

## Fund performance

As at 30 September 2020	3 Month	FYTD	1 Year	Since Inception <sup>2</sup>
Blue Orbit Australian Small Cap Systematic Alpha Fund <sup>1</sup>	6.13%	6.13%		-10.20%
Benchmark <sup>3</sup>	5.67%	5.67%		-2.20%
Excess Return	0.45%	0.45%		-8.00%

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.

The Blue Orbit Australian Small Caps Systematic Alpha Fund returned 6.13% in the September quarter, outperforming the Benchmark S&P/ASX Small Ordinaries (Accumulation) Index, which returned 5.67%.

The September quarter saw volatility continue to fall and markets pushing higher, despite the worsening status globally of COVID infections. The US markets continued their strong rallies, with the S&P 500 up 9% for the quarter despite a September sell off of almost 4%. Tech stocks outperformed, with the NASDAQ 11.2% higher over the quarter. US small caps lagged their larger counterparts, with the Russell 2000 only adding 4.9% for the September quarter.

European shares were flat over the quarter as spiking COVID infection rates and threats of further lockdowns weighted on markets. The STOXX 600 was up only 0.7% for the period. Germany outperformed its regional counterparts, up 3.7%, while the UK underperformed with the FTSE 100 down 4%.

In Australia, the September quarter saw small caps continue to pull ahead decisively of larger cap stocks, with a better than expected reporting season seeing investors getting behind the risk rally. The Small Ordinaries added +5.67% for the quarter, with August alone having a +7.1% gain. Large caps disappointed over the reporting period though, with a -1.8% return for the quarter. Year to date for 2020, Small caps are now only down -0.6%, compared with the ASX 100's year to date return of -8.1%.

### GICS Sector Attribution: September Quarter

Sector Attribution	ASX Small Systematic			S&P/ ASX Small Ordinaries			Allocation	Attribution	
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return		Selection + Interaction	Total
Financials	11.84%	7.89%	0.86%	10.90%	1.69%	0.18%	-0.03%	0.69%	0.66%
Information Technology	11.41%	15.69%	1.61%	8.77%	1.96%	0.20%	-0.15%	1.46%	1.32%
Consumer Discretionary	18.45%	25.87%	4.18%	15.30%	26.06%	3.54%	0.56%	-0.08%	0.48%
Utilities	0.03%	-4.04%	-0.01%	0.25%	-2.13%	-0.01%	0.03%	0.00%	0.03%
Communication Services	3.45%	10.99%	0.33%	4.60%	10.84%	0.44%	-0.04%	-0.01%	-0.05%
Health Care	8.62%	-2.52%	-0.23%	9.34%	0.52%	0.02%	0.07%	-0.29%	-0.22%
Energy	2.22%	-17.23%	-0.42%	2.62%	-6.99%	-0.17%	-0.03%	-0.26%	-0.29%
Consumer Staples	4.70%	0.36%	0.05%	7.30%	1.71%	0.14%	0.10%	-0.05%	0.05%
Real Estate	11.39%	1.28%	0.13%	12.81%	3.59%	0.46%	0.01%	-0.25%	-0.24%
Materials	19.81%	-0.53%	-0.03%	21.31%	2.92%	0.67%	0.06%	-0.68%	-0.62%
Industrials	6.72%	-1.73%	-0.16%	6.80%	2.92%	0.19%	-0.02%	-0.35%	-0.37%
Cash	1.35%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.10%	0.00%	-0.10%
<b>Total</b>	<b>100%</b>	<b>6.32%</b>	<b>6.32%</b>	<b>100%</b>	<b>5.67%</b>	<b>5.67%</b>	<b>0.47%</b>	<b>0.19%</b>	<b>0.65%</b>

The Fund's sector allocation added value over the quarter, with an overweight allocation to Consumer Discretionary stocks a contributor as that sector rallied +26%. Although the sector overweight to the underperforming Information Technology (+1.96%) was a small detractor, strong stock selection within that sector added 1.5% of outperformance to the Fund. Overweight positions in Codan Limited (+57.3%), Data#3 Limited (+46.7%), together with the fund not holding IRESS Ltd (-11.3%) or Bravura Solutions (-23.3%) were the key contributors within that sector.

The Fund's other key stock contributors to return over the quarter were its overweight positions in Netwealth Group (+70.2%), Super Retail Group (+33.1%) and Kogan Limited (+38%). Over the quarter, the largest detractors to performance were the portfolio not holding Corporate Travel Management (+80.6%) or Megaport Ltd (+33.2%) and the underweight position in PointsBet Holdings (+114.3%).

The Fund maintained its slightly defensive positioning over the quarter, with a beta of less than 1 over the entire period. Beta to the market averaged between 0.92-0.96 for the majority of the quarter. Despite this positioning, the Fund still added value in a strong quarter, and only saw a small detractor in the month of August, when the market was up over 7%.

Cash exposures of the portfolio have remained low over the quarter, seeing only a small cash drag effect.

## 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.

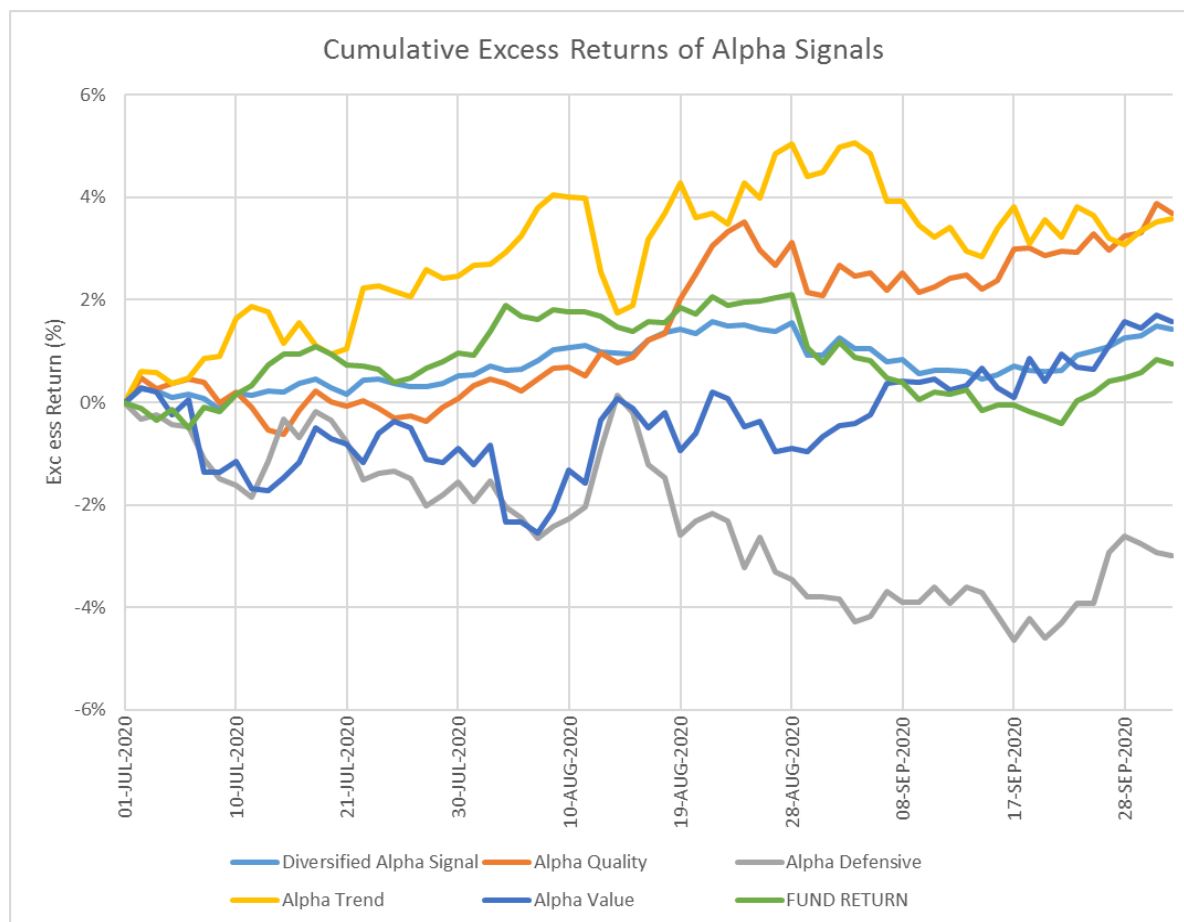
Alpha Signal Returns	3 Months Return	3 Months Excess
S&P/ASX Small Ordinaries - Total Return	5.67%	
<b>Blue Orbit Alpha Signal Returns <sup>1</sup></b>		
Quality Alpha Signal	9.36%	3.69%
Trend Alpha Signal	9.26%	3.59%
Defensive Alpha Signal	2.68%	-2.99%
Value Alpha Signal <sup>2</sup>	7.25%	1.58%
Diversified Alpha Signal	7.10%	1.43%
Systematic Alpha Portfolio (Model)	6.49%	0.82%

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 as of 30 September.

The September quarter saw the Alpha Signals again performing in line with longer term expected behaviours, as seen in our back testing. Generally, we would expect to see one signal underperform, with 1-2 other signals outperforming in any given period. Over this quarter, we had one signal underperform, while the remaining signals all outperformed strongly. This led to outperformance in the diversified alpha signal, which then also flowed through to the final Systematic Alpha model.

Additionally, our new Value Alpha signal (not yet implemented in the portfolio, but being run and monitored as a paper signal awaiting implementation) had continued strong outperformance over the September 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

The performance of the Quality signal was particularly strong, as was Alpha Trend over the period. There was considerable signal volatility around mid-August coinciding with reporting season, however volatility stabilised and signal performance for all signals except Defensive trended up from that period onwards.

Importantly, overall signal performance, direction and correlations all performed over the quarter in line with our longer term observations and expectations, despite the moderately elevated overall market volatility. In an up market environment, Alpha Quality delivered, and continued to add alpha following reporting season even following a market sell off in September.

Defensive underperformed, particularly in the market rally in August. As we expect this signal to outperform in a down market environment, this underperformance was in line with expectations, and affirmed the negative signal correlations.

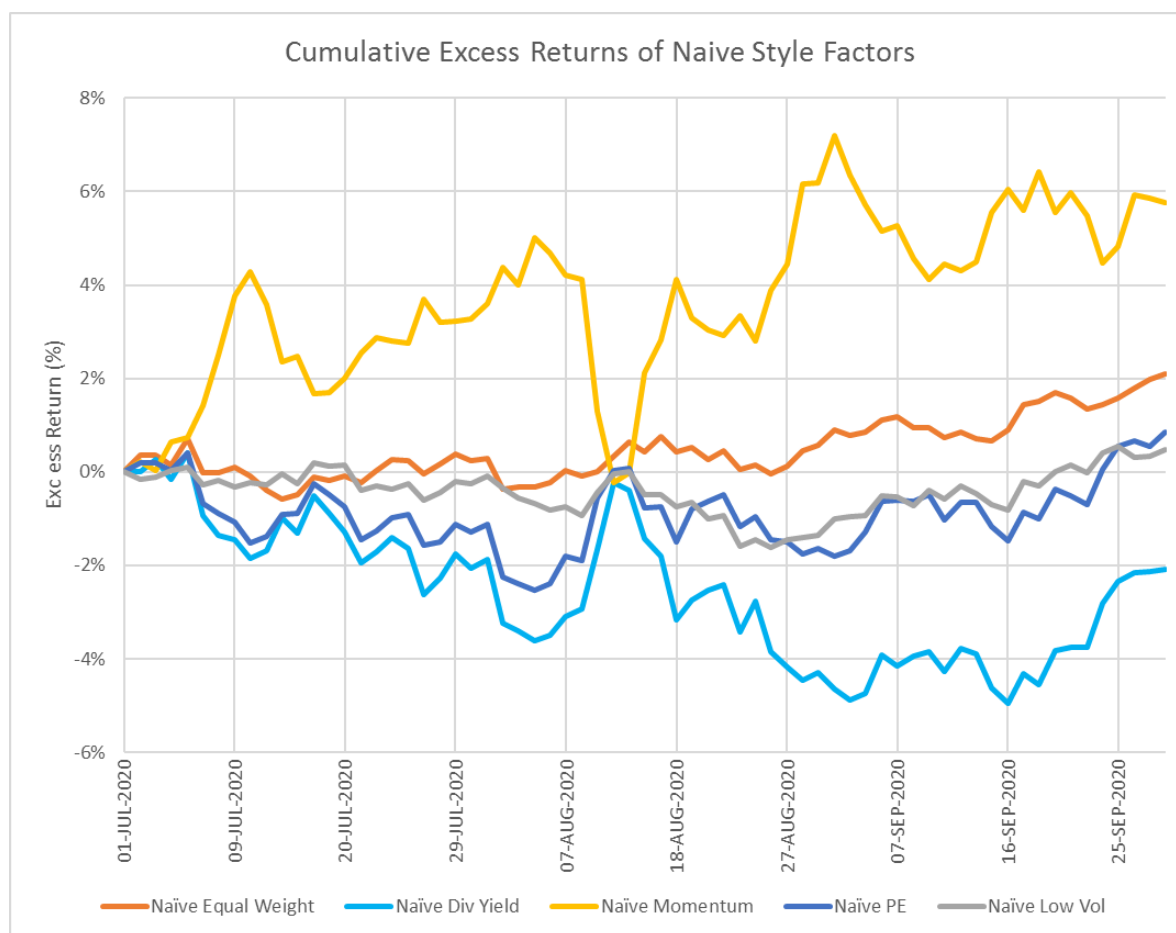
Trend was a strong performer over the entire period, barring a pullback in mid-August corresponding with a brief sell off in the market. Trend is still currently calibrated for a medium term market volatility environment, and together with its volatility overlay significantly reduced signal volatility when compared to a naïve momentum factor (see Naïve chart in the section below).

The Alpha Value signal has continued its strong performance in this market environment, and this signal construction has additionally outperformed naïve value factors over the period (see P/E and Dividend Yield Factor performance in the section below). Although the Alpha Value signal is not in the Diversified model as of the end of September, we continue to monitor a range of signals to determine when this should be deployed into the overall strategy.

### Naïve Factor Returns

Naïve Factor Returns	3 Months Return	3 Months Excess
S&P/ASX Small Ordinaries - Total Return	5.67%	
<b>Naïve Factor Returns<sup>1</sup></b>		
Naïve Dividend Yield Factor	3.58%	-2.09%
Naïve Equal Weight	7.78%	2.11%
Naïve Low Volatility Factor	6.16%	0.49%
Naïve Momentum Factor	11.43%	5.76%
Naïve PE Factor	6.53%	0.86%

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 September quarter was a tough time for naïve factor strategies, with only Momentum and Equal weight outperforming noticeably over the period. Despite the strong outperformance of Momentum, this factor saw huge volatility over the period, particularly during the brief market sell down in mid-August.

Equal Weight saw the majority of its outperformance come in September, as larger cap stocks were sold off more heavily than their smaller cap counterparts. Valuation factors had a poor month, particularly naïve dividend yield- however recouped some of their losses into the end of September with the market sell off.

### Conclusion

The September quarter saw market volatility slowly tracking downwards, as investors digested company earnings releases and appeared to ignore worsening global COVID news. As governments continue to underwrite the economy during this COVID crisis, investors seem to be comfortable investing on forward two-year earnings estimates, and beyond. We have seen the Small Ordinaries return +30.9% in the last two quarters, compared to +15.1% for the ASX100. In such an environment, the dispersion of returns of the Alpha Signals and naïve factors has been lower than expected. The Defensive Alpha Signal has only had a small underperformance, with naïve value strategies and Equal Weight only providing a small outperformance - and momentum has done strongly. This is in stark contrast to what was experienced in the second and third quarters of 2009, when naïve value strategies provided significant excess returns, and momentum did the opposite. Maintaining signal diversification throughout the quarter has added value, especially when you look at the size of the rapid double reversal that occurred in mid-August. We continue to closely monitor the performance of each of the underlying signals in the fund, their interactions and the overall market volatility regime. As we head into the uncertainty of the coming US Election and a potential spike in COVID infections with the northern hemisphere winter, the current moderate volatility environment we are in could quickly change. We remain well positioned for the current environment, with additional levers ready and available to deploy to take advantage of significant market shifts.

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