Australian Small Caps Systematic Alpha Fund (Wholesale)
Monthly Performance Report as at 30 November 2020

Fund performance

The straightforward narrative for global equity markets for November 2020 was the election of Joe Biden as the 46th President of the United States (despite ongoing challenges from the incumbent), and the success of numerous stage 3 COVID-19 vaccine trials. On the back of this, global equity markets surged higher in unison. However, there was a high degree of divergence in terms of market and sector performance as investors sought to readjust to the possibilities of a post COVID-19 world. European and Emerging Markets indexes that had previously lagged the USA were the best performing markets for the month. Australia also participated in the global rally, with the S&P/ASX Small Ordinaries Accumulation index delivering its fifth strongest month on record, with a total return of 10.3%. For the month, the *Blue Orbit* Australian Small Caps Systematic Alpha Fund returned, in absolute terms, an extremely healthy 5.87%. Despite the Fund's strong capital growth, it underperformed its Benchmark (S&P/ASX Small Ordinaries Accumulation index) in November.

Notwithstanding the strong index growth in November, investors faced a challenging environment. The crucial issue for investors to navigate was the seismic shift in where investors sought to invest their funds as markets shot higher. The promising news of multiple COVID-19 vaccines being readily available in the first quarter of 2021 forced investors to rush and reverse the "COVID trade"; i.e. being overweight growth sectors such as Information Technology (IT), online retailers and Consumer Staples, and underweight cyclical, travel and, more generally, value stocks. An example of the speed and extent of the change in investor sentiment was the outperformance of the MSCI Australia Value Index over the MSCI Australia Value Growth Index by 11.7% (15.8% vs 4.1%) for month. The prime examples of the divergence in sector performance within the Australian small caps universe were; the Energy sector, which managed a 19.7% increase, driven by rising oil prices; and the Financial sector (16.2%), which benefitted from the higher equity markets and the improved economic outlook. At the opposing end of the performance spectrum, the returns in the IT (+3.2%) and Consumer Staples (5.6%) sectors were well below the Benchmark.

Normally expectations of profit taking would follow such a strong period for equities. However, with central bank fuelled liquidity, low or zero interest rates, investors holding plentiful cash reserves still on the sidelines, and ample fiscal stimulus assisting the economic recovery, the prospects for equity market remain positive. The greater question for investors is whether the rotation to value and cyclical continues or whether a growing economy will simply reinforce the previous appeal of high growth stocks, irrespective of their valuation. Regardless of which way markets go the design and implementation of the *Blue Orbit* Australian Small Caps Systematic Alpha Fund is such that it can adapt to the prevailing market conditions.

As at 30 November 2020	1 Month	3 Month	6 Month	FYTD	1 Year	Since Inception (Annualised)[2]
Blue Orbit Australian Small Cap Systematic Alpha Fund[1]	5.87%	4.68%	14.74%	14.52%	-5.34%	-2.72%
Benchmark[3]	10.27%	7.66%	14.78%	17.06%	5.98%	7.29%
Excess Return	-4.41%	-2.98%	-0.03%	-2.54%	-11.32%	-10.01%

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)	$1,802,291
NAV unit price (Mid)	$0.9572
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	108	202
Market Capitalization	2,981	2,448
Active Share	51.2	0.0
Dividend Yield	2.9	2.5
Price/Earnings	19.2	19.7
P/E using FY1 Est	15.3	18.9
Price/Cash Flow	10.9	11.6
Price/Book	1.9	1.9
ROE	16.1	9.0
LT Debt to Capital	22.8	23.0

Top Ten Holdings	Portfolio	Benchmark
Harvey Norman Holdings Ltd	3.60%	1.34%
Janus Henderson Group	2.91%	0.58%
Champion Iron Ltd.	2.82%	0.60%
Codan Limited	2.69%	0.53%
Super Retail Group Limited	2.61%	0.67%
Premier Investments Limited	2.56%	0.96%
Netwealth Group Ltd.	2.42%	0.63%
Mineral Resources Limited	2.37%	2.27%
Inghams Group Ltd.	2.35%	0.48%
oOh media Ltd	2.08%	0.42%

Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Janus Henderson Group	2.91%	0.58%	2.33%
Harvey Norman Holdings Ltd	3.60%	1.34%	2.26%
Champion Iron Ltd.	2.82%	0.60%	2.21%
Codan Limited	2.69%	0.53%	2.15%
Super Retail Group Limited	2.61%	0.67%	1.94%

Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Corporate Travel Management Limited	0.00%	0.92%	-0.92%
Shopping Centres Australasia Property Group RE Ltd.	0.00%	1.16%	-1.16%
Steadfast Group Limited	0.00%	1.41%	-1.41%
Chorus Limited	0.00%	1.45%	-1.45%
IDP Education Ltd.	0.00%	1.73%	-1.73%

GICS Sector Breakdown
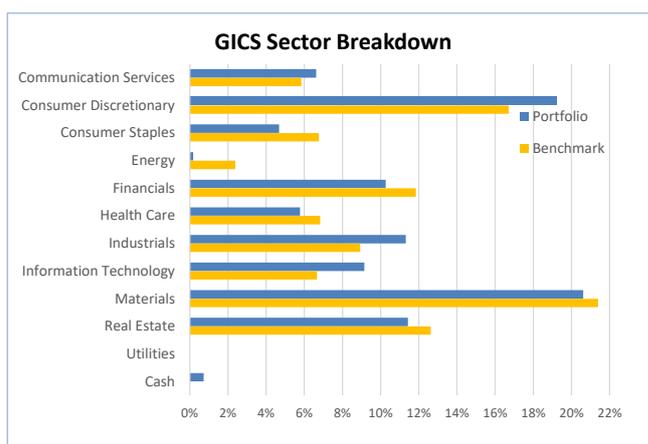
Alpha Signal Attribution

Alpha Signal	1 Month Return	1 Month Excess	2 Year Annualised Excess Return	2 Year Annualized Tracking Error	2 Year Information Ratio
Small Ordinaries	10.27%				
Defensive Alpha Signal	10.88%	0.61%	-0.06%	4.73%	-0.01
Quality Alpha Signal	7.13%	-3.14%	4.73%	7.21%	0.64
Trend Alpha Signal	10.57%	0.30%	2.83%	6.19%	0.45
Value Alpha Signal	11.73%	1.45%	-0.33%	7.39%	-0.04
Diversified Alpha Signal	9.78%	-0.50%	1.21%	3.40%	0.35
Systematic Alpha Portfolio (Model)	5.95%	-4.32%	-5.50%	5.51%	-0.98
Blue Orbit Australian Small Caps Systematic Alpha Fund*	5.93%	-4.34%	N/A	N/A	N/A

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

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 portfolio.

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

The returns shown here for the Blue Orbit Systematic Alpha Fund are the gross returns of the live Fund for the relevant period, shown after transaction costs but before management or performance fees.

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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
Industrials	10.22%	16.39%	1.52%	8.82%	11.88%	1.03%	0.06%	0.39%	0.45%
Real Estate	11.39%	9.58%	1.05%	12.29%	7.62%	0.96%	0.01%	0.19%	0.20%
Communication Services	6.10%	19.24%	1.00%	5.82%	15.01%	0.84%	-0.03%	0.22%	0.19%
Consumer Staples	4.68%	4.83%	0.20%	6.86%	5.44%	0.39%	0.09%	-0.05%	0.04%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Energy	0.30%	26.34%	0.06%	2.30%	19.25%	0.41%	-0.19%	0.00%	-0.20%
Financials	10.72%	11.65%	1.23%	11.95%	15.85%	1.81%	-0.21%	-0.40%	-0.61%
Health Care	5.92%	2.52%	0.17%	6.71%	12.79%	0.84%	-0.03%	-0.59%	-0.62%
Materials	20.36%	6.27%	1.21%	21.31%	11.01%	2.35%	-0.05%	-0.91%	-0.96%
Information Technology	9.60%	-4.45%	-0.41%	6.85%	3.19%	0.24%	-0.18%	-0.80%	-0.98%
Consumer Discretionary	19.68%	-0.77%	-0.09%	17.08%	7.86%	1.41%	-0.06%	-1.68%	-1.75%
Cash	1.03%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.09%	0.00%	-0.09%
Total	**100%**	**5.94%**	**5.94%**	**100%**	**10.27%**	**10.27%**	**-0.67%**	**-3.62%**	**-4.34%**

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	5.94	5.94	100.00	10.27	10.27	-0.64	-3.70	-4.34
Market Cap Quintile 1 (Large)	48.44	3.66	1.97	36.98	7.77	2.98	-0.27	-1.92	-2.19
Market Cap Quintile 2	19.27	6.06	1.18	26.71	9.77	2.64	0.01	-0.69	-0.68
Market Cap Quintile 3	15.43	7.75	1.13	18.01	12.48	2.19	-0.07	-0.69	-0.76
Market Cap Quintile 4	11.49	11.13	1.18	10.93	12.57	1.33	0.01	-0.16	-0.15
Market Cap Quintile 5 (Small)	4.34	10.53	0.48	7.15	16.74	1.13	-0.21	-0.25	-0.45
Cash	1.03	--	--	--	--	--	-0.11	--	-0.11

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							
Champion Iron Ltd.	2.76%	34.21%	0.84%	0.57%	34.23%	0.17%	0.46%
oOh media Ltd	1.74%	27.84%	0.40%	0.40%	27.48%	0.10%	0.21%
Mcmillan Shakespeare Limited	1.73%	26.98%	0.41%	0.34%	26.98%	0.08%	0.19%
Chorus Limited	0.00%	0.00%	0.00%	1.57%	-1.66%	-0.01%	0.18%
News Corporation	1.77%	32.16%	0.42%	0.58%	32.75%	0.16%	0.17%
Bottom 5							
Netwealth Group Ltd.	2.68%	-2.79%	-0.05%	0.65%	-2.60%	-0.02%	-0.27%
Data#3 Limited.	1.73%	-8.30%	-0.16%	0.38%	-8.19%	-0.04%	-0.28%
Webjet Limited	0.00%	0.00%	0.00%	0.71%	65.33%	0.35%	-0.28%
Super Retail Group Limited	2.72%	-11.64%	-0.36%	0.74%	-11.71%	-0.09%	-0.46%
Codan Limited	2.87%	-10.07%	-0.30%	0.57%	-10.08%	-0.06%	-0.48%

Performance Commentary

Defensive Alpha Signal

An overly exuberant equity market would typically place adverse pressure on the Defensive signal, yet the signal outperformed by 0.60% in November. A majority of the outperformance came from the signal's sector allocation. As mentioned in the introduction, the positive step change in the global economic outlook saw investors favour asset managers and financial services companies. Therefore, the signal's overweight allocation to the Financials sector (+16.1%) was a significant contributor to the signal's outperformance. An underweight position in the growth centric, but poorly performed, IT sector (3.2%) was another contributing factor. Countering some of the positive allocation effect was the signal's underweight exposure to the outperforming Healthcare sector (12.8%) and an overweight to the underperforming Real Estate sector (7.7%). However, within Real Estate, the signal's overweight position in Unibail-Rodamco-Westfield (73.1%), contributed 68 basis points of outperformance.

The Defensive signal's stock selection was also responsible for generating sizable outperformance. Noticeably the selection in the strongly performed Financials sector was a highlight. Contributing a bulk of the outperformance were overweight positions in Platinum Asset Management (36.4%), Genworth Mortgage Insurance (55.4%) and IOOF Ltd (27.4%), while an underweight position in Virgin Money UK (40.8%) detracted. Elsewhere, notable selection gains came from an overweight position in Cimic Ltd (18.9%) and underweight position in Reece Limited (-1.3%).

Quality Alpha Signal

In the months since the COVID-19 correction, the Quality signal has consistently allocated to the sectors and stocks that have outperformed the market. This outcome is the result of the signal's composition, which selects stocks with relatively high returns on, and growing, free cash flow. However, in the violent rotation towards value and cyclical stocks (which had underperformed since March and do not tend to consistently generate free cash flows), the Quality signal underperformed the Benchmark by 3.1%. Most of the underperformance came from stock selection, by not holding stocks with minimal or negative operating cash flows that rallied strongly over the month. There was also a sizable negative contribution from sector allocation, being overweight the IT sector and underweight the rebounding Financials sector.

The primary source of negative stock selection came within the Consumer Discretionary sector (+7.9%). Throughout the month, investors moved from online retail providers to travel stocks within this sector. The signal's overweight positions in Super Retail (-11.7%) and Temple and Webster (-5.7%) and underweight to Webjet (+65.3%) is a clear illustration of this rotation.

The signal's stock selection in the Materials sector (11.0%) was also a detractor as investors sought exposure to rare earths and mineral explorers (companies with generally poor free cash flows), at the expense of the more defensively oriented gold stocks. Exemplifying this theme was the signal's underweight positions in Mineral Resources (29.5%) and Lynas (33.5%) and overweight in Silverlake Resources (-16.1%). The signal's overweight positions in Champion Iron (34%) and Nickel Mines (20.6%) moderated a degree of the underperformance.

Trend Alpha Signal

Validation of the construction methodology of the Blue Orbit Trend signal was evident in November through its 0.30% outperformance, despite the rapid pivot towards value stocks during the month. By comparison, naïve 12-month momentum underperformed the Benchmark by 6.84%. The naïve momentum strategy was heavily overweight the glamour stocks (for example IT and online retailers) at the start of the month, thereby being caught out dramatically during the reversal. In contrast, Blue Orbit's Trend Alpha signal was underweight the underperforming IT, Consumer Staples and Real Estate sectors, which generated enough positive performance to offset the overweight position in the Consumer Discretionary space.

Despite the rapid change in the market, the Trend signal successfully selected several high performing stocks in the Materials sector (11.0%). The main contributor was overweight positions in Lynas (33.6%) and Pilbara Mines (69.1%) and an underweight holding in Silverlake Resources. Offsetting these gains were some overweight positions in the mid-tier gold miners Westgold Resources (-10.5%) and De Grey Mining (-1.8%). The switch from COVID winners to COVID losers was most evident in the Consumer Discretionary space. Generating significant negative attribution was the signal's overweight positioning in retailers Kogan (-20.3%), ARB (-9.8%) and Temple & Webster (-5.7%). These losses were offset to a degree by the signal's overweight positioning in IDP Education (26.9%), A P Eagers (20.2%) and Corporate Travel (37.0%).

Value Alpha Signal

As discussed in the previous month's report, Blue Orbit had identified that it had become appropriate to activate the Value Alpha signal within the portfolio construction process. This decision proved beneficial with the signal outperforming the Benchmark by 1.45% for the month. Consistent with the other signals, selection within each sector tended to generate the majority of the outperformance, with allocation making a lesser but still significant contribution. Driving the allocation attribution were an overweight position in the previously poorly performing Energy sector (19.6%), combined with an underweight IT sector. Balancing these positive attribution sources was an overweight exposure to the underperforming Consumer Staples sector and an underweight exposure in the Financial sector.

Regarding stock selection within the Value signal, the signal correctly identified several mispriced Industrials (11.9%) and Communication Services (15.0%) stocks. The leading candidates in these sectors were overweights in McMillian Shakespeare (26.7%) and Emeco (36.8%), Newscorp (32.7%), OML Media (27.5%) and Event Hospitality (29.7%). There was some poor selection in the Materials sector, mainly due to the explorers and rare earth miners exhibiting potential but not value. Hence, underweight positions in Lynas, Pilbara Mines and Mineral Resources detracted over the month.

Diversified Alpha Signal

With three positively contributing signals and a single poorly performing one, the issue was how the combination of the four signals would perform. Unfortunately, the significant underperformance of the Quality signal was too much for the other three to overcome. Therefore, the Diversified Alpha Signal suffered from many of the same factors influencing the Quality signal, and underperformed by 0.5%. In summary, the crucial sources of underperformance were selection within, and allocation, to the Consumer Discretionary sector. In addition, allocation (underweight) to, and selection within the Healthcare detracted. The signal moderated the underperformance by generating some meaningful positive attribution from its selection in the Industrials and Real Estate sectors.

Systematic Model versus Diversified Alpha Signal

The Systematic model delivered a return of 5.95% for the month. However, despite a number of the signals outperforming and the Diversified Alpha signal moderately underperforming the Benchmark, the Systematic Model underperformed the Benchmark by 4.3%.
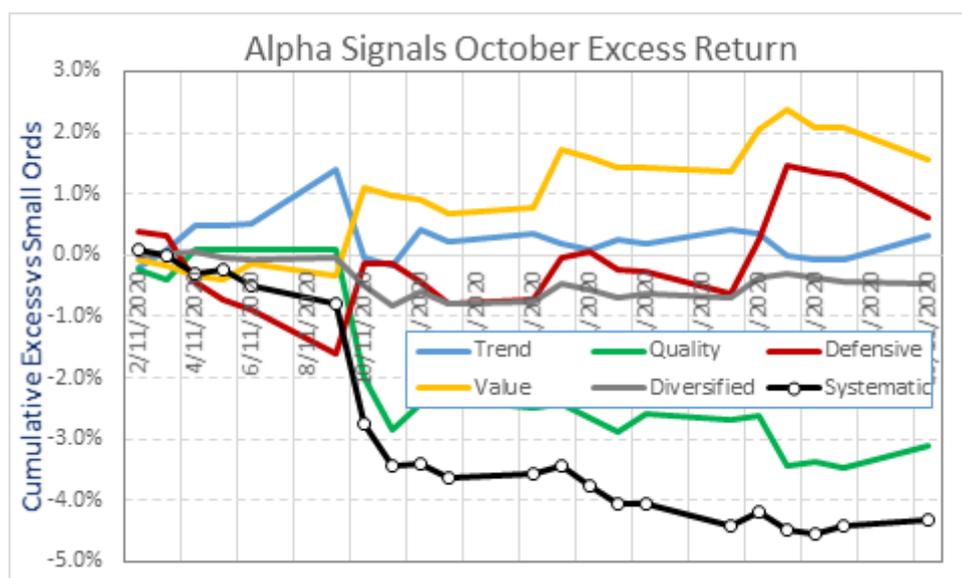
The chart above shows cumulative excess signal performance for November and highlights the divergence in signal performance. A telling point is the performance of the signals post November 9th, the beginning of the value rotation, where the performance of the Value signal improved greatly, while the relative performance of the Quality and the Systematic Model deteriorated.

The Systematic model's higher alpha target saw it take larger active positions than the Diversified signal in a number of the hardest hit stocks within Consumer Discretionary, IT and Materials (specifically gold). This increasing of the active share within the Systematic model also amplified the exposure to some of the key underperforming names in November.

Blue Orbit Systematic Alpha Fund Performance

While the Fund's growth for the month was a strong positive return of almost 6%, it could not match the Benchmark's strong run of 10.3%. The cause of the relative underperformance was primarily from stock selection - in particular being underweight the COVID recovery stocks. Underweight positions in the recovery stocks of Webjet, IDP Education, and Corporate Travel and an overweight in Super Retail were costly. A priori, the market rotation into overweight positions for these stocks could not be justifiable given their poor trend, cash flow and dividend streams. Indeed, the rotation required an exogenous stock, namely successful vaccines, to initiate the rotation.

Another rotation trade that proved detrimental was the shift away from gold, with overweight positions in Regis Resources (-11.1%) and Ramelius Resources (-12.7%) detracting from the Fund's performance. Investors should be mindful that the gold price has been particularly volatile in 2020 and this underperformance could quickly reverse. Countering some of Material's sector selection issues was the overweight position in Champion Iron, a stock that had a very strong month and remains well placed to benefit from any continuation in rising commodity prices. The final sector with noticeable selection underperformance was the IT sector, with overweights in Codan (-10.1%) and Data3 (-8.2%) the key detractors.

Regarding the Fund's sector allocations, again the catalyst for the underperformance was the violent rotation to value sectors. The underweight allocation to Energy and Financial sectors were the chief offenders, while an overweight allocation to the IT also detracted. This sector performance was very much atypical- for the year the Consumer Discretionary (11.5%) and IT sectors (9.1%) have significantly outperformed the Financials (1.5%) and Energy (-22.1%) sectors.

Conclusion

Undoubtedly, November 2020 will go down in financial markets' history as one of the more extraordinary months that investors have had to navigate. Ultimately, investors should be well pleased with the strong returns that saw some markets move into positive territory for the year despite the worst global pandemic since 1918 and the worst economic contraction since the Great Depression. Positive news regarding vaccine candidates saw a huge pullback in momentum, as funds poured into the 'Covid losers' of 2020. Although globally much of the narrative has been seeing this as a rotation from growth back into value, within Australian Small caps November was more of a rally of the losers, accompanied by a sell down of those stocks that had performed strongest since the pandemic lows.

Many of the stocks rallying hardest in small caps could not be fairly called 'value'. The almost 7% active underperformance in naïve momentum was not accompanied by similarly exuberant outperformances for naïve value factors, or even the more sophisticated Alpha Value signal. Naïve dividend yield, the best value factor performer, outperformed by only 4.3%.

As discussed above, the Blue Orbit Systematic Alpha Fund was not immune from this rotation. The sharp rallies in stocks with no near term fundamental financials meant we could not capture the full upside of the November rally. However, the sharp bounce of the 'loser' stocks we do not see as a sustainable long-term theme. Our positioning is focused rather on participating in a more sustained, fundamental driven market recovery and potential continuation in the rotation to value. Given the fund's construction process, and a planned end of November rebalance, the Fund is well positioned to participate in the renewed investor optimism relating to a synchronized global recovery, as the COVID-19 vaccines are rolled out and some normality returns.