsBet Holdings Ltd.	0.00%	0.00%	0.00%	0.90%	31.51%	0.24%	-0.25%
Zip Co Ltd.	0.00%	0.00%	0.00%	0.95%	37.43%	0.30%	-0.31%

## Alpha Signal Attribution

The Blue *Orbit's* 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	-0.25%				
Defensive Alpha Signal	-0.76%	-0.50%	-0.40%	6.14%	-0.07
Quality Alpha Signal	1.21%	1.46%	5.26%	6.52%	0.81
Trend Alpha Signal	2.47%	2.72%	2.79%	7.00%	0.40
Value Alpha Signal	-0.75%	-0.50%	-0.75%	7.99%	-0.09
Diversified Alpha Signal	0.63%	0.88%	1.12%	2.84%	0.39
Systematic Alpha Portfolio (Model)	2.10%	2.35%	-4.26%	5.53%	-0.77
Blue Orbit Australian Small Caps Systematic Alpha Fund*	1.23%	1.48%	N/A	N/A	N/A

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



Above is a chart plotting the cumulative excess returns of the Alpha Signals and the Fund. With the various Alpha Signals being vital inputs into the construction of the final portfolio, many of the stock selection themes are present in the selection performance of the Fund. The implications of the late month sell-off are observable with the Trend Signal's outperformance diminishing, and the Value, Quality and Defensive Signals experiencing an uptick in relative performance. The value of the Blue Orbit investment process is evident with the relative performance of the Fund remaining stable through this time.

## Performance Commentary

### Defensive Alpha Signal

Notwithstanding the late month pull back in the markets, the Defensive Alpha signal (-0.76%) was not able to match the Benchmark, underperforming by 0.5%. The shortfall in performance came primarily from poor stock selection in the Materials (-0.75%) and Financials (1.39%) sectors. A major component of the Signal's underperformance came from underweight positions in the non-dividend paying rare earth stocks Lynas (20.1%) and Galaxy Resources (20.6%). Also detracting was a softening iron ore outlook and lower gold prices, which drove prices of these commodity producers lower. However, underweight positions in Silver Lake Resources (-10.3%) and Deterra Royalties Ltd (-10.2%) helped to offset overweights to Mineral Resources (-8.3%) and SSR Mining (-13.6%). Within Financials, key detractors were underweight positions in the best performing stocks of the month, Australian Ethical Investors (+39%) and Zip Co Ltd (37.5%), plus an overweight to IOOF Holdings (-11.4%).

In terms of positive stock selection, the signal generated notable outperformance within the Consumer Discretionary and Industrials (-0.47%) sectors. Heading the outperforming overweights were Harvey Norman and Reece Ltd (8.2%), while being underweight Flight Centre and Electro Optic Systems (-11.8%) aided outperformance.

### Quality Alpha Signal

A key contributor to the Fund's overall performance was the strong performance of the Quality Alpha Signal, which returned +1.2% despite the falling market. Sector allocation and stock selection both added positively to outperformance over the month. An overweight position in the Consumer Discretionary sector and underweight position to the Real Estate Sector were key contributors, while the underweight to Financials detracted.

In a month with such divergent stock returns, it was encouraging to see the Quality signal generate sizeable outperformance via its stock selection. The main contribution came from the Healthcare sector, with an overweight in Pro Medicus and underweight to Polynovo being responsible for a bulk of the outperformance. Offsetting some of the gains were an overweight position in Nanosonics and an overweight in Avita Medical.

### Trend Alpha Signal

The Trend signal was the best performing signal for the month, generating a return of +2.5%. Generating a portion of the outperformance was sector allocation, with an overweight to the Consumer Discretionary sector and an underweight to Real Estate and IT sectors the key contributors.

A key diversifying benefit of the Trend signal is that it does not rely on the financial metrics of a company to identify stocks, but rather uses price information to identify trending stocks and themes within the market. Unlike the other signals, the Trend signal was overweight Lynas, Galaxy and Nickel Mines (14.3%), therefore generating sizable alpha within the Materials sector for the month. Balancing the outperformance to a minor degree were the overweight positions in Mineral Resources (-8.3%) and underweight to Nufarm (18.3%). Within the Consumer Discretionary sector, the Trend Signal also generated outperformance through its overweight positions in IDP Education (15.8%), Pointsbet Holdings and ARB Limited (14.1%), with an underweight to Breville Group paring back some of those returns. Despite an underweight to Australian Ethical, the Trend signal's weightings in the Financials sector were also a positive, with the main contributors being overweight holdings in Zip Co and HUB24 (14.6%).

### Value Alpha Signal

Following several months of strong performance, the Value Alpha signal saw a pullback in January, as growth showed resurgence over Value. Naïve value factors also underperformed over the month, with naïve PE factor underperforming almost 1%. Mitigating some of the underperformance was positive sector allocation, where the Signal was overweight the better performing Communication Services sector and underweight Real Estate and IT. Diminishing a portion of the outperformance was an overweight position in the poorly performed Energy sector. A majority of the Signal's underperformance from the Materials sector. Consistent with the Quality signal, the run in miners with little to no positive cash flows and earnings, and the softening of the gold price were the main facilitators of the underperformance. The chief detractors were an underweight to Lynas, and overweights to Sandfire Resources and Western Areas Ltd. Amongst the large share price swings in the Healthcare sector, the Signal saw a positive contribution from stock selection, with underweights to the poorly performing names Polynovo and Nanosonics Ltd. These gains were tempered by overweights to Pro Medicus and Mayne Pharma Ltd (-8.7%).

### Diversified Alpha Signal

With the strong performance of the Trend and Quality signals and only modest underperformance from the remaining Signals, the Diversified Signal returned a 0.9% outperformance over Benchmark. The main source of outperformance came from stock selection in the Consumer Discretionary, Healthcare and IT sectors, although stock selection was positive across all but two sectors. Within the Consumer Discretionary sector, overweights Harvey Norman and IDP Education were the top performers, along with the underweight position in Flight Centre. Key detractors included underweight positions to Breville and Pointsbet Holdings. Healthcare. IT selection was also a positive by being underweight, in a host of underperforming stocks, including Polynovo, Nanosonics, Tyro Payments, and Megaport (-5.4%).

### Conclusion

Despite January not quite delivering the return to normality that many investors had hoped the New Year would bring, global equity markets remain in a sound position. Once the GameStop induced volatility episode recedes, attention will quickly turn to earnings reports and how companies are placed to progress through 2021, where economic headwinds should ease, and at best turn into tailwinds. While questions remain about appropriate stock valuations, the markets continue to show a high level of resilience; therefore, investors should take comfort that it will take a significant stream of negative news to upset the current trend.

If, as expected, the late-month volatility subsides and no further unforeseen shocks hit the market, the driver of the Australian stock market in the short-term will be the February reporting season. While many companies have already provided positive initial guidance updates, investors will be keen to understand the full implications of their investments operating in a COVID restricted world, and more importantly how those companies have positioned themselves to rebound as the world opens up as the COVID vaccine rollout gathers pace. Reassuring for the Fund's investors is that the design of the Blue Orbit investment process is such that the Fund can outperform in a multitude of environments.

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