

# Global Small Caps Systematic Alpha Fund

## Monthly Performance Report as at 31 October 2021



### Highlights

- The *Blue Orbit* Global Small Caps Systematic Alpha Fund, launched 5 October 2021, delivered solid performance, generating a net return of 2.38% (2.28% excess return). Strong stock selection drove outperformance with standouts Avis Budget (+30.5%) and AB Sagax (+18.9%).
- A robust investment framework using four independent Alpha Signals meant we were able to navigate an environment that was not conducive to Value investing in October.
- The October performance of the live Fund continues the strong performance of the paper portfolio, which has returned 31.6% year to date (before fees and costs) versus the Benchmark's 20.7%.

| Net performance at 31 October 2021                    | 1 Month | 3 Month | 6 Month | 1 Year | Since Inception <sup>1</sup> |
|---|---------|---------|---------|--------|------------------------------|
| Blue Orbit Global Small Cap Systematic Alpha Strategy | 2.38%   |         |         |        |                              |
| Benchmark <sup>2</sup>                                | 0.10%   |         |         |        |                              |
| Excess return   | 2.28%   |         |         |        |                              |

1. Fund inception Date is 5 October 2021. 1 Month return is for part month from inception.  
 2. Benchmark is the MSCI World Ex Australia Small Caps index (with Net Dividends reinvested) in AUD.

### Performance Commentary

Nearly every country in the MSCI World Small Caps was higher in October. The Australian dollar was also strong. In local terms, Japan rose 2.2%, but the strength of the Australian dollar saw it fall 3.1% in AUD. Third quarter reporting in the United States has slightly beaten expectations, resulting in United States (+0.4%) showing a positive return in AUD terms.

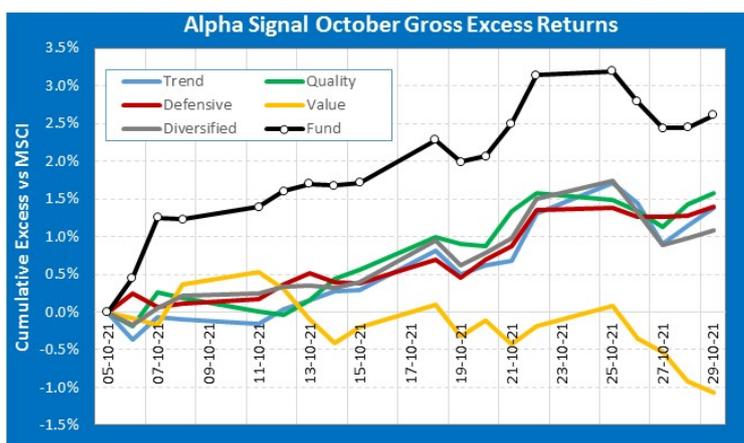
Good stock selection drove most of the Fund's outperformance against the Benchmark in October, particularly within Industrials, Consumer Discretionary and Real Estate. The Fund's overweight position to Sweden and underweight to Japan were both small positive contributors. The largest quintile of stocks (by size) was the only size group to rise, with the Fund's size tilt contributing to outperformance.

Avis Budget had a very strong month after its earnings report in September, while AB Sagax continued its strong run after a short breather last month. Williams-Sonoma (+6.3%), VAT Group (+13.6%), and InMode (+30.4%) were also good contributors. The only significant stock detractors were AMN Healthcare Services (-18.9%) and OneMain (-10.5%). OneMain's share price dropped along with their Q3 Net Income, after increasing provisions for financial losses.

### Signal Performance

| Alpha Signal Return at 31 October 2021 | 1 Month Return | 1 Month Excess | CYTD Return | CYTD Excess |
|--|----------------|----------------|-------------|-------------|
| Benchmark                              | -0.40%         |                | 20.65%      |             |
| Defensive Alpha Signal                 | 1.59%          | 2.00%          | 23.06%      | 2.41%       |
| Quality Alpha Signal                   | 1.22%          | 1.63%          | 29.19%      | 8.53%       |
| Trend Alpha Signal                     | 1.63%          | 2.04%          | 30.09%      | 9.44%       |
| Value Alpha Signal                     | -0.82%         | -0.42%         | 32.82%      | 12.17%      |
| Diversified Alpha Signal               | 1.31%          | 1.71%          | 30.26%      | 9.06%       |

The Alpha Signals are theoretical, paper strategies only. Performance numbers are gross returns and calculated in FactSet. Alpha Signal inception date was 31 December 2020



For the full month of October, the Benchmark had a negative return in AUD terms, falling 0.40%. Three out of the four Alpha Signals in the investment process outperformed in October, with Value the underperformer.

Most of Alpha Trend's good performance came from good stock selection, especially within Industrials and IT. Alpha Trend's underweight to Japan was a moderate contributor. After Quality's breather in September, it continued its good year, with strong stock selection in Industrials and Consumer Discretionary.

In a strong market, Defensive's outperformance was driven by excellent stock selection in Industrials, with Real Estate and Consumer Discretionary also good. The Value signal's overweight to Japan was a significant detractor, with poor allocation across most sectors, and poor stock selection within Materials. Late in the month, US Democrats sought to push forward the next spending package, providing a headwind to Value, which subsequently fell by about 1%.

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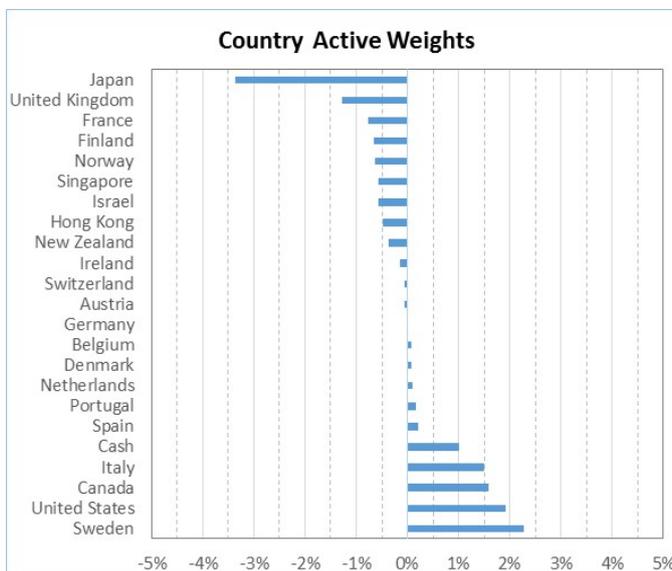
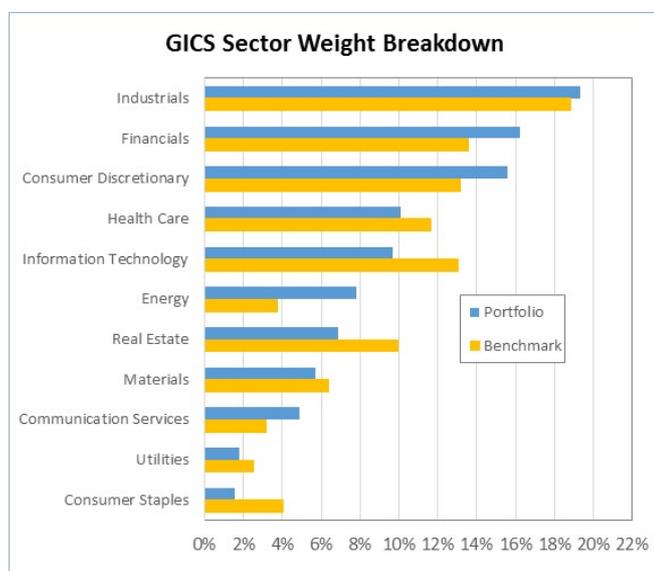
The construction of the Diversified Alpha Signal added a further 20bps over the Alpha Signals. There were equal number of stocks within Diversified that were winners and losers, however the magnitude of the winners were significantly larger.

### Strategy Characteristics

The strategy aims to hold 250-350 names, is benchmark aware with a tracking error range of 4-6%, with controls around stocks, sectors and countries.

| Characteristics       | Portfolio | Benchmark |
|-----------------------|-----------|-----------|
| Number of securities  | 274       | 4229      |
| Market Capitalization | 10,190    | 6,780     |
| Active Share          | 86.3      | 0.0       |
| Dividend Yield        | 1.3       | 1.4       |
| Price/Earnings        | 13.1      | 16.2      |
| P/E using FY1 Est     | 12.4      | 16.2      |
| Price/Cash Flow       | 11.3      | 12.1      |
| Price/Book            | 2.8       | 2.1       |
| ROA                   | 6.7       | 1.7       |
| ROE                   | 13.3      | 3.9       |
| LT Debt to Capital    | 38.6      | 36.6      |

| Top 10 Holdings                   | Portfolio | Benchmark | Active |
|-----------------------------------|-----------|-----------|--------|
| Williams-Sonoma, Inc.             | 1.84%     | 0.17%     | 1.67%  |
| Dick's Sporting Goods, Inc.       | 1.77%     | 0.10%     | 1.67%  |
| AutoNation, Inc.                  | 1.47%     | 0.08%     | 1.39%  |
| Bill.com Holdings, Inc.           | 1.42%     | 0.25%     | 1.17%  |
| AB Sagax Class B                  | 1.25%     | 0.07%     | 1.18%  |
| Targa Resources Corp.             | 1.24%     | 0.13%     | 1.10%  |
| Western Alliance Bancorp          | 1.22%     | 0.14%     | 1.08%  |
| Jones Lang LaSalle Incorporated   | 1.21%     | 0.16%     | 1.05%  |
| Quanta Services, Inc.             | 1.18%     | 0.20%     | 0.98%  |
| Lattice Semiconductor Corporation | 1.12%     | 0.11%     | 1.01%  |



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