

## Performance Overview

Equity markets faced a volatile start to the financial year, as positive sentiment from increasing vaccination rates was tempered with the rapid spread of the new Delta COVID variant.

US markets performed strongly, boosted by a promising start to the quarterly reporting season that saw a majority of firms either beating or matching market expectations. A fall in US bond yields below the 1.2% level also provided an uplift, particularly to large cap growth names. The large cap S&P 500 added 2.4% in July, while the smaller cap Russell 2000 index fell 3.7%.

Globally, growth stocks had a strong month, with MSCI World Growth adding +2.9%. Value lagged in July, with the MSCI World value index only adding +0.61%. Emerging markets were the weakest performer (-6.7%), with the tightening of Chinese regulations across several sectors triggering sell offs in the market.

Domestically, large caps also outperformed their smaller counterparts, with the ASX 100 adding 1.2%, versus only 0.68% for the Small Ordinaries index. Within Small caps, the Materials and Energy sectors bounced back strongly from a weak June, both posting a return of +5.8%. Within Materials, performance was driven by strong rallies in rare earth miners, with iron ore producers also performing well. Industrials (+4.5%) also performed well, primarily through mining services names. The top three performing stocks for the month, Perenti Global (+35.8%), Orocobre (+27.5%) and Galaxy Resources (+27.0%) were within Materials, while Australian Pharmaceutical Industries (+26.5%) benefitted from a takeover offer. On the downside Healthcare (-3.6%) and Consumer Staples (-2.3%) sectors lagged in July, with Marley Spoon (-30.4%), Piedmont Lithium (-28.3%) and Polynovo (-20.2%) the key detractors.

## Blue Orbit Systematic Alpha Fund Performance

The Blue Orbit Australian Small Caps Systematic Alpha Fund posted a total return of 0.90% for July, outperforming the Benchmark return of 0.68%.

As at 31 July 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>	0.90%	3.62%	12.52%	0.90%	30.89%	7.45%
Benchmark <sup>3</sup>	0.68%	4.06%	11.80%	0.69%	32.30%	12.74%
Excess Return	0.22%	-0.44%	0.71%	0.22%	-1.41%	-5.29%

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)	\$2,414,089
NAV unit price (Mid)	\$1.1039
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	104	196
Market Capitalization	3,714	3,060
Active Share	53.5	0.0
Dividend Yield	2.7	2.0
Price/Earnings	15.5	14.5
P/E using FY1 Est	15.1	18.4
Price/Cash Flow	9.7	11.8
Price/Book	1.9	1.9
ROE	11.7	5.0
LT Debt to Capital	28.5	23.8

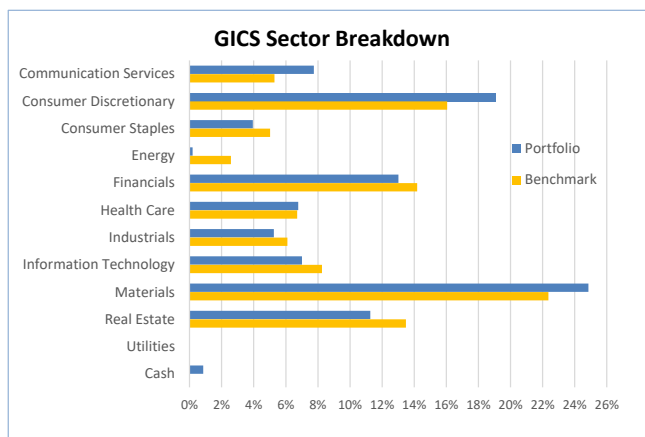
Top Ten Holdings	Portfolio	Benchmark
Champion Iron Ltd.	3.53%	0.99%
Janus Henderson Group	3.00%	0.62%
Eagers Automotive Limi	2.74%	1.04%
Inghams Group Ltd.	2.72%	0.54%
News Corporation	2.60%	0.59%
Sandfire Resources Limited	2.38%	0.47%
Codan Limited	2.29%	0.77%
Pro Medicus Limited	2.19%	1.07%
Ramelius Resources Limited	1.94%	0.53%
Hansen Technologies Limited	1.93%	0.39%

#### Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Champion Iron Ltd.	3.53%	0.99%	2.54%
Janus Henderson Group	3.00%	0.62%	2.38%
Inghams Group Ltd.	2.72%	0.54%	2.18%
News Corporation	2.60%	0.59%	2.01%
Sandfire Resources Limited	2.38%	0.47%	1.91%

#### Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Bapcor Ltd	0.00%	1.06%	-1.06%
Breville Group Limited	0.00%	1.17%	-1.17%
Virgin Money UK PLC	0.00%	1.24%	-1.24%
Steadfast Group Limited	0.00%	1.48%	-1.48%
Iluka Resources Limited	0.12%	1.61%	-1.49%



### Performance Attribution

The Fund had a good start to the financial year, with its absolute and relative performance both positive. Stock selection contributed the majority of outperformance, with the Fund positioned correctly in some of the biggest gainers and losers for the month, most notably an overweight to Champion Iron (+19.1%).

Stock selection also added value within the Healthcare, Financials (-2.2%), and Consumer Discretionary sectors. Delivering the Healthcare sector gains were underweight positions in Polynovo and Nanosonic (-9.5%). In Financials, an overweight position in Janus Henderson (+12.7%) and underweight positioning in Zip Payments (-12.3%) and Hub24 (-15.6%) added to outperformance. Stock selection within IT detracted in July, with the Fund overweight to the underperforming names Codan Limited (-6.5%) and Data #3 Ltd (-16.8%).

Size allocation detracted 16p, losing 9bp from the smallest quintile of stocks. The overweight to NRW Holdings (+16.4%) was a good contributor, however a few others were missed, such as Perenti Global (+35.8%), Australian Pharmaceutical Industries (+26.5%), and Audinate (+22.5%).

# Australian Small Caps Systematic Alpha Fund (Wholesale)

## Monthly Performance Report as at 31 July 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	6.72%	0.95%	0.07%	6.73%	-3.57%	-0.25%	0.01%	0.31%	0.32%
Financials	13.01%	-0.25%	-0.04%	14.33%	-2.23%	-0.33%	0.04%	0.26%	0.30%
Materials	24.31%	5.70%	1.35%	21.72%	5.80%	1.23%	0.13%	-0.03%	0.10%
Consumer Discretionary	19.15%	-0.77%	-0.16%	16.08%	-1.52%	-0.25%	-0.07%	0.15%	0.07%
Consumer Staples	4.07%	-2.74%	-0.13%	5.10%	-2.29%	-0.12%	0.02%	-0.02%	0.00%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	11.38%	0.91%	0.08%	13.51%	1.03%	0.14%	-0.01%	-0.03%	-0.04%
Industrials	5.28%	4.47%	0.23%	6.32%	4.49%	0.29%	-0.05%	0.00%	-0.05%
Communication Services	7.87%	-1.68%	-0.13%	5.32%	-1.17%	-0.06%	-0.05%	-0.04%	-0.09%
Energy	0.18%	15.56%	0.02%	2.57%	5.76%	0.14%	-0.11%	0.01%	-0.10%
Information Technology	7.25%	-4.59%	-0.35%	8.33%	-1.27%	-0.11%	0.03%	-0.26%	-0.23%
Cash	0.78%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.01%	0.00%	-0.01%
<b>Total</b>	<b>100%</b>	<b>0.96%</b>	<b>0.96%</b>	<b>100%</b>	<b>0.68%</b>	<b>0.68%</b>	<b>-0.08%</b>	<b>0.35%</b>	<b>0.28%</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>0.96</b>	<b>0.96</b>	<b>100.00</b>	<b>0.68</b>	<b>0.68</b>	<b>-0.16</b>	<b>0.43</b>	<b>0.28</b>
Market Cap Quintile 1 (Large)	44.21	1.62	0.72	35.20	1.37	0.49	0.05	0.13	0.18
Market Cap Quintile 2	13.26	3.69	0.49	26.95	0.69	0.18	0.01	0.40	0.40
Market Cap Quintile 3	24.21	-0.27	-0.09	18.51	-0.55	-0.10	-0.07	0.04	-0.03
Market Cap Quintile 4	14.28	-1.85	-0.26	11.73	-0.82	-0.09	-0.04	-0.15	-0.19
Market Cap Quintile 5 (Small)	3.24	3.37	0.11	7.60	2.92	0.22	-0.09	0.01	-0.08
Cash	0.78	--	--	--	--	--	-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
<b>Top 5</b>							
Champion Iron Ltd.	3.15%	19.12%	0.57%	0.88%	19.12%	0.16%	0.40%
Janus Henderson Group PLC Shs Chess Deposits	2.80%	12.70%	0.35%	0.57%	12.70%	0.07%	0.26%
Polynovo Limited	0.00%	0.00%	0.00%	0.60%	-20.21%	-0.15%	0.15%
Zip Co Ltd.	0.23%	-12.29%	-0.03%	1.16%	-12.29%	-0.14%	0.12%
Megaport Ltd.	0.00%	0.00%	0.00%	0.91%	-9.77%	-0.10%	0.11%
<b>Bottom 5</b>							
Seven Group Holdings Limited	0.36%	14.26%	0.05%	1.33%	14.25%	0.17%	-0.12%
Inghams Group Ltd.	2.77%	-4.53%	-0.13%	0.56%	-4.52%	-0.03%	-0.12%
Codan Limited	2.38%	-6.50%	-0.16%	0.80%	-6.49%	-0.05%	-0.12%
Data#3 Limited.	1.49%	-16.73%	-0.26%	0.31%	-16.76%	-0.06%	-0.21%
Platinum Asset Management Ltd	2.06%	-16.70%	-0.39%	0.52%	-16.70%	-0.10%	-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	0.68%				
Defensive Alpha Signal	0.81%	0.13%	-0.27%	6.30%	-0.04
Quality Alpha Signal	0.52%	-0.16%	3.21%	6.52%	0.49
Trend Alpha Signal	2.45%	1.76%	3.58%	7.18%	0.50
Value Alpha Signal	0.71%	0.03%	5.18%	7.45%	0.69
Diversified Alpha Signal	1.21%	0.52%	0.70%	2.89%	0.24
Systematic Alpha Portfolio (Model)	1.02%	0.34%	-3.47%	5.46%	-0.63
Blue Orbit Australian Small Caps Systematic Alpha Fund*	0.97%	0.29%	N/A	N/A	N/A

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

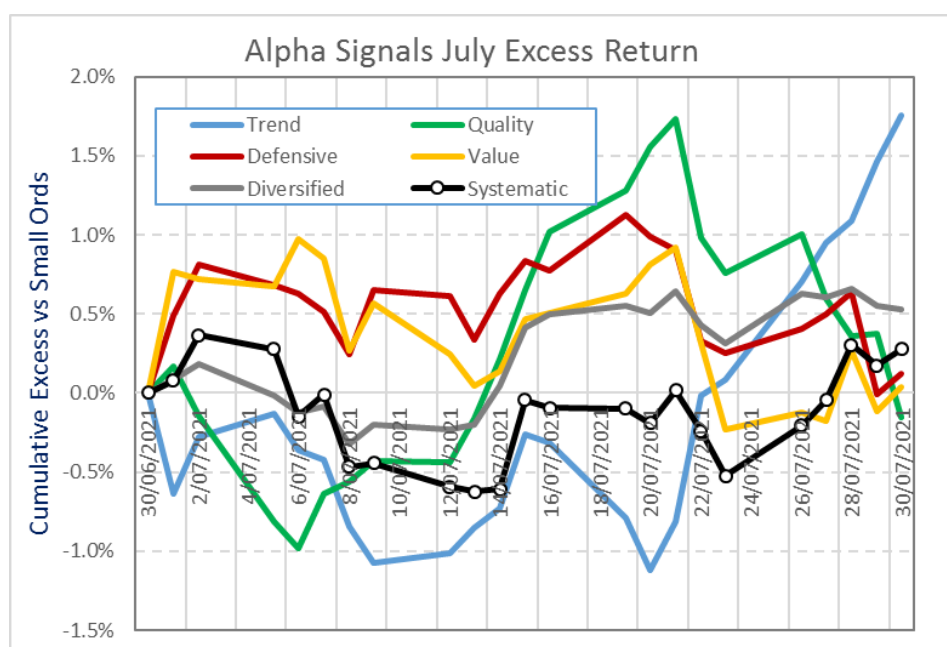


Figure 1: Cumulative Signal Performance

Figure 1 provides a summary of a relative performance of the Alpha Signals and the Fund against their Benchmark throughout July. After recovering from a poor start to the month, the Trend Signal recovered strongly to finish as the best Alpha Signal performer. The sharp turn in performance coincided with the drop-off in performance of the Value and Quality Signals, driven mostly by the pick up in performance of rare earth miners and explorers late in the month. Despite the volatility in individual Signal performance during the month, the Fund’s performance was far less volatile as its diversified nature buffered it from the shift in underlying styles.

## Performance Commentary

### Defensive Alpha Signal

The Defensive Signal continued its recent strong run, outperforming the Benchmark again in July. Gains were evenly split across sector allocation and selection, with the key contributor being underweight Healthcare and overweight Industrials. Leading the stock selection gains was the Signal's underweight position in a basket of poorly performing Healthcare stocks. These stocks included Polynovo, Nanasonic, and Cliuvel Pharmaceuticals (-9.2%). Adding further outperformance Industrial sector overweights Seven Group (+14.3%) and NRW Holding (+16.4%).

While positive, the Signal's stock selection gains varied considerably across sectors. The largest drag came from the Signal's underweight positioning in the Materials sector, namely rare earth stocks Pilbara Minerals (+22.1%), Orocobre, and Galaxy Resources. An underweight position in Piedmont Lithium and an overweight in Regis Resources (+9.3%) offset some of this underperformance.

### Quality Alpha Signal

Amongst the Signal volatility, the Quality Signal was the only relative underperformer for the month, up only 0.5% in July. Underperformance was driven by sector allocation, with overweight allocations to the IT and Consumer Discretionary sectors, together with an underweight allocation to the Energy sector. Good contributions came from an underweight allocation to the Financials sector, plus an overweight to the Industrials sector.

The Signal's underweight positioning in the basket of outperforming rare earth stocks drove the selection losses from the Materials sector. An overweight position in Champion Iron and an underweight in Piedmont Lithium mitigated the underperformance within this sector.

### Trend Alpha Signal

The Trend Signal had a very strong month (+2.5%), driven by stock selection adding value in 10 out of 11 GICS sectors. Stock selection within Materials was the largest value add, with a sector overweight position also adding 0.26% to outperformance.

Within Materials, overweights to the rare earth miners, along with an overweight in Iluka Resources (+8.5%) added value. Within the Financials sector the selection gains came from an underweight position in Zip Co., combined with overweight positions in Pinnacle Investments (+9.8%), Janus Henderson and NIB Health (+9.7%). An underweight to Industrials was the only real detractor within Trend for the month, the only underperforming sector for this Signal in July.

### Value Alpha Signal

Despite the larger market thematic of value underperformance, the Value Alpha Signal performed in line with the Benchmark for the month. While relative performance was flat, the Signal was positively positioned overall sector wise, primarily through overweights to Materials and Industrials, and underweight Healthcare. This positioning was offset by underperformance in stock selection within Materials, with Value not holding many of the strongly rallying rare earth names. Within Industrials, an underweight to the Seven Group and overweight positioning in the AMA Group (-14.8%) and Macmillan Shakespeare (-2.3%) compounded the selection losses.

### Diversified Alpha Signal

The strong performance of the Trend Signal and outperformance of the Defensive Signal translated into an outperformance by the Diversified Alpha Signal.

Signal outperformance was driven by its stock selection, primarily within the Healthcare, Financials and Consumer Discretionary sectors. Underweight positions in Polynovo, Nanosonic (both Healthcare), Zip Co. (Financials), Marley Spoon and PointsBet (both Consumer Discretionary) were the key contributors. Also aiding the Signal's performance was an overweight to Janus Henderson. Trimming some of these gains were overweight positions in Platinum Asset Management (Financials) and Eagers Automotive (-6.0%) and Premier Investments (-4.5%) – both within Consumer Discretionary. Within Materials, the outperformance from the overweight to Champion Iron was largely offset by underweight positioning in Pilbara Minerals, Orocobre, and Galaxy Resources.

### Conclusion

While investors have been keenly attempting to position themselves for changes in global central bank policies, their attention will turn toward to the August reporting season. The recent run of elevated commodity prices will ensure that mining stocks will deliver strong profits, while consumer stocks have benefited from rising consumer confidence. Of key interest to investors this upcoming reporting season will be company comments regarding cost pressures, and how the most recent COVID-19 surge has affected their outlook. Crucially, investors will be looking for companies with diversified revenue bases and an ability to pass cost pressures onto consumers.

As the Blue Orbit Small Caps Systematic Alpha Fund closes in on its second live anniversary, it continues to demonstrate an ability to deliver positive risk adjusted returns despite the overall market thematic environment.

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