Australian Small Caps Systematic Alpha Fund (Wholesale)

June Quarter Performance Report as at 30 June 2020

Fund performance

As at 30 June 2020	3 Month	FYTD	1 Year	Since Inception[2]
Blue Orbit Australian Small Cap Systematic Alpha Fund[1]	23.15%			-15.38%
Benchmark[3]	23.90%			-7.44%
Excess Return	-0.76%			-7.94%

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.

Market Commentary

While the March quarter could be characterised by crisis, the June quarter was one of strong market bounce back. Globally, markets rebounded with incredible speed from their late March lows, to erase almost all of their first quarter losses.

In the US, the S&P 500 rebounded 20.5% over the June quarter, shaving its CYTD losses to only 3%. Tech stocks saw greater gains than the broader based indices, with the NASDAQ index adding 31% in the June quarter- which when combined with the smaller March drawdowns, ended June in a gain position for the calendar year of +17.5%. US Small caps rallied well but failed to make up as much of their first quarter losses, with a +25.4% June rally leaving the index down -13% YTD.

Australia followed its global counterparts higher overall in June, however the smaller end of the market saw significantly stronger support. The ASX 100 large cap index returned +16% in the June quarter, bringing its YTD losses to -10.7%. The S&P/ASX Small Ordinaries index rallied +23.9% over the same time period, with Small cap year to date losses now only -9.2%.

The strength of the Australian small caps rally was partially driven by the strength of the gold sub industry, which rallied +42.5% over the quarter- and makes up over 10% of the Small ordinaries index by weight. Materials was one of the standout sector performers overall in the small caps over the quarter, up +34.2%.

Consumer Discretionary stocks recovered from their severe March quarter sell offs to be one of the best performing sectors over the June quarter (+36.1%). Consumer Staples (+0.9%) and Real Estate (+16.8%) were the worst relative performers, as investors instead piled into more cyclical sectors that had in March seen the heaviest selling.

The Blue Orbit Australian Small Caps Systematic Alpha Fund returned 23.15% in the June quarter, a small underperformance to the Benchmark S&P/ASX Small Ordinaries (Accumulation) Index, which returned 23.9%.

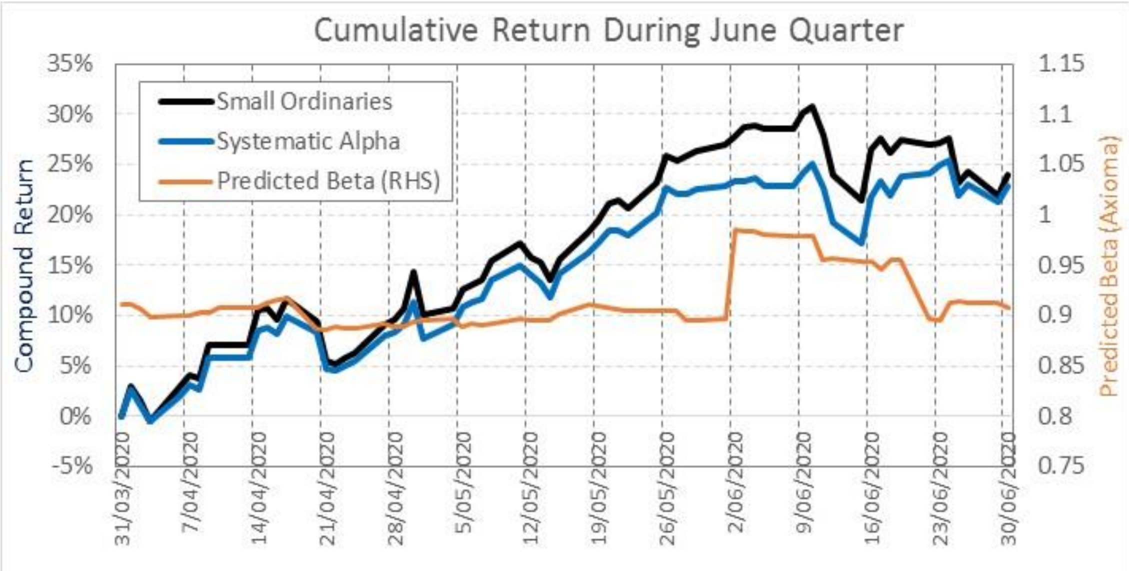
GICS Sector Attribution: June Quarter

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	11.28%	50.53%	4.54%	12.36%	36.05%	3.93%	-0.22%	1.43%	1.21%
Information Technology	13.13%	26.65%	3.57%	10.56%	20.32%	2.35%	-0.12%	0.70%	0.59%
Materials	20.22%	35.14%	6.99%	22.69%	34.19%	7.62%	-0.08%	0.19%	0.12%
Industrials	5.39%	30.11%	1.52%	6.71%	19.47%	1.32%	0.02%	0.64%	0.67%
Energy	1.87%	11.43%	0.29%	2.44%	22.65%	0.54%	0.03%	-0.12%	-0.08%
Communication Services	5.27%	18.75%	1.13%	4.67%	18.06%	0.90%	-0.03%	-0.09%	-0.11%
Real Estate	10.27%	15.15%	1.50%	12.63%	16.82%	1.99%	0.24%	-0.16%	0.09%
Financials	12.06%	21.01%	2.63%	9.93%	28.54%	2.57%	0.13%	-0.83%	-0.69%
Utilities	0.04%	55.28%	0.05%	0.35%	121.18%	0.29%	-0.16%	0.01%	-0.14%
Health Care	9.81%	17.99%	1.91%	9.41%	23.43%	2.26%	-0.09%	-0.45%	-0.54%
Consumer Staples	8.70%	-8.96%	-0.79%	8.25%	0.86%	0.15%	-0.25%	-1.02%	-1.26%
Cash	1.96%	0.01%	0.00%	0.00%	0.00%	0.00%	-0.40%	0.00%	-0.40%
Total	**100%**	**23.34%**	**23.34%**	**100%**	**23.90%**	**23.90%**	**-0.92%**	**0.30%**	**-0.56%**

The Fund maintained a slightly defensive position during the quarter.

- Moderate overweight positions in Consumer Staples and Gold stocks
- Moderate underweight positions in Consumer Discretionary stocks, and to companies that don't generate positive free cash flows
- Overweight the larger stocks in the Benchmark
- Higher profitability and lower leverage metrics than the Benchmark

Due to this positioning the Fund has maintained a moderately low beta to the market. The following chart shows the cumulative returns of the Benchmark and the Fund during the June quarter. The orange line represents the predicted beta of the Fund (using Axioma's short-term statistical model) which hovered around 0.9 for most of the June quarter.



Source: Blue Orbit. FactSet

It comes as no surprise given the lower beta positioning, that the Fund lagged the Benchmark as it rallied over 30%. When the market paused its rally in mid-June, the more profitable companies outperformed, while those with uncertain cash flows retreated. This allowed the Fund to outperform for the majority of the remainder of June.

Alpha Signal Attribution

The Blue Orbit Systematic Alpha process is built from three individual underlying Alpha Signals, developed using proprietary internal quantitative research processes. The three 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 model.

The Systematic Alpha Model is the target model portfolio that the Fund is traded towards. This model is a theoretical target, and its returns do not include fees or transaction costs.

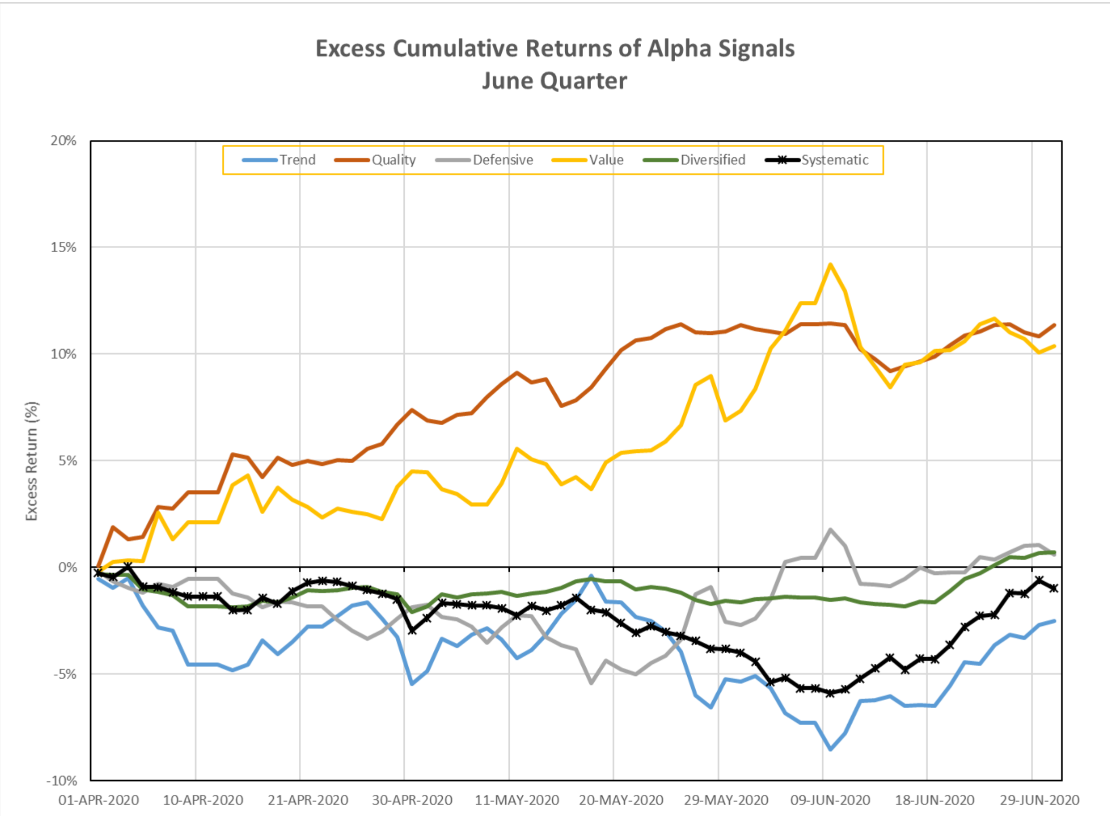
Alpha Signal Returns	3 Months Return	3 Months Excess
S&P/ASX Small Ordinaries - Total Return	23.90%	
Blue Orbit Alpha Signal Returns [1]		
Quality Alpha Signal	35.26%	11.35%
Trend Alpha Signal	21.41%	-2.50%
Defensive Alpha Signal	24.52%	0.61%
Value Alpha [2]	34.28%	10.38%
Diversified Alpha Signal	24.63%	0.72%
Systematic Alpha Portfolio (Model)	24.13%	0.23%

1. Returns shown are for theoretical, calculated signal and factor portfolios, and are not live or investible products. Returns are calculated using FactSet, and do not include any fees or transaction costs.

2. The Value Alpha Signal is not currently included in the Diversified Alpha Signal or the final Systematic Model portfolio.

In the majority of market environments, the three Alpha signals have a low to negative correlation, and we expect underperformance in any individual signal to be offset by outperformance in one or both of the other signals. Unlike the period of unusual high correlation of signals in the March quarter, in the June quarter the signal diversification returned to the model, despite the continued elevated market volatility. For the quarter, of the three signals currently live in the model, we saw one signal outperform, one fairly flat and one underperform.

Additionally, our new Value Alpha signal (not yet implemented in the portfolio, but being run and monitored as a paper signal awaiting implementation) had strong outperformance over the quarter. This both affirmed the alpha opportunity and diversification benefits of this signal to the overall process, which allows us to consider a targeted implementation of this new alpha lever, in a value rally environment.



Source: Blue Orbit. FactSet

As seen in the above cumulative excess returns chart, the June quarter was a period of high signal volatility, as well as market volatility. June in particular saw strong daily shifts in signal performance, as market volatility spiked and the earlier rally faltered.

Defensive Alpha Signal

The Defensive signal underperformed during the majority of April and May, however a strong rally in June saw it recover its performance to slightly above Benchmark levels. The signal's sector allocations during the quarter was the significant contributor, being underweight to Consumer Staples and overweight to Consumer Discretionary sectors. Signal behaviour also returned to expected long term parameters- being an underperformance during a strong market rally, and a strong outperformance during the brief market pullback in early/mid-June. The return of the negative correlations of signals (and therefore their diversifying effect) can also be seen during this quarter, a key reason for the return of the overall process to outperformance in June.

Trend

Our Trend signal was the only underperforming signal for the June quarter, with an excess return of -2.5% against the Benchmark. The Trend signal saw significant fluctuation over the quarter as the market oscillated, however the majority of its underperformance was concentrated in April. The signal returned to outperformance in May and June, recovering much of its earlier losses. The new, shorter-term time frame window implemented for the signal allowed it to adapt to the shift in sector trends in April, rotating out of Consumer Staples and into Consumer Discretionary, and going overweight into strongly performing Information Technology and Gold stocks. This aligns with our research in March prior to implementing this variation, which showed that in a highly volatile market subject to turning points, the shortened window would perform well to protect the signal's performance. The shortened trend window was implemented as part of our research on improving the behaviour of trend in elevated market volatility levels, and will be adjusted in line with that research based on the overall market volatility regime.

Quality

The Quality signal saw a large rally in the June Quarter, with excess return of over 10% over the Benchmark. This outperformance is again in line with our expected signal behaviour, which is outperformance in a strong rising market, particularly one favouring growth names. The Signal's overweight to Information Technology and Consumer Discretionary names, together with its underweight to Real Estate, were the key contributors to its outperformance. The signal's strong June quarter rally has now seen it recover its drawdown losses from September 2019, which peaked in March at the heights of the COVID-19 sell off panic.

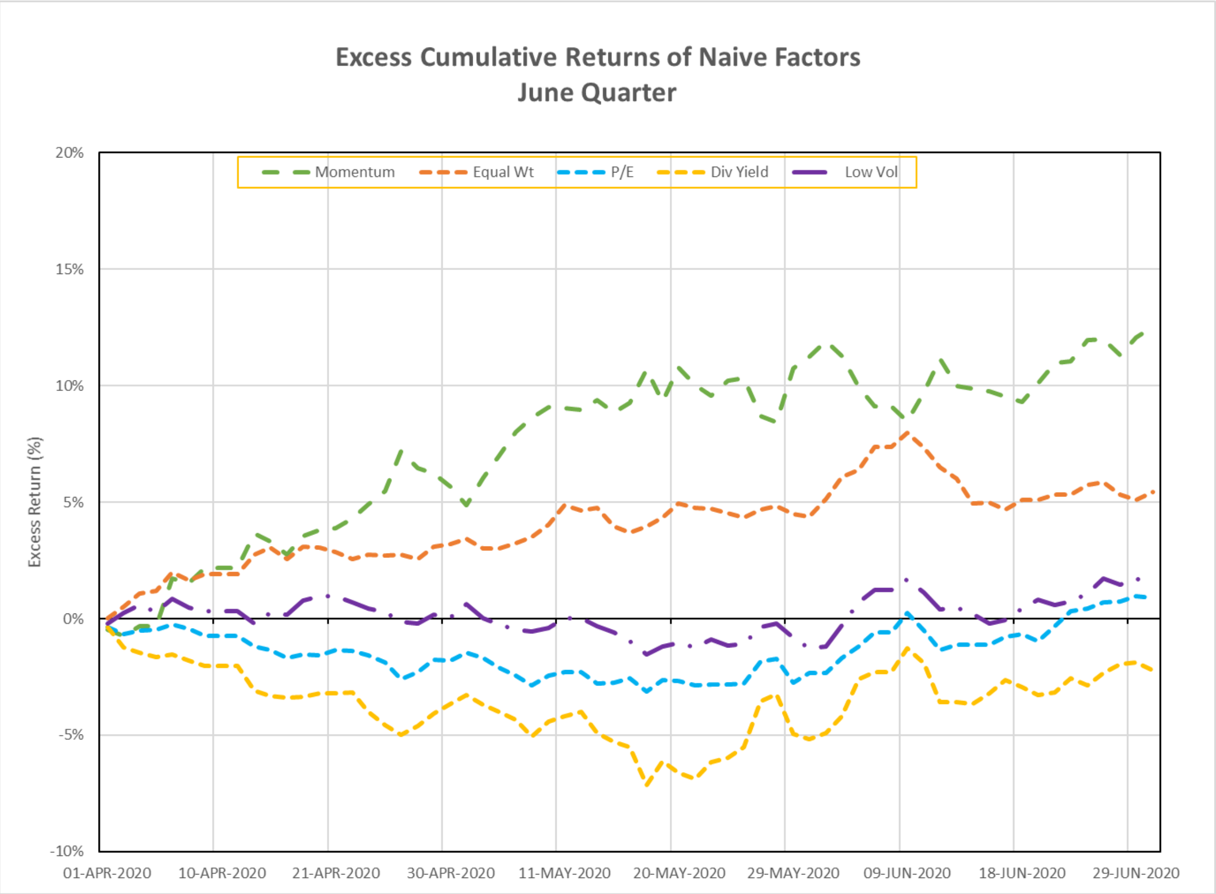
Sector Active Weights

The sector active weight limits have been maintained at their tighter limits of ± 3.0%. The Gold sub-industry active weight limit is also being maintained at ± 1.0%. Additionally, during June an active weight limit of ± 2.0% was applied to the GICS sub-industry Asset Manager & Custody Banks. These limits are applied during portfolio construction. Following a rebalance, the sector active weights are allowed to drift, before we then trim them back toward these limits. The same approach is used for the stock active weight limits.

Naïve Factor Returns

Naïve Factor Returns	3 Months Return	3 Months Excess
S&P/ASX Small Ordinaries - Total Return	23.90%	
Naïve Factor Returns [1]		
Naïve Dividend Yield Factor	21.69%	-2.21%
Naïve Equal Weight	29.32%	5.42%
Naïve Low Volatility Factor	25.36%	1.46%
Naïve Momentum Factor	36.43%	12.52%
Naïve PE Factor	24.79%	0.89%

1. *Returns shown are for theoretical, calculated signal and factor portfolios, and are not live or investible products. Returns are calculated using FactSet, and do not include any fees or transaction costs.*



Source: Blue Orbit. FactSet

The returns of the Naïve factors during the June quarter was a similar story of high volatility. Only the Equal Weight and Naïve (12 month) momentum signals saw significant outperformance for the quarter, with the Value and Low Volatility signals underperforming. Naïve momentum saw large outperformance in April and early May as the oversold names of March rallied, but its outperformance tapered off into June. Similarly, Equal Weight saw much of its rally in April and early May as the smallest stocks outperformed their larger counterparts, a trend that reversed in June.

Conclusion

In the March quarter, global markets were savaged, before a late rally in the last week of March. That rally continued throughout April, May and the first 10 days of June. The underlying thesis of the Blue Orbit investment process is to invest in profitable companies, using multiple low-to-negatively correlated alpha signals to identify them. Over the quarter Quality strongly outperformed, Defensive was a small outperformer, and Trend moderately underperformed. We do expect to see one to two signals outperform in any given period, and perhaps one underperform. An environment of 30% market falls, and 24% market rallies does not occur frequently. Under these scenarios, you need to re-test the process and assumptions to ensure they are holding up, and then stick to the process. By doing so, we were rewarded over the last few weeks with strong outperformance of the process. We expect that this will continue as we approach reporting season and discover which stocks can support their price rallies with solid financial results.

The Coronavirus has impacted markets with unprecedented speed and ferocity, and we are still waiting to see the longer term impacts on the global economy. Although the initial storm of extreme volatility has passed and some price recovery has been seen, markets and economies still have many headwinds to face until the virus is contained. While looking to maintain the long-term alpha proposition of our Systematic model, the severity of the current crisis has highlighted the need to implement minor model adjustments to adapt to the new normal we are seeing in markets globally. We have expedited the testing and implementation of the most urgent and relevant items from our research agenda into our process, as outlined in the March quarterly report, to protect the Fund and best position it for the coming months ahead.