

Market Overview

Global markets closed broadly lower in November, with the emergence of the new Omicron COVID variant weighing on returns. Concerns around reduced demand saw energy prices fall sharply, with energy stocks among the worst performers after several strong months of gains.

The benchmark S&P/ASX Small Ordinaries traded sideways for much of November, before a volatile last week of the month saw it finish 0.31% lower. Small caps outperformed large, with the ASX 100 down 0.56% for the month.

Within the Small Ordinaries, the weak returns of Energy (-5.6%) and Consumer Discretionary (-4.4%) stocks were mostly offset by strong gains in Information Technology (+5.7%) and Materials (+4.7%). For a relatively flat month for the benchmark, the dispersion of returns across sectors and stocks was quite large compared to recent months. Tyro Payments, Nearmap and Nuix were all down between 25% and 30%, while Novonix rallied 62% and Chalice Mining rose 50%.

Blue Orbit Systematic Alpha Fund Performance

The Blue Orbit Australian Small Caps Systematic Alpha Fund (Fund) posted a net return of 1.53% in November, outperforming the Benchmark return of -0.31%.

As at 30 November 2021	1 Month	3 Month	6 Months	FYTD	1 Year	2 Years (Annualised)	Since Inception (Annualised) ²
Blue Orbit Australian Small Cap Systematic Alpha Fund ¹	1.53%	-1.76%	3.17%	0.73%	17.28%	6.20%	6.16%
Benchmark ³	-0.31%	-1.54%	7.27%	4.07%	18.44%	12.03%	12.37%
Excess Return	1.83%	-0.21%	-4.10%	-3.34%	-1.17%	-5.83%	-6.21%

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)	\$2,410,121
NAV unit price (Mid)	\$1.1019
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	111	199
Market Capitalization	3,375	2,695
Active Share	43.0	0.0
Dividend Yield	2.6	2.2
Price/Earnings	12.8	12.8
P/E using FY1 Est	15.3	16.1
Price/Cash Flow	10.9	11.7
Price/Book	2.5	2.2
ROE	7.7	3.7
LT Debt to Capital	25.8	22.4

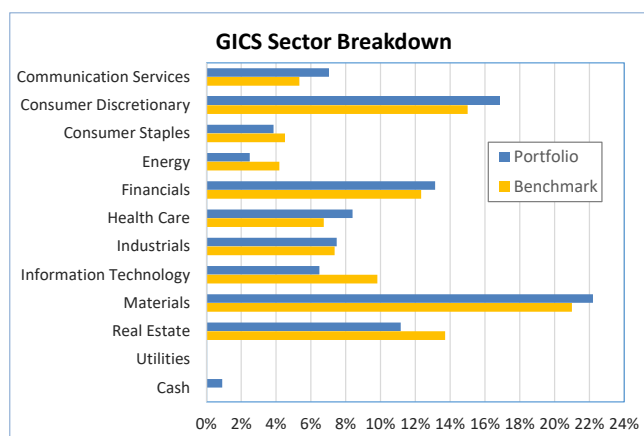
Top Ten Holdings	Portfolio	Benchmark
Allkem Limited	3.04%	2.14%
Pilbara Minerals Limited	2.95%	0.00%
Super Retail Group Lim	2.93%	0.71%
Janus Henderson Group	2.87%	0.66%
Pro Medicus Limit	2.83%	1.06%
Fletcher Building Limited	2.74%	0.75%
Healius Limited	2.35%	0.90%
Inghams Group Ltd.	2.16%	0.46%
Eagers Automotive Limited	2.05%	0.85%
TPG Telecom Limited	1.93%	0.89%

Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Pilbara Minerals Limit	2.95%	0.00%	2.95%
Super Retail Group Limited	2.93%	0.71%	2.21%
Janus Henderson Group	2.87%	0.66%	2.21%
Fletcher Building	2.74%	0.75%	1.99%
Pro Medicus Limited	2.83%	1.06%	1.77%

Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Nickel Mines Ltd.	0.00%	0.87%	-0.87%
Shopping Centres Australasia	0.16%	1.06%	-0.90%
Charter Hall Long WALE REIT	0.00%	0.97%	-0.97%
Chorus Limited	0.00%	1.01%	-1.01%
Megaport Ltd.	0.00%	1.11%	-1.11%



Performance Attribution

The Fund's sector positioning was a detractor in November, primarily through its underweight to Information Technology and overweight to Consumer Discretionary sectors. However strong stock selection across 8 out of 10 GICS sectors overcame this, with the Fund outperforming the Benchmark by +1.8%.

Trend was the key theme in November, with Blue Orbit's Trend Alpha Signal the strongest of all signals, outperforming the Benchmark by over 4.5%. Just over half of this was driven by its strategic overweighting to lithium and battery mineral names, none of which yet has a positive operating cash flow. The Quality, Defensive and Value Alpha Signals all struggled as stocks with weak financials rallied.

The Fund's overweight positions in key outperformers Pro Medicus Limited (+17.3%), Novonix (+61.5%), Pilbara Minerals (+13.6%) and Allkem Limited (+14.8%, formerly Orocobre Limited) were among the key contributors to performance. Additionally, the Fund did not hold Tyro Payments (-28.7%), Beach Energy (-15.1%), or Webjet Limited (-13.5%), and was underweight Zip Co (-20.5%). The two largest stock detractors for the Fund were from not holding Nickel Mines (+35.9%) or Megaport (+15.1%).

The Fund's size tilt was a key contributor to outperformance for the month, with the allocation itself contributing 64bp. There was a very strong and monotonic trend with the larger size quintiles outperforming the smaller. This is the long-term trend that we have observed over the last 20 years. The strong run in the market over the last 18 months has seen this reversed as investors embraced more risk in response to global fiscal stimulus.

Australian Small Caps Systematic Alpha Fund (Wholesale)

Monthly Performance Report as at 30 November 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	17.06%	-1.26%	-0.20%	15.07%	-4.44%	-0.65%	-0.09%	0.56%	0.47%
Health Care	8.39%	5.07%	0.41%	6.68%	-0.09%	0.00%	0.00%	0.42%	0.42%
Financials	13.62%	-0.09%	0.00%	12.28%	-3.06%	-0.36%	-0.04%	0.41%	0.37%
Materials	21.47%	6.27%	1.27%	22.22%	4.69%	0.95%	-0.05%	0.34%	0.29%
Energy	2.47%	1.34%	0.03%	4.18%	-5.62%	-0.24%	0.09%	0.18%	0.27%
Information Technology	6.20%	11.33%	0.67%	9.32%	5.65%	0.51%	-0.18%	0.33%	0.14%
Industrials	7.65%	-2.21%	-0.17%	7.30%	-3.70%	-0.27%	-0.01%	0.12%	0.11%
Communication Services	6.93%	1.12%	0.09%	5.11%	0.04%	0.01%	0.00%	0.08%	0.08%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	11.23%	-2.25%	-0.26%	13.35%	-1.13%	-0.16%	0.02%	-0.13%	-0.11%
Consumer Staples	4.47%	-5.40%	-0.24%	4.50%	-2.23%	-0.10%	0.00%	-0.15%	-0.15%
Cash	0.51%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	100%	1.59%	1.59%	100%	-0.31%	-0.31%	-0.26%	2.16%	1.90%

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	1.59	1.59	100.00	-0.31	-0.31	0.64	1.26	1.90
Market Cap Quintile 1 (Large)	45.75	4.43	2.00	34.85	1.97	0.65	0.26	1.09	1.35
Market Cap Quintile 2	22.21	0.55	0.11	27.32	0.06	0.03	-0.02	0.11	0.09
Market Cap Quintile 3	20.44	-0.26	-0.05	18.11	-0.37	-0.07	0.00	0.02	0.03
Market Cap Quintile 4	7.34	-3.23	-0.25	12.42	-3.44	-0.44	0.17	0.02	0.18
Market Cap Quintile 5 (Small)	3.75	-5.78	-0.22	7.30	-6.46	-0.48	0.23	0.03	0.25
Cash	0.51	--	--	--	--	--	-0.00	--	-0.00

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							
Pro Medicus Limited	2.70%	17.27%	0.42%	0.98%	17.27%	0.15%	0.27%
NOVONIX Ltd	1.42%	61.49%	0.70%	1.00%	61.49%	0.49%	0.21%
Zip Co Ltd.	0.18%	-20.46%	-0.04%	1.01%	-20.46%	-0.23%	0.19%
Janus Henderson Group	2.91%	8.47%	0.23%	0.65%	8.47%	0.05%	0.18%
Pilbara Minerals Limited	2.71%	18.18%	0.45%	1.99%	13.64%	0.25%	0.17%
Bottom 5							
EML Payments Ltd.	0.00%	0.00%	0.00%	0.37%	22.03%	0.08%	-0.08%
Mcmillan Shakespeare Limited	1.44%	-8.55%	-0.12%	0.33%	-8.55%	-0.03%	-0.09%
Inghams Group Ltd.	2.17%	-6.74%	-0.15%	0.44%	-6.74%	-0.03%	-0.12%
Megaport Ltd.	0.00%	0.00%	0.00%	1.03%	19.15%	0.17%	-0.18%
Nickel Mines Ltd.	0.00%	0.00%	0.00%	0.68%	35.89%	0.22%	-0.23%

Alpha Signal Attribution

The Blue *Orbit* Systematic Alpha Funds construction process combines four individual underlying Alpha signals – Defensive, Quality, Trend, and Value, developed using our proprietary internal quantitative research process. The design intention of the four signals is to ensure 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 (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	1 year Excess Return	1 Year Tracking Error	1 Year Information Ratio	2 Year Annualised Excess Return	2 Year Annualized Tracking Error	2 Year Information Ratio
Small Ordinaries	-0.31%							
Defensive Alpha Signal	-0.93%	-0.63%	-2.52%	5.39%	-0.47	-3.03%	6.47%	-0.47
Quality Alpha Signal	-1.81%	-1.51%	0.32%	5.32%	0.06	1.00%	6.45%	0.16
Trend Alpha Signal	4.38%	4.69%	17.97%	6.33%	2.83	6.88%	7.47%	0.92
Value Alpha Signal	-2.85%	-2.54%	-3.56%	5.59%	-0.64	1.08%	7.71%	0.14
Diversified Alpha Signal	0.63%	0.93%	4.01%	2.54%	1.57	-0.12%	2.90%	-0.04
Systematic Alpha Portfolio (Model)	1.49%	1.80%	3.41%	4.10%	0.83	-3.92%	5.31%	-0.74
Blue Orbit Australian Small Caps Systematic Alpha Fund*	1.59%	1.90%	-0.21%	4.96%	-0.04	N/A	N/A	N/A

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

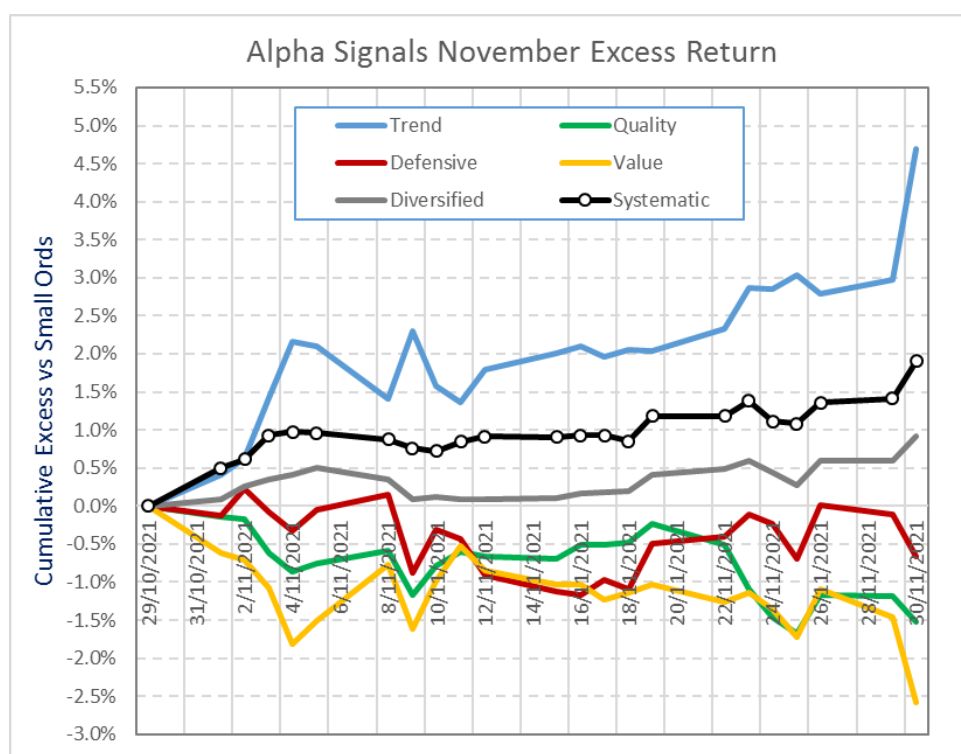


Figure 1: Cumulative Signal Performance

Figure 1 provides a summary of the relative performance of the Alpha Signals and the Fund against the Benchmark throughout the month. November was all about Trend, which outperformed early and then strengthened into month end. Value was the poorest performer, particularly at month end.

Performance Commentary

Defensive Alpha Signal

The Defensive Signal was fairly flat against Benchmark in November, with a small underperformance kicking in at month end. The Signal's focus on larger, dividend paying and less volatile names saw it not holding many of the stocks heavily sold off in November, such as Zip Co, Tyro Payments, Flight Centre, Webjet and Nearmap (-27.6%). However the construction of the Defensive Signal saw it not holding many of the outperforming lithium and battery mineral names, which drove its underperformance against Benchmark at month end.

Quality Alpha Signal

The Quality Signal underperformed the Benchmark, with modest underperformance for most of the month accelerating into month end. Quality's focus on companies with positive cash flows and strong profitability metrics saw it underweight in the strongly performing mining and lithium names that drove Benchmark performance in November. Key detractors were the Signal not holding Novonix, Pilbara Minerals, Alkem Limited, or Chalice Mining (+49.5%). The Signal's size positioning also detracted, with its overweight to the smaller end of the capitalisation scale. The two smallest quintiles of stocks returned -6.5% and -3.4% respectively, compared to the largest quintile of stocks (+2%).

Trend Alpha Signal

Trend had a stellar month, finishing the month up 4.5% over Benchmark. Trend's ability to capture trending themes ahead of earnings and profitability saw it well positioned in lithium and battery materials and services names. After a strong October, these stocks rallied hard in November, with Novonix Limited (+61.5%) a standout. Blue Orbit's Trend Signal outperformed a naïve momentum strategy by over 2% in November, showing the value of our research process and Signal construction methodology.

Value Alpha Signal

Value Alpha was a poor performer in November, underperforming the Benchmark by over 2.5%. Value strategies generally struggled in November, with similar drawdowns seen in naïve P/E and dividend yielding strategies. Underperformance was primarily through Value not holding the key outperforming lithium names. The signal's construction also tilts it towards the smaller capitalisation end of the Benchmark, which similarly to Quality Alpha saw a negative impact for the month. Value Alpha was also overweight Beach Energy (-15.1%), which fell sharply in line with the overall energy commodities sell down globally.

Diversified Alpha Signal

The Diversified Alpha signal was well positioned in November, with its Trend component giving it exposure to the strongly performing lithium thematic within the market. It also did not hold many of the names sold down heavily in the month, such as Zip Co, Tyro Payments, Webjet Limited, Corporate Travel, and PointsBet Holdings. Diversified added several basis points over the underlying Alpha Signals. Blue Orbit's Alpha Signal timing methodology currently has Value Alpha set to 0% of the Diversified Alpha signal. This contributed positively to performance over the month, with Value the weakest performing Signal. The final portfolio construction of the Fund added a further 1% of performance over the Diversified Alpha Signal. This was mostly due to improving the stock selection, such as a slightly bigger overweight to Novonix, but also due to a stronger tilt toward larger cap stocks.

Conclusion

November was a strong month for the Fund, returning 1.53%. The continued strong performance in our proprietary Trend signal and our decision to switch off the Value signal has continued to pay off. Although there was some volatility, Australia is learning to navigate living with COVID. The risks and rewards going forward will likely centre around inflation, starting with how producer price inflation affects Australian small companies, the demand for minerals required to drive green technology, and the impact of the continued easing of International restrictions.

With global markets maintaining a moderate level of price volatility, the outlook is promising for investment strategies that focus on stock selection, and are not wedded to a particular style.

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