

Market Commentary

The S&P500 (+2.2%) continued its strong march in July, up for a sixth straight month, and closing at another record high. The NASDAQ (+1.2%) also increased, but hasn't quite been able to keep up over the last 12 months as inflation fears has seen Value outperforming Growth. US small caps struggled in July, with the Russell 2000 down 3.6%. European markets were mostly flat, with FTSE 100 (-0.07%) and the DAX (+0.09%) barely moving. Japan's stock market peaked in February, since then has been mostly trending sideways, with the Nikkei 225 down 5.2% in July. In late July the Chinese government announced further regulation changes that bans education companies from making profits, resulting in the Hang Seng falling 9.6%.

The Russell 2000 dropped 1.55% (AUD) in July, with little separating Growth (-1.58%) and Value (-1.52%). The broader MSCI World ex AU Small Cap rose 1.43% (AUD), with the Growth index (+1.61%) outpacing Value (+1.28%).

After starting the year at USD47.78 per barrel, the NYMEX Light Sweet Crude Oil Futures peaked at over USD76.0 per barrel in early July. Rising vaccination numbers across United States, Europe and Asia has seen life heading back to normal, resulting in oil demand outstripping supply. With the Energy sector seeing a sharp fall of 9.0% in July, the increased oil demand indicates that the Energy sector may have overshot in recent months.

Within MSCI World ex AU Small Caps, Sweden (+11.6%) had a stellar month, following stronger than expected second quarter GDP growth of 0.9%. Switzerland (+8.4%) was very strong, and similar to Sweden had every sector increasing. Hong Kong (-5.11%) was clearly the weakest performing country on the back of Chinese regulation reforms. The United States (-0.05%) was the only other country in the red (in AUD terms), with US Utilities and US Real Estate returning over 5% each, while US Energy and US Communications were very weak.

Real Estate (+5.9%) was the best performing sector in the global small caps universe, with little separating the developers and managers. Industrials (+3.7%) was also strong, along with Utilities (+3.5%). At the stock level, State Auto Finance rallied 198% (AUD) following a takeover announcement from Liberty Mutual Insurance. AKKA Technologies also rallied more than 100% after Adecco Group announced their takeover. Ardelyx fell 76.0% following FDA rejection of its new drug application, although this isn't a final decision. Seres Therapeutics dropped 61.2% after announcing its colitis drug failed in a mid-stage clinical trial.

Strategy Performance

The Blue Orbit Global Small Caps Systematic Alpha Strategy had a gross return of 1.64% in June, outperforming its Benchmark, which returned 1.43%.

As at 30 July 2021	1 Month	3 Month	6 Months	1 Year	Since Inception ²
Blue Orbit Global Small Cap Systematic Alpha Strategy ¹	1.64%	7.30%	21.49%		28.49%
Benchmark ³	1.43%	5.48%	16.77%		20.01%
Excess Return	0.21%	1.82%	4.72%		8.48%

1. The Strategy is currently being run as a paper strategy only, and is not a live strategy and is not being managed with actual funds. Returns shown are gross returns, and do not include transaction costs or fees. Returns calculated by FactSet, in AUD.

2. Inception Date is 31 December 2020.

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

The Australian dollar fell 0.61% against the US dollar in July, improving the returns to local investors.

Good stock selection drove outperformance in July. An overweight to Crocs (+19.0%) contributed 25bp to outperformance, with TFI International (+25.0%) and AutoNation (+30.7%) also double digit contributors. Not holding AMC Entertainment (-33.3%) was a positive for the Strategy, with InMode (+22.6%), Aspen Technology (+8.6%) and Quidel (+12.8%) also performing strongly. Signet Jewelers (-18.4%), Ovintiv (-16.7%), AMC Networks (-23.5%) and Lion's Gate Entertainment (-25.4%) detracted more than 10bp each.

Global Small Caps Systematic Alpha Strategy

Monthly Performance Report as at 31 July 2021

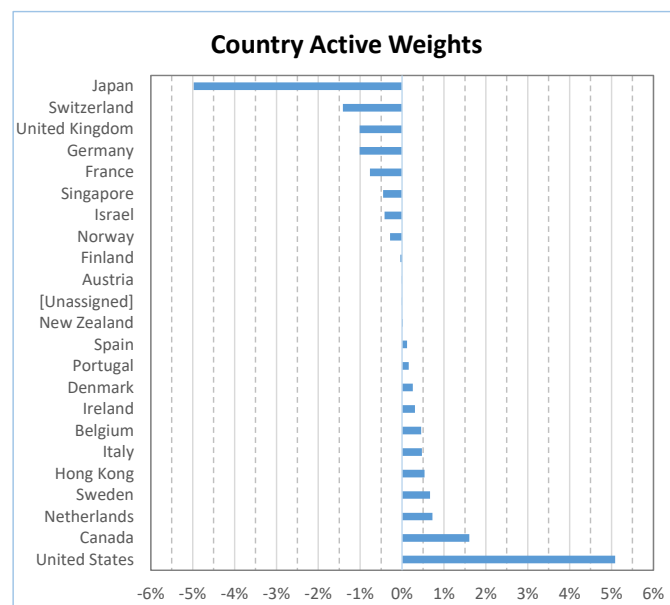
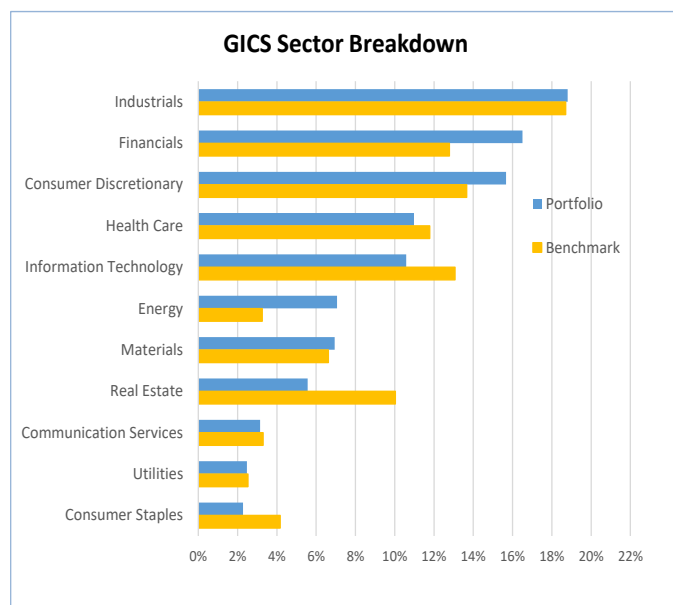


Country allocation detracted 26bp from Strategy outperformance, with the overweight allocations to United States and Hong Kong detracting 8bp and 4bp respectively, and underweights to Sweden and Switzerland detracting 6bp and 7bp. Sector allocation detracted 31bp, mostly from the underweight to Real Estate, although the underweight position in Health Care contributed 13bp. Good stock selection within the Industrials and Materials sectors contributed 20bp each, with strong stock selection in Health Care contributing 44bp.

Strategy Characteristics

Characteristics	Portfolio	Benchmark
Number of securities	338	4262
Market Capitalization	8,041	6,453
Active Share	84.0	0.0
Dividend Yield	1.6	1.4
Price/Earnings	12.2	16.4
P/E using FY1 Est	11.8	16.8
Price/Cash Flow	8.0	11.7
Price/Book	2.2	2.1
ROA	5.7	1.7
ROE	11.3	3.9
LT Debt to Capital	39.9	37.1

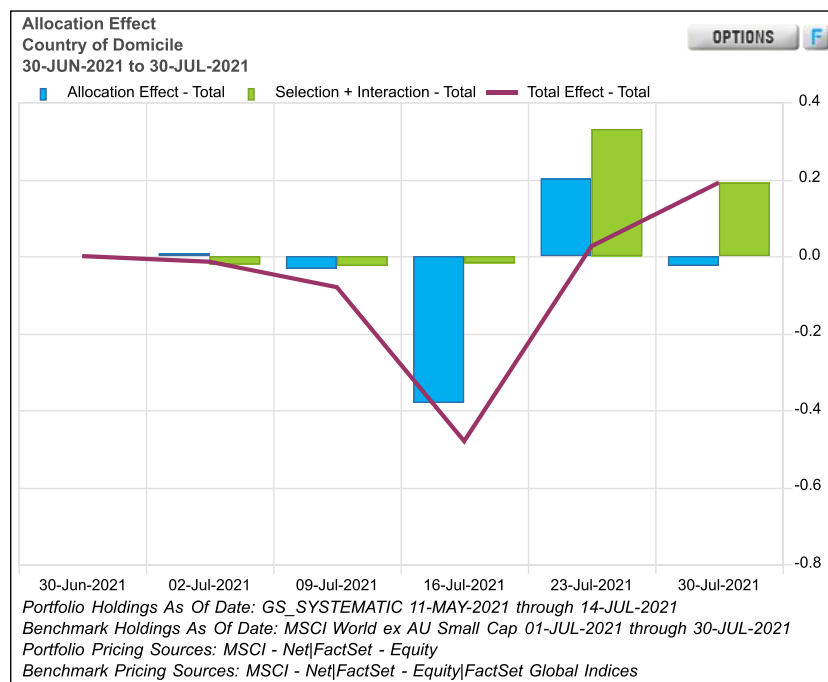
Top 10 Holdings	Portfolio	Benchmark	Active
Crocs, Inc.	1.72%	0.11%	1.61%
OneMain Holdings, Inc.	1.23%	0.06%	1.17%
Foot Locker, Inc.	1.20%	0.07%	1.14%
Dick's Sporting Goods, Inc.	1.14%	0.08%	1.06%
MasTec, Inc.	1.05%	0.07%	0.98%
Aspen Technology, Inc.	1.03%	0.12%	0.91%
Stifel Financial Corp.	1.00%	0.09%	0.91%
Williams-Sonoma, Inc.	0.96%	0.14%	0.82%
Kohl's Corporation	0.95%	0.10%	0.85%
TFI International Inc.	0.92%	0.11%	0.80%



Sector Attribution

Sector Attribution	Global Small Systematic			Benchmark			Attribution			
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation	Selection + Interaction	Currency	Total
Industrials	19.74%	4.74%	0.89%	18.51%	3.68%	0.68%	0.04%	0.21%	-0.01%	0.24%
Consumer Discretionary	16.93%	1.07%	0.13%	13.71%	0.51%	0.07%	-0.04%	0.14%	-0.03%	0.07%
Information Technology	10.44%	1.03%	0.12%	12.98%	2.07%	0.27%	-0.01%	-0.12%	0.00%	-0.13%
Financials	16.35%	0.30%	0.06%	12.80%	1.04%	0.13%	-0.01%	-0.10%	-0.02%	-0.13%
Health Care	9.07%	3.00%	0.50%	11.95%	-1.29%	-0.15%	0.15%	0.44%	0.00%	0.60%
Real Estate	4.99%	6.05%	0.29%	9.96%	5.92%	0.58%	-0.25%	0.02%	-0.02%	-0.25%
Materials	6.73%	6.53%	0.43%	6.53%	3.45%	0.22%	0.01%	0.21%	-0.01%	0.21%
Consumer Staples	2.66%	4.04%	0.10%	4.22%	0.11%	0.01%	0.03%	0.11%	0.00%	0.13%
Energy	6.89%	-9.40%	-0.69%	3.44%	-9.02%	-0.34%	-0.37%	-0.04%	0.00%	-0.41%
Communication Services	3.24%	-8.84%	-0.30%	3.37%	-3.28%	-0.11%	0.01%	-0.20%	0.00%	-0.19%
Utilities	2.61%	1.67%	0.04%	2.53%	3.51%	0.09%	0.01%	-0.05%	0.00%	-0.04%
Cash	0.35%	0.43%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.01%
Total	100%	1.56%	1.56%	100%	1.43%	1.43%	-0.44%	0.64%	-0.08%	0.13%

Country Attribution



Stock Attribution

Stock Attribution	Global Small Systematic			S&P/ ASX Small Ordinaries			Attribution Total Effect
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	
Total	100%	1.62%	1.62%	100%	1.43%	1.43%	0.19%
Top 5							
Crocs, Inc.	1.57%	19.04%	0.29%	0.10%	19.04%	0.02%	0.25%
TFI International Inc.	0.84%	25.03%	0.20%	0.10%	25.03%	0.02%	0.16%
AutoNation, Inc.	0.61%	30.71%	0.17%	0.07%	30.71%	0.02%	0.14%
InMode Ltd.	0.39%	22.62%	0.08%	0.03%	22.62%	0.01%	0.07%
AMC Entertainment Holdings, Inc. Class A	0.00%	0.00%	0.00%	0.20%	-33.29%	-0.09%	0.09%
Bottom 5							
Lions Gate Entertainment Corp Class B	0.35%	-25.44%	-0.10%	0.02%	-25.44%	-0.01%	-0.10%
Marathon Oil Corporation	0.71%	-13.09%	-0.10%	0.12%	-13.09%	-0.02%	-0.09%
AMC Networks Inc. Class A	0.43%	-23.49%	-0.12%	0.02%	-23.49%	-0.01%	-0.12%
Ovintiv Inc	0.77%	-16.72%	-0.14%	0.09%	-16.72%	-0.02%	-0.14%
Signet Jewelers Limited	0.73%	-18.44%	-0.15%	0.05%	-18.44%	-0.01%	-0.15%

Alpha Signal Attribution

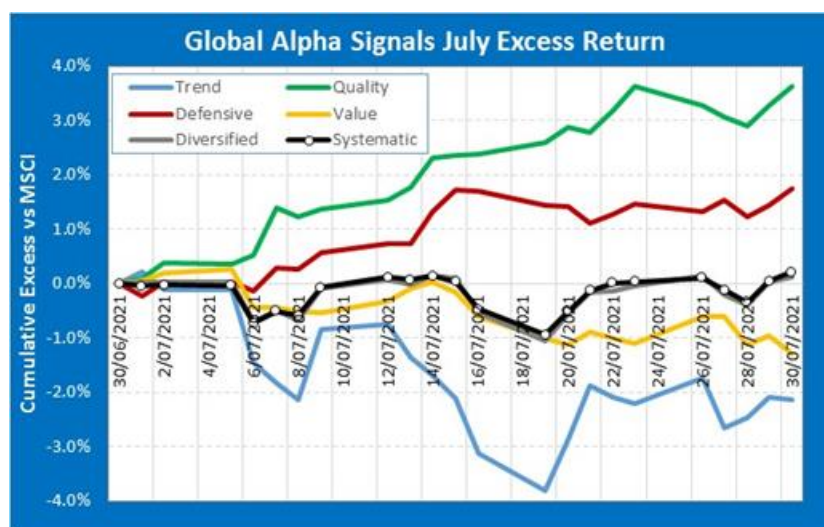
The Blue Orbit Systematic Alpha process is built from individual underlying Alpha Signals, developed using proprietary internal quantitative research processes. The individual Signals are well diversified with low to negative correlations, and designed to outperform in differing market environments.

The Diversified Alpha Signal is the combination of the individual underlying Alpha Signals, and is used as the main alpha input to construct the Strategy portfolio.

The returns shown here for the Blue Orbit Systematic Alpha Strategy are the 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	1 Month Return	1 Month Excess	3 Month Return	3 Month Excess
Benchmark	1.43%		5.48%	
Defensive Alpha Signal	3.16%	1.73%	6.43%	0.95%
Quality Alpha Signal	5.06%	3.63%	9.06%	3.58%
Trend Alpha Signal	-0.70%	-2.14%	4.58%	-0.90%
Value Alpha Signal	0.13%	-1.30%	6.31%	0.83%
Diversified Alpha Signal	1.56%	0.12%	6.40%	0.93%
Blue Orbit Global Small Caps Systematic Alpha Fund ¹	1.64%	0.21%	7.30%	1.82%

1. The Strategy is currently a paper strategy only, and is not running with any actual funds. Performance numbers do not include transaction fees or costs. Returns calculated from FactSet. Gross returns, inception date 11 October 2019



Defensive Alpha Signal

The modest total return of the Benchmark in July allowed the Defensive Alpha Signal to shine, outperforming by 1.7%. Signal outperformance started the month slowly, but then picked up strongly in the middle of the month. Outperformance was shared between stock selection and sector allocation, with country allocation flat. Defensive's overweight to larger cap stocks was a small positive contributor.

Sector allocation was a big contributor at 92bp, with exactly half coming from the overweight to Real Estate, with the underweight to Health Care half of that. Good stock selection within Industrials, Real Estate and Health Care provided the bulk of the stock selection contribution. Apartment Income REIT (+13.4%) was the standout contributor in Real Estate. Poor stock selection within Financials detracted 14bp, although Ares Management (+15.0%) was the best contributor for the Defensive Alpha Signal at 9bp.

Quality Alpha Signal

Quality was the best performing Alpha Signal for the second month in a row, outperforming by 3.6%. Its excess return profile through the month was similar to Defensive, only scaled up to just over double. Size allocation was a small positive at 13bp. Country allocation was modest at 40bp, with the overweight to Sweden contributing 29bp. Sector allocation was also a modest contributor at 36bp, with the overweights to Energy and Industrials contributing 35bp and 23bp respectively, while the underweight to Real Estate detracted 29bp. Stock selection within Industrials, Consumer Discretionary, Health Care and Information Technology contributed between 60bp and 90bp each.

A large overweight to Crocs saw it as the clear best contributor at 34bp, an even larger overweight to Aspen Technology (+8.6%) contributed 25bp, with Indutrade (+30.2%) the only other positive contributor in double digits. There was a very large number of small positive contributors, with 41 stocks contributing more than 3bp, and only 13 stocks detracting more than 3bp. The largest detractor was ITV (-8.1%), which detracted 9bp.

Trend Alpha Signal

The Trend Alpha Signal had a very weak month, underperforming the Benchmark by 2.1%. When the Benchmark dropped over 3.4% (or 6% in USD terms) from the 13th until the 19th, Trend lost 3% of relative performance, before quickly regaining over 2% in the next two days as the market bounced back. Overall for the month, sector allocation drove the underperformance, detracting 139bp, with Energy the main culprit at 93bp. The underweight to Real Estate detracted 39bp, and to Health Care contributed 23bp. Country allocation detracted 69bp, with the overweight to United States detracting 26bp, and the underweights to Sweden and Switzerland detracting 16bp and 10bp respectively. TFI International was the best contributor at 11bp, with Cleveland-Cliffs (+18.4%) and AMC Entertainment contributing 9bp each. Only two stocks detracted in the double digits, with Diamondback Energy (-16.1%) detracting 16bp, and Ovintiv 10bp. There was a large tail of stocks that detracted 5bp or more, primarily in the Consumer Discretionary and Industrials sectors.

Value Alpha Signal

The Value Signal had a second down month in a row, underperforming the Benchmark by 1.3%. Value's performance was flat with the Benchmark for the first two weeks, dropped by 1% when the market fell from the 13th to 19th of July, and was fairly flat for the rest of the month. Country allocation contributed 24bp, mostly from the underweight to United States, but the underweight positions in Sweden and Switzerland detracted 7bp each. Sector allocation detracted 94bp, mostly due to the Energy overweight position, although the underweight to Real Estate was also a modest detractor. Good stock selection within Health Care was a modest contributor, especially the overweight to Quidel (+12.8%) which contributed 16bp. Poor stock selection in Consumer Discretionary included Signet Jewelers at 9bp, although AutoNation (+30.7%) was strong at 12bp. Other notable stock detractors include Futu (-26.9%), Marathon Oil (-13.1%), and AMC Networks (-23.5%).

Diversified Alpha Signal

The Diversified Signal underperformed the average of the four underlying Alpha Signals by 0.37%. This was due to two of the Alpha Signals having fairly large underperformance, so that the conviction overweighting was a net deduction. The Diversified Alpha Signal also cuts down the universe from around 1,600 stocks to only 700 stocks, so the overweight positions naturally increase, while nearly all of the underweight positions are no longer held.

The overweight to Crocs contributed 18bp, and TFI International 11bp. Not holding AMC Entertainment contributed 9bp, with overweights to AutoNation, Aspen Technology and Middleby all contributing over 5bp. Signet Jewelers, Ovintiv, Marathon Oil and Royal Mail each detracted over 5bp.

The Systematic Portfolio added 9bp of performance over the Diversified, mostly due to better sector allocation. Most of this was due to the sector active weight limits being tighter for Systematic, reducing the underweight to Health Care, and the overweight to Energy.

Conclusion

July saw a big spread in returns across global equity markets, which were overall rather subdued compared to the exuberance of some months earlier in the year. In AUD terms, the Benchmark MSCI World ex AU Small Cap Index has now risen for 12 months in a row, although in USD terms July was the first down month since September 2020. July saw the style rotation into Quality strengthen, in effect moving away from both Value and Momentum. As we move into the second half of the year, the Portfolio is well positioned to generate alpha in the face of further potential style and overall market volatility.

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