

Performance Overview

Markets delivered another rollercoaster ride in March as investor confidence in the strength of the ongoing COVID-19 recovery waxed and waned. The confirmation of a massive US\$2Tn+ stimulus in the US grabbed investors' attention and fed an early risk-on mentality. With risk firmly back on the table, the S&P/ASX Small Ordinaries Index rose 3.9% by the middle of the month. However, the euphoria was not to last, as bond investors began to price in the potential of higher inflation resulting from the robust economic recovery. With bond rates heading higher, the US 10 Year rate hit 1.7%, global stock markets sold off - with growth stocks bearing the brunt of the selling pressure. Amplifying the selling momentum were new COVID-19 induced lock downs in Europe, the collapse of a \$25b hedge fund, and a container ship blocking the Suez Canal for over a week. Central banks eased some of the selling pressure by increasing their bond purchase programmes and reconfirming their commitment to keeping interest rates lower for longer. By the end of the month, the S&P/ASX Small Ordinaries ended up only 0.79%, underperforming both the large cap S&P/ASX100 (+1.8%) and the S&P 500 (+2.8%, in USD). In better news, the Blue Orbit Australian Small Caps Systematic Alpha Fund posted a total return of 2.4% for March.

As has been the norm over the last 12-months, the intra-month volatility resulted in diverse returns across and within each of the market sectors. The top performing sectors for the month were Consumer Staples (+6.2%), Real Estate Investment Trusts (REITs) (+5.0%) and Consumer Discretionary (+3.5%) sectors. Regarding the performance of the two consumer sectors, both sectors had very strong results from their retailing sub-sectors, thereby confirming that Australian consumers remain in a buoyant mood. At the other end of the performance spectrum were the Industrials (-2.3%), Materials (-1.5%), and Financials (-1.3%) sectors. Another significant outcome of the rollercoaster month was the underperformance of the smaller stocks in the Fund's investment universe. The two largest quintiles of stocks by size outperformed by an average of over 2%, while the smallest two quintiles averaged 3% underperformance.

At a stock level, 99 out of 201 stocks delivered positive returns for the month. Five stocks returned over 20%, including Hansen Technologies (+34%), Mayne Pharma Group (+27.3%) and Graincorp (+24.4%). At the opposite end Resolute Mining (-31.8%), Zip Co (-29.0%) and Loneer (-25.3%) were amongst a group of five stocks that fell by over 20%.

Blue Orbit Systematic Alpha Fund Performance

The Blue Orbit Australian Small Caps Systematic Alpha Fund posted a total return of 2.36% for March, outperforming its Benchmark by 1.6%.

As at 31 March 2021	1 Month	3 Month	6 Months	FYTD	1 Year	Since Inception (Annualised) ²
Blue Orbit Australian Small Cap Systematic Alpha Fund ¹	2.36%	4.37%	16.25%	23.37%	51.92%	2.97%
Benchmark ³	0.79%	2.09%	16.20%	22.80%	52.15%	9.10%
Excess Return	1.57%	2.28%	0.05%	0.57%	-0.22%	-6.13%

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)	\$2,213,654
NAV unit price (Mid)	\$1.0311
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	99	200
Market Capitalization	3,283	2,421
Active Share	53.6	0.0
Dividend Yield	2.9	2.2
Price/Earnings	17.2	15.5
P/E using FY1 Est	14.6	18.1
Price/Cash Flow	9.9	11.4
Price/Book	2.0	2.0
ROE	12.8	4.7
LT Debt to Capital	29.2	25.5

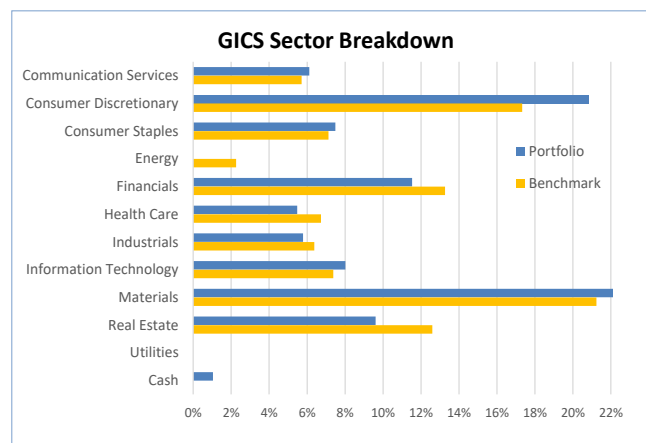
Top Ten Holdings	Portfolio	Benchmark
Harvey Norman Holdings Ltd	3.99%	1.57%
Eagers Automotive Limited	2.91%	0.96%
Codan Limited	2.79%	0.74%
Champion Iron Ltd.	2.60%	0.72%
News Corporation	2.48%	0.70%
Platinum Asset Management Ltd	2.43%	0.60%
Metcash Limited	2.41%	1.51%
Janus Henderson	2.32%	0.46%
Pro Medicus Limited	2.31%	0.79%
Spark New Zealand Limited	2.09%	0.37%

Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Harvey Norman Holdings	3.99%	1.57%	2.42%
Codan Limited	2.79%	0.74%	2.05%
Eagers Automotive Lim	2.91%	0.96%	1.94%
Champion Iron Ltd.	2.60%	0.72%	1.88%
Janus Henderson Group	2.32%	0.46%	1.86%

Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Shopping Centres Australasia	0.00%	1.09%	-1.09%
Chorus Limited	0.00%	1.14%	-1.14%
Iluka Resources Limited	0.00%	1.22%	-1.22%
Steadfast Group Limited	0.00%	1.33%	-1.33%
Vocus Group Limited	0.00%	1.36%	-1.36%



Performance Attribution

The Blue Orbit Investment process generated outperformance of 1.6% in March. Driving the Fund's performance was the outperformance of all underlying Alpha Signals, thus validating the investment processes' ability to navigate volatile markets. In addition, the final portfolio construction process added value through its tilt to the larger stocks in the investment universe. Additionally, almost all of the Fund's outperformance came from strong stock selection. In particular, selections in the outperforming Consumer Discretionary sector were highly accretive, while selections in the underperforming Information Technology (IT) (-0.14%) and Financial sectors also added value.

From the Consumer Discretionary sector, the leading overweight positions were Harvey Norman (+13.2%), Premier Investments (+23.4%), and Eagers Automotive (+7.4%). Detracting slightly from this was the performance of several underweight travel related stocks, namely Flight Centre (+8.3%), and prior to its removal from the index, Ardent Leisure (+45.7%). Standout contributors in the IT sector were an overweight holding in Hansen Technologies and an underweight in Megaport (-11.4%). Overweight positions in Janus Henderson (+9.8%) and Platinum Asset Management (+10.8%), as well as an underweight in Zip Co within Financials also contributed positively.

The removal of three previously suspended stocks from the Benchmark – Freedom Foods, Phoslock Environmental Technologies, and FAR – made a material contribution to the Fund's March outperformance. Prior to their suspension, the Fund did not have a position in any of the stocks due to their poor financial and trend characteristics. Further, prior to its suspension Freedom Foods was registering as a Torpedo (a Blue Orbit overlay indicating that a stock should be underweighted or sold due to negative short term indicators).

Trimming some of the Fund's alpha were several positions in the Industrials and Healthcare (+0.75%) sectors. The main culprits from the Industrials sector were the overweights McMillan Shakespeare (-9.9%) and Smart Group (-3.5%). In the Healthcare sector, an overweight to Pro Medicus (-6.7%) and an underweight to Polynovo (+20.8%) were the chief offenders. Readers should be aware that over the last 12 months Pro Medicus has been a constant overweight in the Fund and has had superior performance to Polynovo.

Australian Small Caps Systematic Alpha Fund (Wholesale)

Monthly Performance Report as at 31 March 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
Consumer Discretionary	20.28%	7.13%	1.34%	17.40%	3.54%	0.60%	0.06%	0.71%	0.76%
Information Technology	7.54%	7.78%	0.55%	6.94%	-0.14%	-0.03%	-0.01%	0.58%	0.56%
Financials	11.73%	1.77%	0.19%	13.74%	-1.32%	-0.16%	0.04%	0.36%	0.40%
Communication Services	6.34%	3.25%	0.23%	5.97%	-0.82%	-0.03%	-0.01%	0.25%	0.25%
Consumer Staples	7.07%	4.41%	0.32%	7.16%	3.76%	0.27%	0.02%	0.05%	0.07%
Energy	0.29%	6.75%	0.04%	2.33%	1.07%	0.03%	-0.01%	0.02%	0.01%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	9.71%	5.71%	0.56%	12.28%	5.01%	0.59%	-0.12%	0.08%	-0.04%
Materials	23.22%	-1.66%	-0.45%	20.97%	-1.45%	-0.32%	-0.05%	-0.05%	-0.10%
Health Care	5.74%	-1.14%	-0.07%	6.71%	0.75%	0.03%	0.00%	-0.11%	-0.11%
Industrials	6.88%	-4.63%	-0.28%	6.50%	-3.18%	-0.20%	-0.01%	-0.12%	-0.14%
Cash	1.22%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.03%	0.00%	-0.03%
Total	100%	2.43%	2.43%	100%	0.79%	0.79%	-0.13%	1.77%	1.64%

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	2.43	2.43	100.00	0.79	0.79	0.01	1.63	1.64
Market Cap Quintile 1 (Large)	51.73	3.21	1.70	37.45	1.22	0.50	0.06	1.03	1.09
Market Cap Quintile 2	16.29	4.52	0.71	26.85	4.05	1.06	-0.31	0.10	-0.22
Market Cap Quintile 3	19.23	-0.40	-0.12	18.35	0.27	-0.08	0.04	-0.11	-0.07
Market Cap Quintile 4	9.43	1.52	0.17	11.02	-4.98	-0.56	0.09	0.64	0.72
Market Cap Quintile 5 (Small)	2.11	-1.80	-0.03	6.28	-0.96	-0.04	0.07	-0.02	0.05
Cash	1.22	--	--	--	--	--	-0.03	--	-0.03

Stock Attribution

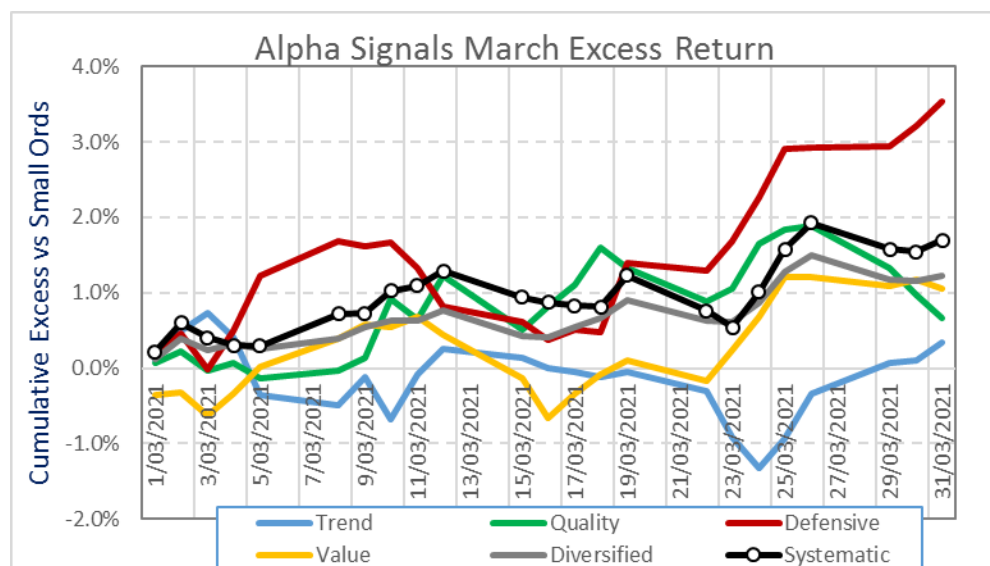
Stock Attribution	ASX Small Systematic			S&P/ ASX Small Ordinaries			Attribution
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Total Effect
Top 5							
Hansen Technologies Limited	1.54%	33.74%	0.48%	0.34%	33.96%	0.10%	0.36%
Harvey Norman Holdings Ltd	3.96%	13.17%	0.48%	1.56%	13.17%	0.19%	0.27%
Premier Investments Limited	1.86%	23.36%	0.40%	0.95%	23.36%	0.20%	0.19%
Chorus Limited	0.00%	0.00%	0.00%	1.31%	-12.84%	-0.17%	0.18%
Unibail-Rodamco-Westfield	1.75%	14.79%	0.24%	0.44%	14.81%	0.06%	0.17%
Bottom 5							
Pro Medicus Limited	2.46%	-6.66%	-0.17%	0.86%	-6.66%	-0.06%	-0.12%
Iluka Resources Limited	0.92%	-7.04%	-0.14%	1.20%	-2.55%	-0.04%	-0.15%
Mcmillan Shakespeare Limited	1.73%	-9.89%	-0.17%	0.34%	-9.90%	-0.03%	-0.15%
IGO Limited	1.26%	-10.67%	-0.15%	0.00%	0.00%	0.00%	-0.16%
Sandfire Resources Limited	1.90%	-11.32%	-0.23%	0.43%	-11.30%	-0.05%	-0.18%

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	0.79%				
Defensive Alpha Signal	4.34%	3.55%	-0.04%	6.32%	-0.01
Quality Alpha Signal	1.47%	0.69%	4.73%	6.56%	0.72
Trend Alpha Signal	1.11%	0.33%	3.80%	7.17%	0.53
Value Alpha Signal	1.84%	1.05%	3.99%	7.59%	0.52
Diversified Alpha Signal	2.31%	1.52%	1.41%	2.90%	0.48
Systematic Alpha Portfolio (Model)	2.70%	1.92%	-3.80%	5.57%	-0.68
Blue Orbit Australian Small Caps Systematic Alpha Fund*	2.43%	1.64%	N/A	N/A	N/A

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



The preceding chart plots the cumulative relative returns for each of the Alpha Signals and the Fund against the Benchmark for March. As mentioned previously, all signals outperformed for the month, with the Defensive Signal leading the way. The strength of Defensive Signal is partly attributable to the strong dividend growth in the Australian market and the attraction these dividends hold in a low interest rate environment. Both the Value and Trend Signals staged a late month rally as volatility returned and the market sold-off. Similar to previous months, positioning in the best (worst) performing stocks will greatly influence the performance of the individual Alpha Signals. A sample of these stocks in March include, Zip Co, Hansen Technologies, Graincorp, and Resolute Mining, and Piedmont Lithium.

Performance Commentary

Defensive Alpha Signal

The Defensive Signal had a very strong month with its outperformance accelerating as the market became more volatile late in the month. A vast majority of the outperformance came from the Signal's stock selection. However, an overweight allocation to the strongly performed REIT sector boosted the outperformance, along with an underweight allocation to the underperforming Materials sector. The largest selection gains came from the Financials sector, where the Signal had a zero holding in Zip Co, and was overweight Janus Henderson and Platinum Asset Management. An underweight holding in Virgin Money UK (+5.5%) trimmed some of the Signal's performance. Responsibility for the bulk of the outperformance from the Consumer Discretionary sector came from overweight positions in Harvey Norman and Premier Investments, and an underweight position in PointsBet (-12.2%). Not holding Flight Centre and Ardent Leisure offset some of the Signal's performance gains.

Quality Alpha Signal

Generating solid outperformance for the month was the Quality Alpha Signal. There was a minor drag in performance from an overweight allocation to the underperforming IT sector while also being underweight the REIT sector. Offsetting some of the allocation effect was an overweight allocation to Consumer Discretionary, while being underweight Financials. Driving the overall outperformance was the Signal's overweight holdings within the IT sector, namely Hansen Technologies, Technology One (+10.4%), and Tyro Payments (+9.3%). Unfortunately, the Signal was also overweight Nearmap (-11.4%) and Fineos (-11.9%). Supplementary outperformance came from the Healthcare Sector where the overweight positions of Clinovel Pharmaceutical (+20.8%), Mayne Pharma Group (+27.3%) and Australian Pharmaceutical Industries (+15.3%) all outperformed. Offsetting this was the underweight position in Polynovo, and overweight in Pro Medicus.

Proving to be a larger drag on performance were some selections in the Industrial and Consumer Staples sectors. In the underperforming Industrials sector, the Signal was overweight the following underperformers: McMillian Shakespeare, AMA Group (-18.45), and Emeco (-8.2%). However, offsetting some of these losses was the Signal's underweight positions in Cimic (-17.4%) and Bingo (-5.5%). In relation to the Consumer Staples sector, underweights in Graincorp (24.4%), Metcash (9.2%), and Select Harvest (+18.8%) were the main antagonists.

Trend Alpha Signal

Given the market's volatile nature in March, the Trend signal only managed to record modest outperformance. Per Figure 1, the Signal's performance improved markedly during the last week of the month. The main contributor to the muted outperformance was the Signal's sector allocation, with an overweight to the Materials sector and underweight to the REIT sector. Improving the allocation performance was an overweight to the Consumer Discretionary sector.

The Trend Signal had a stronger month in terms of specific stock selections. Overweight positioning in Chalice Mining (+8.8%) and SIMS (+11.0%) coupled with underweight positions in Piedmont Lithium (-23.9%) and Resolute Mining (-31.8%) were the stand out selections. Detractors within this sector were overweight holdings in Nickel Mines (-12.5%), Loneer (-25.3%) and Iluka (-2.6%). From the smaller Communication Services Sector (-0.8%) the Signal was correctly positioned with an underweight to Chorus (-12.8%) and an overweight to Vocus (+8.1%). In the Consumer Discretionary sector overweights in Points Bet and Red Bubble (-13.5%) plus an underweight to Super Retail (+7.0%) overwhelmed the attribution from being overweight Eagers Automotive (+7.4%) and underweight Kogan (-13.1%). The main drags from the Financials sector was an overweight position in Zip Co and underweight positioning in IOOF (+11.1%) and Pandal (+9.4%)

Value Alpha Signal

During the quarterly rebalance in March, the Value Signal was dialled down to zero in the overall process. The rationale for the change was that since the vaccine induced November rally, Value stocks have had an extended period of outperformance against trend, and Blue Orbit timing research had indicated that the signal should be turned off given its relative positioning in the Australian small cap market.

During its last month of inclusion, the Value Signal outperformed the benchmark due to correct stock selections. Sector allocation did not add value in March, as the benefits of being overweight to Consumer Staples and an underweight to Financials were matched by an equivalent underweight to the REIT sector and overweight to Industrials. In terms of stock selection, the largest gains were the selections in the IT sector, namely an overweight to Hansen Technologies and underweights to Megaport and BrainChip (-21.8%). Strong selection gains also came from the Consumer Discretionary sector due to an underweight in PointsBet and overweight positions in Super Retail and Premier Investments. A non-holding in Zip Co generated a large selection gain from the Financials Sector. Trimming some of the selection gains were several overweights in the Materials sector, including Western Areas (-20.5%), Sandfire Resources (-11.3%) and Mount Gibson Iron (-14.1%). However, it was not all bad news with the following underweights adding performance, Piedmont Lithium, Deterra Royalties (-13.3%) and Resolute Mining (-31.8%).

Diversified Alpha Signal

With the individual Alpha Signals performing strongly it should be no surprise that the Diversified Alpha Signal also outperformed strongly. Strong stock selection was again the main theme, with a minor benefit from sector allocation. An overweight allocation to the Consumer Discretionary Sector sufficiently negated the underweight allocation to the REIT Sector. The strong stock selection came from the Financials, Materials and IT sectors, with no noticeable performance drags from the other sectors. An underweight to Zip Co and Hub24 (-0.5%) combined with an overweight to Platinum Asset Management led the way in the Financials sector. In the Materials sector, underweights to Piedmont Lithium, Resolute Mining, and Deterra Royalties more than compensated the overweight positions in Sandfire and Iluka. Finally, in the IT sector the main performance gains came from an overweight position in Hansen Technologies and underweights in Megaport and BrainChip.

Conclusion

The first quarter of 2021 ended in a similar fashion to the previous 9-months, that is the market bouncing around within a fairly well defined range. It appears the lower end remains supported by the large quantities of cash still sitting on the sidelines and investors are looking to buy the dip at every opportunity. Alternatively, the range's top end is defended by stock market bears and bond traders who have continued to edge up yields as the economic recovery gathers pace. Whether this range bound trend will be broken in coming months is still to be seen, but conditions remain buoyant for equity investing given central banks remain committed to suppressing yields, and global fiscal policy retains its expansionary stance. Regardless of the short-term direction of the market, the Blue Orbit investment strategy remains well placed to capture outperformance for its investors.

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