

# Australian Small Caps Systematic Alpha Fund (Wholesale)

## Monthly Performance Report as at 31 March 2022



### Highlights

- In a strong month for the Australian markets, the **Blue Orbit** Australian Small Caps Systematic Alpha Fund returned **5.25%** against a Benchmark return of **5.26%**.
- Energy and commodities rallied strongly, with lithium explorers posting large gains towards the end of March.
- Our Trend Alpha Signal saw a rebound in performance after a poor few months, and outperformed both our Value and Defensive Signals.

As at 31 March 2022	1 Month	3 Month	6 Months	1 Year	2 Years (Annualised)	Since Inception (Annualised) <sup>2</sup>
Blue Orbit Australian Small Cap Systematic Alpha Fund <sup>1</sup>	5.25%	-5.63%	-3.22%	3.60%	26.49%	3.22%
Benchmark <sup>3</sup>	5.26%	-4.22%	-2.27%	9.68%	29.20%	9.33%
Excess Return	-0.01%	-1.41%	-0.95%	-6.09%	-2.71%	-6.11%

1. Returns shown are Total Returns, Net of Fees. Returns shown for the Lead Unit Series (October 2019).

2. Inception Date is 11 October 2019.

3. Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

### Performance Commentary

March saw Global markets rebound, despite the ongoing Russian invasion of Ukraine. Australian markets outperformed their global counterparts, helped by our indices' heavy weightings to the materials and energy sectors. The large cap ASX 100 Index climbed 7.11%, while the Benchmark Small Ordinaries Index was up 5.26%. In contrast, the US S&P 500 was up only 3.7%, Japanese Topix +4.15% and the European Stoxx 600 Index +0.6%. The Australian Dollar also performed strongly, up 3.5% against the US Dollar and 4.5% against the Euro.

Within the Small Caps Benchmark, Energy (+12.9%) and Materials (+11.4%) were the dominant sectors, while Financials (+0.76%) and Consumer Discretionary (+1.4%) underperformed. Within Materials, lithium related stocks had a strong month, with the majority of lithium explorer names up between 20 – 45% for the month.

The Fund benefited from its overweight position to Energy, with the overweight to New Hope Corporation (+33.9%) a key contributor. The Funds size positioning also added value, with the Fund overweight the larger stocks in the Benchmark, which outperformed strongly in March. Other key contributors to performance were the Fund's overweight to Champion Iron (+21.3%), and underweight to Zip Co (-32.8%). The Fund's underweight to Uniti Group was the key detractor, as it rallied 43.4% on a takeover bid.

### Portfolio Facts

Fund Details	
Fund Valuation (AUD)	\$2,237,945
NAV unit price (Mid)	\$1.0486
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	Top Ten Holdings	Portfolio	Benchmark
Number of securities	107	199	Champion Iron Ltd.	3.39%	1.08%
Market Capitalization	2,863	2,556	New Hope Corporation Limit	2.80%	0.62%
Active Share	47.9	0.0	News Corporation Shs B Chess Depository Int	2.71%	0.59%
Dividend Yield	3.1	2.4	Healius Limited	2.53%	0.85%
Price/Earnings	12.0	12.1	Graincorp Limited Cla	2.22%	0.71%
P/E using FY1 Est	11.3	14.7	Johns Lyng Group Ltd	2.19%	0.54%
Price/Cash Flow	8.6	10.9	Coronado Global Resources Inc. Shs Chess L	2.07%	0.59%
Price/Book	1.9	2.0	Technology One Limited	1.94%	1.17%
ROE	15.8	8.5	Premier Investments Limited	1.90%	1.01%
LT Debt to Capital	24.8	22.1	Inghams Group Ltd.	1.87%	0.42%

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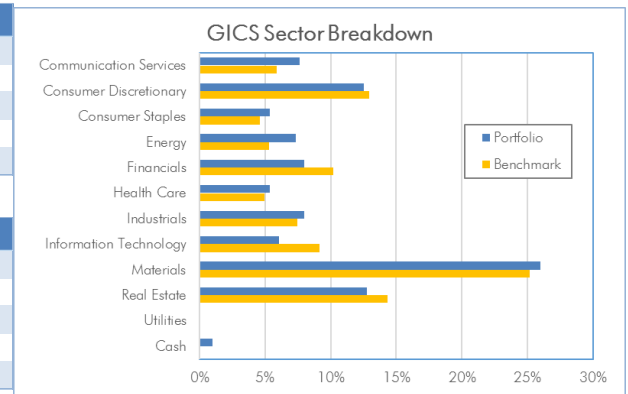


### Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Champion Iron Ltd.	3.39%	1.08%	2.32%
New Hope Corporation	2.80%	0.62%	2.18%
News Corporation Shs B	2.71%	0.59%	2.12%
Healius Limited	2.53%	0.85%	1.68%
Johns Lyng Group Ltd	2.19%	0.54%	1.65%

### Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Insignia Financial Ltd	0.00%	0.88%	-0.88%
Breville Group Limited	0.00%	0.97%	-0.97%
Link Administration Holdings L	0.00%	0.97%	-0.97%
Charter Hall Long WALE REIT	0.00%	1.19%	-1.19%
Uniti Group Ltd.	0.00%	1.20%	-1.20%



## Sector Attribution

Sector Attribution	ASX Small Systematic			S&P/ ASX Small Ordinaries			Attribution		Total
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation	Selection + Interaction	
Communication Services	7.88%	3.14%	0.24%	5.66%	9.61%	0.54%	0.10%	-0.51%	-0.41%
Consumer Discretionary	13.16%	0.60%	0.08%	13.27%	1.38%	0.17%	0.00%	-0.11%	-0.11%
Consumer Staples	5.70%	-1.72%	-0.09%	4.87%	1.62%	0.08%	-0.05%	-0.18%	-0.23%
Energy	7.34%	14.97%	1.03%	5.75%	12.23%	0.67%	0.09%	0.20%	0.29%
Financials	8.26%	2.33%	0.10%	10.29%	0.76%	0.08%	0.03%	0.12%	0.14%
Health Care	5.43%	4.69%	0.26%	5.52%	2.16%	0.15%	-0.01%	0.13%	0.12%
Industrials	7.98%	4.08%	0.36%	7.83%	2.32%	0.18%	-0.01%	0.16%	0.15%
Information Technology	6.01%	9.87%	0.61%	9.03%	6.27%	0.56%	-0.03%	0.24%	0.21%
Materials	23.60%	11.28%	2.60%	22.57%	11.39%	2.53%	0.01%	0.03%	0.04%
Real Estate	13.43%	0.82%	0.14%	15.20%	1.70%	0.29%	0.06%	-0.13%	-0.06%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	1.22%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.08%	0.00%	-0.08%
<b>Total</b>	<b>100%</b>	<b>5.33%</b>	<b>5.33%</b>	<b>100%</b>	<b>5.26%</b>	<b>5.26%</b>	<b>0.12%</b>	<b>-0.05%</b>	<b>0.07%</b>

## Size Attribution

Size Attribution	ASX Small Systematic			S&P/ASX Small Ordinaries			Attribution		Total
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation	Selection	
<b>Total</b>	100.00	5.33	5.33	100.00	5.26	5.26	0.08	-0.01	0.07
Market Cap Quintile 1 (Large)	39.16	6.43	2.48	34.68	6.48	2.20	0.10	-0.02	0.07
Market Cap Quintile 2	26.13	6.09	1.59	26.94	4.45	1.23	-0.01	0.43	0.42
Market Cap Quintile 3	16.92	2.84	0.52	19.73	3.75	0.75	0.07	-0.14	-0.08
Market Cap Quintile 4	11.53	3.83	0.45	12.47	5.93	0.75	-0.01	-0.25	-0.26
Market Cap Quintile 5 (Small)	5.04	4.30	0.28	6.18	5.64	0.33	0.02	-0.03	-0.02
Cash	1.22	--	--	--	--	--	-0.08	--	-0.08

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### 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
<b>Top 5</b>							
New Hope Corporation Limited	2.54%	33.81%	0.72%	0.59%	33.86%	0.17%	0.46%
Champion Iron Ltd.	3.10%	21.23%	0.61%	1.01%	21.27%	0.20%	0.32%
Technology One Limited	2.05%	16.18%	0.38%	1.18%	16.31%	0.18%	0.16%
Zip Co Ltd.	0.01%	-23.71%	-0.02%	0.33%	-32.81%	-0.16%	0.16%
Johns Lyng Group Ltd	2.14%	14.35%	0.30%	0.51%	14.34%	0.07%	0.14%
<b>Bottom 5</b>							
Lovisa Holdings Ltd.	1.71%	-4.16%	-0.06%	0.43%	-4.05%	-0.02%	-0.12%
Nickel Mines Ltd.	1.21%	-17.06%	-0.33%	0.92%	-17.05%	-0.20%	-0.14%
Abacus Property Group	1.86%	-5.69%	-0.11%	0.51%	-5.70%	-0.03%	-0.16%
Inghams Group Ltd.	2.24%	-7.77%	-0.22%	0.45%	-7.77%	-0.04%	-0.27%
Uniti Group Ltd.	0.20%	0.25%	0.00%	1.02%	43.77%	0.40%	-0.34%

### 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	5.26%							
Defensive Alpha Signal	2.79%	-2.47%	-0.77%	4.98%	-0.15	-0.38%	5.60%	-0.07
Quality Alpha Signal	4.77%	-0.48%	-1.57%	4.01%	-0.37	7.69%	6.90%	1.09
Trend Alpha Signal	4.32%	-0.94%	-0.18%	6.83%	-0.02	5.18%	7.58%	0.67
Value Alpha Signal	3.80%	-1.46%	2.82%	7.87%	0.34	10.15%	6.81%	1.46
Diversified Alpha Signal	4.43%	-0.83%	-1.24%	2.28%	-0.52	2.70%	3.00%	0.88
Systematic Alpha Portfolio (Model)	4.30%	-0.96%	-4.15%	3.78%	-1.05	-0.93%	5.37%	-0.17
Blue Orbit Australian Small Caps Systematic Alpha Fund*	5.32%	0.06%	-5.23%	4.02%	-1.24	-2.71%	5.43%	-0.49

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

The Alpha Signals returns shown are for theoretical, paper strategies only. Performance numbers are gross returns and calculated in FactSet.

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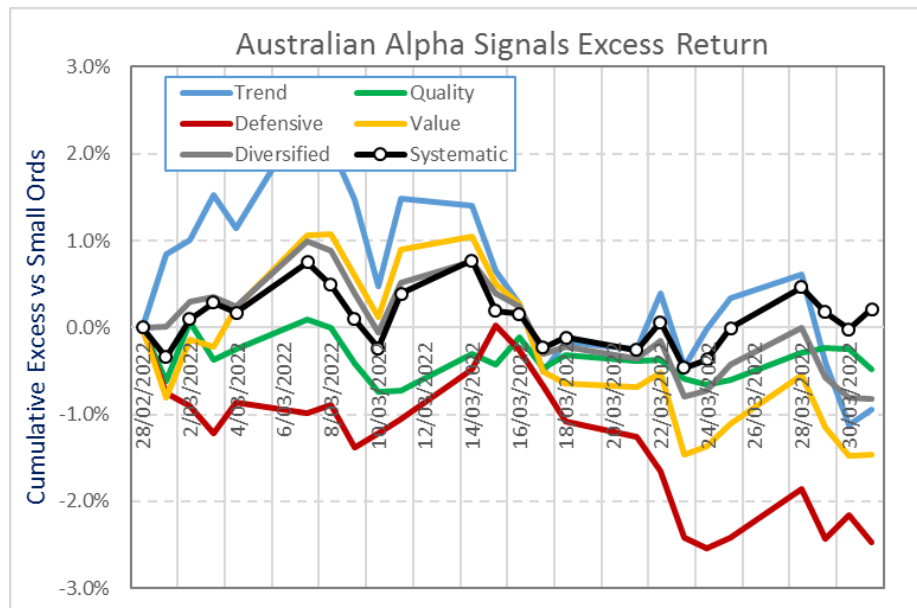


Figure 1 provides a summary of the relative performance of the Alpha Signals and the Fund against the Benchmark throughout the month. In March, Trend bounced back after poor performances earlier in the quarter, to be the second strongest performing Signal, after Quality. Value performed well early in the month, but dropped away towards the end of March. Defensive was the poorest performing Signal over the month.

## Performance Commentary

### Defensive Alpha Signal

The Defensive Signal underperformed the Benchmark by 2.5% in March. We generally expect the Defensive Signal to underperform in a strong or rising market, so this underperformance was in line with expectations. Much of the underperformance came from the Signal's underweight to and stock selection within the Materials sector. Within Materials, the Signal did not hold many of the strongly performing Lithium names, such as AVZ Minerals (+35%), Liontown Resources (+31%), Lake Resources (+28.7%), Sayona Mining (+45.5%), Core Lithium (+22%), Loneer Limited (+31%) and Piedmont Lithium (37.7%).

### Quality Alpha Signal

The Quality Signal was the best performing Signal for the month, with only a small underperformance against the Benchmark. Good stock selection within Financials, Information Technology and Real estate was offset by poor selection in Consumer Discretionary and Materials. The Signal's key contributors were its overweights to Champion Iron and Coronado Global Resources (+315), as well as not holding Zip Co. This was offset by not holding many of the lithium names, and an underweight to Whitehaven Coal.

### Trend Alpha Signal

Trend had a strong start to the month, which fell away in the last few days of March to finish around 1% under Benchmark. The Signal benefited from its overweight to the Materials and Energy sectors, however stock selection within Information Technology and Consumer Discretionary detracted. Within Materials, the Signal was overweight Champion Iron, but did not

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hold all of the strongly performing lithium names. Overweights to Nickel Mines (-17%) and BrainChip Holdings (-19.6%) also detracted.

### Value Alpha Signal

In a similar pattern to Trend, Value started the month strongly, but saw performance fall away towards the end of the month. Strong sector positioning added value, with the Signal underweight the poorly performing Financials, Health Care, and Real Estate Sectors; while being overweight Materials, Communication Services and Energy. Stock selection was the key detractor, with the Signal not holding any of the lithium names, while being underweight Whitehaven Coal and Uniti Group.

### Diversified Alpha Signal

The Diversified signal had a moderate underperformance against the Benchmark in March, in line with the performance of its underlying Signals. As with the component Signals, this underperformance was primarily driven by the Signal being underweight many of the lithium names, as well as Uniti Group.

The Fund's outperformance over the Diversified Alpha Signal was primarily due to the Fund having a position in several of the strongly performing Lithium names, which were not held in the Diversified Signal. These names were identified and brought into the Fund under the Fund's rocket finder screen- which suggests exposure to certain stocks classified as rockets, which can then be actioned by the Portfolio Managers. The Portfolio Managers made the decision in March to establish an exposure in several of the identified rocket names, to protect the Fund in case of a continued run in these stocks. As these names rallied into the end of March, this added approximately 0.5% of outperformance to the Fund over the Diversified Signal.

### Conclusion

March saw markets settle into a new normal following the sell offs seen earlier in the year. Despite ongoing concerns around inflation and the Ukrainian conflict, global markets posted strong rallies, with overall volatility (as measured by the VIX index) falling steadily over the month. Australian markets outperformed their global counterparts, with our domestic economy's heavy exposure to resources, energy and large number of listed lithium explorers inviting strong market demand. As we move into April, the focus domestically shifts to the outcome of the Australian Federal election in May, together with monitoring of any Reserve Bank movements on interest rates. Although global market volatility fell in March, we still see it at elevated levels compared with historical averages, with the potential for further spikes on short term macro news events. Our portfolio remains well positioned for this moderate volatility environment we anticipate ahead, with the Fund well diversified to react to style rotations as they occur.

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