

# Global Small Caps Systematic Alpha Fund

## Monthly Performance Report as at 30 April 2022



### Highlights

- In April the **Blue Orbit** Global Small Caps Systematic Alpha Fund returned -1.44%, outperforming the Benchmark return of -2.63%.
- All four Alpha Signals outperformed. Defensive added 2.4% in a week market, with Trend and Value also very strong. After several weak months the Quality Alpha Signal posted a small outperformance.
- In a strong start since launching in early October, the Fund has outperformed the benchmark 5 out of 7 months. All four Alpha Signals have outperformed since inception, with the Value and Defensive signals particularly strong.

As at 30th April 2022	1 Month	3 Month	6 Months	1 Year	Since Inception
Blue Orbit Global Small Cap Systematic Alpha Fund <sup>1</sup>	-1.44%	-5.76%	-8.24%		-6.06%
Benchmark <sup>2</sup>	-2.63%	-8.00%	-10.48%		-10.39%
Excess Return	1.19%	2.24%	2.24%		4.33%

1. Fund inception Date is 5<sup>th</sup> October 2021. Performance for periods less than 1 year periods has not been annualised.

2. Benchmark is the MSCI World Ex Australia Small Caps index (with Net Dividends reinvested) in AUD. Source: MSCI

3. Fund returns shown are Total returns, calculated from unit prices. Returns are presented net of fees. Past performance is no indication of future performance

### Performance Commentary

The combination of global inflation and the continued war in Ukraine saw an increase in market volatility and weak equity returns in April. Most markets fell, with S&P500 -8.8%, NASDAQ -13.3%, FTSE100 +0.38%, DAX -2.2%, and Nikkei -3.5%. Brent Crude stayed above US\$100/bbl, with gold hovering just under US\$2000/oz. The Australian dollar dropped in the last few days of April, finishing down 5.3% against the US dollar, was down 0.1% against the Euro, and rose 1.2% against the Yen.

Sector returns were again highly dispersed. Energy (+4.1%) was yet again the standout, with Consumer Staples (+2.1%) also strong, while Health Care (-8.4%) was very weak, along with Information Technology (-5.3%) and Communication Services (-5.2%). Singapore (+3.9%) and Ireland (+2.3%) were the best performing countries, while Sweden (-5.5%), Switzerland (-3.4%) and United States (-3.2%) were weak. The MSCI World ex AU Small Cap Growth index fell 4.4% for the month, while the Value variant was relatively stronger, down only 1.0%.

Sector allocation was a good contributor to the Fund outperformance, with half coming from the overweight to Energy. Good stock selection within Consumer Discretionary, Health Care and Materials provided most of the outperformance. Country allocation was overall flat, with the Fund's overweight position to Israel a good contributor, and underweight to Singapore a small detractor. Size allocation contributed over 40bp, with larger size quintiles outperforming smaller. LPL Financial (+8.7%), Reliance Steel & Aluminium (+14.3%) and Louisiana-Pacific (+9.8%) were the biggest stock contributors. PacWest Bancorp (-19.4%), Alcoa (-20.4%), and Virtu Financial (-18.0%) were the largest detractors.

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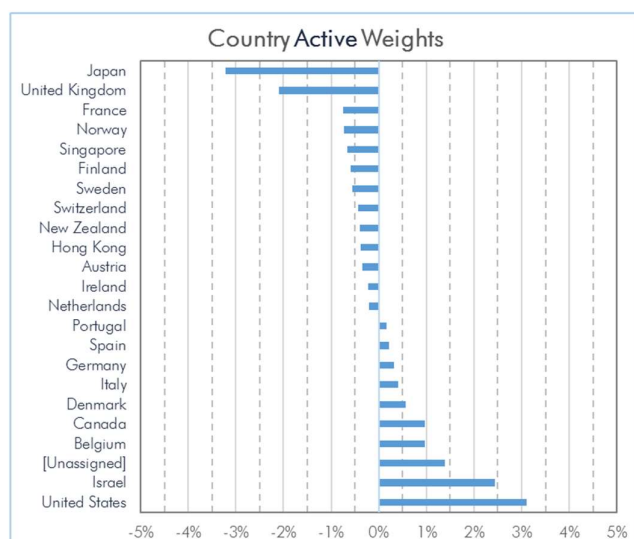
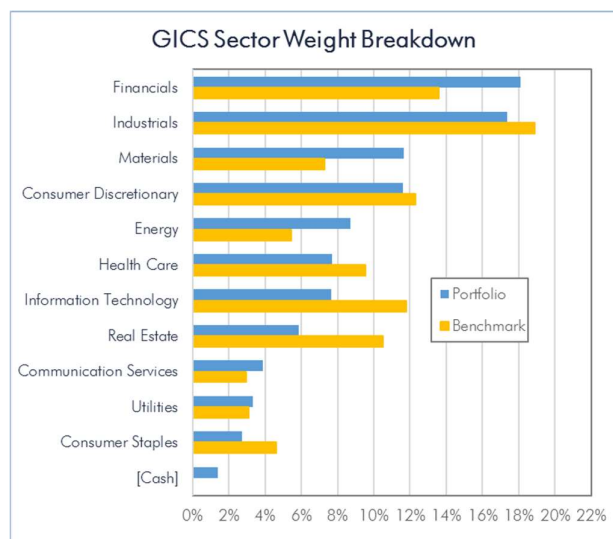


### Strategy Characteristics

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

Characteristics	Portfolio	Benchmark
Number of securities	278	4305
Market Capitalization	8,558	6,025
Active Share	85.1	0.0
Dividend Yield	1.9	1.8
Price/Earnings	8.0	12.8
P/E using FY1 Est	8.7	12.9
Price/Cash Flow	6.1	8.7
Price/Book	2.0	1.8
ROA	12.5	5.0
ROE	27.2	11.6
LT Debt to Capital	37.6	36.9

Top 10 Holdings	Portfolio	Benchmark	Active
LPL Financial Holdings Inc.	1.93%	0.21%	1.72%
Louisiana-Pacific Corporation	1.53%	0.08%	1.45%
Reliance Steel & Aluminum Co.	1.47%	0.18%	1.29%
Targa Resources Corp.	1.39%	0.23%	1.16%
Builders FirstSource, Inc.	1.36%	0.17%	1.19%
Marathon Oil Corporation	1.29%	0.28%	1.02%
Huntsman Corporation	1.26%	0.10%	1.16%
Atkore Inc	1.24%	0.06%	1.18%
APA Corp.	1.10%	0.21%	0.89%
OneMain Holdings, Inc.	0.86%	0.05%	0.81%



### Sector Attribution

Sector Attribution	Global Small Systematic			Benchmark			Attribution			
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation	Selection + Interaction	Currency	Total
Industrials	17.18%	-3.14%	-0.60%	18.66%	-2.52%	-0.48%	-0.01%	-0.22%	0.12%	-0.12%
Financials	18.52%	-2.11%	-0.37%	13.58%	-2.91%	-0.40%	-0.02%	0.03%	0.13%	0.15%
Consumer Discretionary	11.38%	1.79%	0.20%	12.15%	-1.34%	-0.16%	-0.01%	0.34%	0.00%	0.34%
Information Technology	7.65%	-7.27%	-0.62%	11.78%	-5.27%	-0.64%	0.12%	-0.09%	-0.09%	-0.06%
Real Estate	5.96%	-3.32%	-0.20%	10.49%	-1.70%	-0.18%	-0.05%	-0.10%	0.02%	-0.14%
Health Care	7.98%	-4.02%	-0.31%	10.10%	-8.41%	-0.86%	0.13%	0.41%	-0.06%	0.48%
Materials	11.47%	2.19%	0.27%	7.21%	-1.16%	-0.08%	0.08%	0.31%	0.05%	0.45%
Energy	8.83%	2.13%	0.21%	5.40%	4.11%	0.22%	0.21%	-0.20%	0.06%	0.07%
Consumer Staples	2.67%	6.08%	0.16%	4.53%	2.07%	0.09%	-0.10%	0.09%	0.02%	0.02%
Utilities	3.33%	1.87%	0.07%	3.06%	0.43%	0.01%	0.01%	0.09%	-0.04%	0.06%
Communication Services	3.93%	-0.63%	-0.02%	3.03%	-5.21%	-0.16%	-0.02%	0.17%	0.00%	0.15%
Cash	1.09%	2.08%	0.03%	0.00%	0.00%	0.00%	0.06%	0.00%	-0.01%	0.05%
<b>Total</b>	<b>100%</b>	<b>-1.19%</b>	<b>-1.19%</b>	<b>100%</b>	<b>-2.63%</b>	<b>-2.63%</b>	<b>0.40%</b>	<b>0.84%</b>	<b>0.21%</b>	<b>1.44%</b>

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### Stock Attribution

Stock Attribution	Global Small Systematic			S&P/ ASX Small Ordinaries			Attribution
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Total Effect
<b>Top 5</b>							
LPL Financial Holdings Inc.	2.15%	8.7%	0.22%	0.21%	8.7%	0.02%	0.23%
Reliance Steel & Aluminum Co.	1.35%	14.3%	0.19%	0.16%	14.3%	0.02%	0.19%
Louisiana-Pacific Corporation	1.42%	9.8%	0.13%	0.07%	9.8%	0.01%	0.17%
Murphy USA, Inc.	0.62%	23.4%	0.13%	0.07%	23.4%	0.02%	0.12%
AutoNation, Inc.	0.50%	23.0%	0.11%	0.06%	23.0%	0.01%	0.10%
<b>Bottom 5</b>							
Matson, Inc.	0.21%	-27.7%	-0.09%	0.01%	-24.6%	0.00%	-0.08%
Virtu Financial, Inc. Class A	0.57%	-18.0%	-0.10%	0.04%	-18.0%	-0.01%	-0.08%
Samhallsbyggnadsbolaget I Norden AB Class B	0.34%	-25.9%	-0.11%	0.05%	-25.9%	-0.01%	-0.08%
PacWest Bancorp	0.54%	-19.4%	-0.11%	0.06%	-19.4%	-0.01%	-0.09%
Alcoa Corporation	0.67%	-20.4%	-0.14%	0.21%	-20.4%	-0.04%	-0.09%

### Alpha Signal Attribution

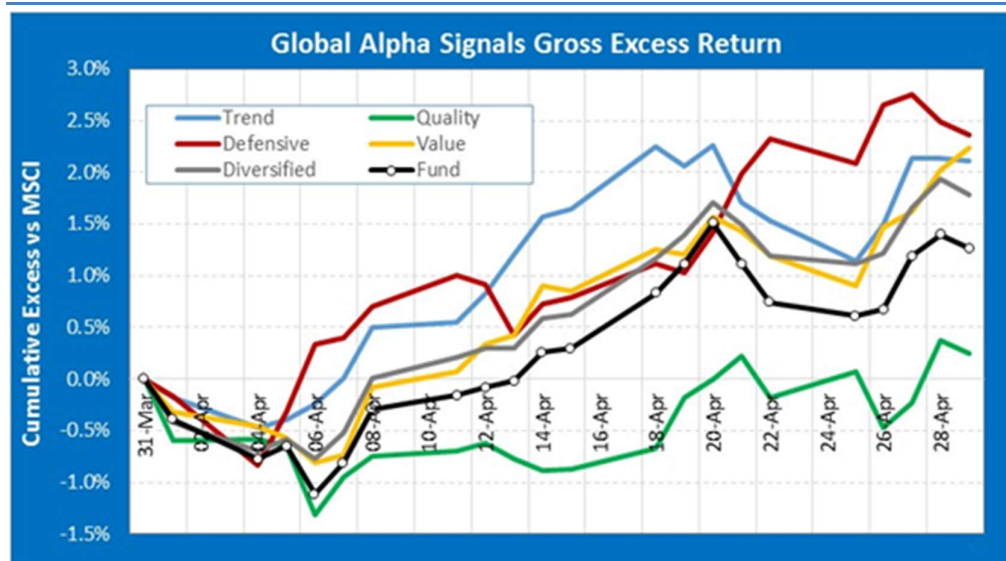
The Blue Orbit Systematic Alpha process is built from four individual underlying Alpha Signals, developed using proprietary internal quantitative research processes. The individual Signals are well diversified with low to negative correlations, and designed to outperform in differing market environments.

The Diversified Alpha Signal is the combination of the individual underlying Alpha Signals, and is the main alpha input to construct the Strategy portfolio.

The returns shown here for the Alpha Signals are paper returns as calculated by Blue Orbit. These returns do not represent live or actual performance, and do not include fees or transaction costs.

Alpha Signal Returns (AUD)	1 Month Return	1 Month Excess	1 Year Return	1 Year Excess
Benchmark	-2.63%		-5.07%	
Defensive Alpha Signal	-0.15%	2.48%	4.40%	9.48%
Quality Alpha Signal	-2.40%	0.23%	-2.19%	2.88%
Trend Alpha Signal	-0.41%	2.22%	-0.97%	4.10%
Value Alpha Signal	-0.29%	2.34%	8.15%	13.22%
Diversified Alpha Signal	-0.74%	1.89%	3.39%	8.46%

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



### Trend Alpha Signal

Trend’s performance in April was strong yet again, outperforming by over 2%. Sector positioning was a key contributor, with the Signal overweight Energy and underweight Health Care. The overweight position to Israel was also positive. Key stock contributors were overweights to LPL Financial Holdings (+8.7%), Reliance Steel (+14.3%), Murphy USA (+23.5%) and K+S AG (+17.5%). An overweight to Alcoa (+20.4%) was the only significant detractor.

### Defensive Alpha Signal

Defensive’s low beta saw most of the outperformance occur when the market fell, as expected for this Signal. The tilt to lower volatility stocks was a strong contributor, as these outperformed high volatility stocks significantly over the month. The lowest volatility quintile of stocks returned +0.45%, while the highest volatility quintile had a return of -10.7%. Country selection was positive, with overweight positions to Israel, Sweden and Hong Kong, and underweight to Singapore. The Defensive Signal additionally had good stock selection within most sectors, with the underweight to Health Care a key contributor. Individually, there were no significant stock level contributors or detractors.

### Value Alpha Signal

The Value Alpha Signal outperformed for a sixth straight month. The overweight to Energy and underweight to Health Care were good contributors. Country allocation was also a small contributor, with positioning in only three countries detracting. The cheapest PE quintile of stocks in MSCI returned -0.3%, with negative earnings stocks -6.9%. Stock selection was positive across almost all sectors, with key Signal overweights in Olin Corporation (+16%), Antero Resources (+21.8%) and AutoNation Inc. (+23%).

### Quality Alpha Signal

The Quality Alpha Signal struggled early in the month, but picked up as Consumer Discretionary rallied later in the month. An underweight to Health Care contributed, together with good stock selection. LPL Financial, Louisiana Pacific and AutoNation were good stock contributors to performance, with BE Semiconductor Industries and Lattice Semiconductor both detracting. An underweight to the highest volatility stocks also contributed, as these stocks underperformed significantly in April.

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### Diversified Alpha Signal

In April, the Diversified Alpha Signal outperformed its Benchmark, as all of its underlying constituent Signals outperformed. The Diversified Alpha Signal had a small outperformance over the simple average of its components- with the Conviction Upweighting adding value for the month.

The Fund had a moderate underperformance against the Diversified Signal in April. The Diversified Signal benefited from a very large underweight position to the Health Care sector, compared with the Fund (which had a smaller underweight position). The Fund has active weight controls on sector limits as part of the risk management process within portfolio construction. Active exposures at the Signal level can be higher than in the Fund.

### Conclusion

Quarterly earnings reporting season is currently underway in the US, and has been largely positive for a majority of Fund holdings, with a majority of names beating earnings estimates. We will be looking to incorporate this new data into the Fund holdings as a part of the next regular rebalancing of the strategy in May. As the Fund has now passed 6 months of live performance, we are encouraged to see consistent outperformance in a variety of market environments and directions, in line both with our paper and backtest strategy performance. As volatility in the markets remains elevated, we are retaining our higher volatility settings for our Signals to be best positioned for the uncertain environment ahead.

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