

Australian Small Caps Systematic Alpha Fund (Wholesale)

Monthly Performance Report as at 30 June 2022



Highlights

- In June, the **Blue Orbit** Australian Small Caps Systematic Alpha Fund returned -12.4%, outperforming the Benchmark return of -13.1%.
- **Materials** was sold down heavily during the month, with the sector down -23.6% in June.
- All Alpha Signals outperformed in June, with **Defensive** the strongest performing Signal.

As at 30 June 2022	1 Month	3 Month	6 Months	1 Year	2 Years (Annualised)	Since Inception (Annualised) ²
Blue Orbit Australian Small Cap Systematic Alpha Fund ¹	-12.39%	-18.83%	-23.39%	-22.19%	1.86%	-4.68%
Benchmark ³	-13.09%	-20.39%	-23.74%	-19.52%	3.55%	-0.28%
Excess Return	0.70%	1.56%	0.35%	-2.67%	-1.69%	-4.40%

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

After a positive start, markets fell sharply from mid-June to finish the month lower. Overall for June we saw S&P500 -8.4%, NASDAQ -8.7%, FTSE100 -5.8%, DAX -11.2%, and Nikkei -3.3%. Brent Crude Oil dropped 6.5%, with gold down a little to US\$1817/oz. The Australian dollar also fell, closing down 4.1% against the US Dollar, down 1.7% against the Euro, and up 1.3% against the Yen.

Within Australia, Small caps underperformed, returning -13.1% compared to their large caps counterparts (-8.5%). Within small caps, Materials (-23.6%) was the worst performer, as commodities were sold down heavily. The Gold sub-industry (-25.1%) was very weak, while 10 stocks in Diversified Metals & Mining (-29.0% overall) were down more than 30%. Information Technology (-12.8%), and Financials (-12.7%) were also weak, while Communication services (-4.7%) and Consumer Staples (-7.2%) outperformed. At the stock level there were still some bright spots, particularly Tassal Group (+30.2%), Sigma Healthcare (+16.0%) and Audinate (+13.7%). The largest quintile of stocks (-9.6%) outperformed the smallest (-16.9%). Stocks with negative earnings returned (-36.8%).

The Fund's outperformance came from good stock selection, overcoming the negative impact from a sector overweight position to Materials. Stock wise, the Fund benefited from its overweights to TPG Telecom (+3.8%), Viva Energy (-1.8%) and Graincorp (-3.2%), as well as through not holding Chalice Mining (-40.6%). Size allocation was also positive, with the Fund overweight the larger stocks within the Small Ordinaries.

Portfolio Facts

Fund Details	
Fund Valuation (AUD)	\$1,484,590
NAV unit price (Mid)	\$0.8512
Inception date	11 October 2019
Performance benchmark	S&P/ASX Small Ordinaries Accumulation Index
Buy/sell spread	0.20%/ -0.20%
Distributions	Annually

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Signal Performance

The Blue Orbit Systematic Alpha Fund’s 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	-13.09%							
Defensive Alpha Signal	-9.75%	3.33%	4.04%	5.69%	0.68	2.37%	5.73%	0.40
Quality Alpha Signal	-10.44%	2.64%	2.17%	4.30%	0.48	3.47%	4.91%	0.69
Trend Alpha Signal	-12.78%	0.31%	3.66%	7.31%	0.48	7.48%	6.45%	1.14
Value Alpha Signal	-11.89%	1.19%	5.34%	7.63%	0.67	6.17%	6.08%	0.99
Diversified Alpha Signal	-12.39%	0.70%	1.93%	2.90%	0.64	3.50%	2.49%	1.37
Systematic Alpha Portfolio (Model)	-12.38%	0.71%	-1.59%	4.08%	-0.37	0.30%	5.00%	0.06
Blue Orbit Australian Small Caps Systematic Alpha Fund*	-12.32%	0.77%	-2.02%	4.37%	-0.44	-0.85%	4.98%	-0.17

*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.

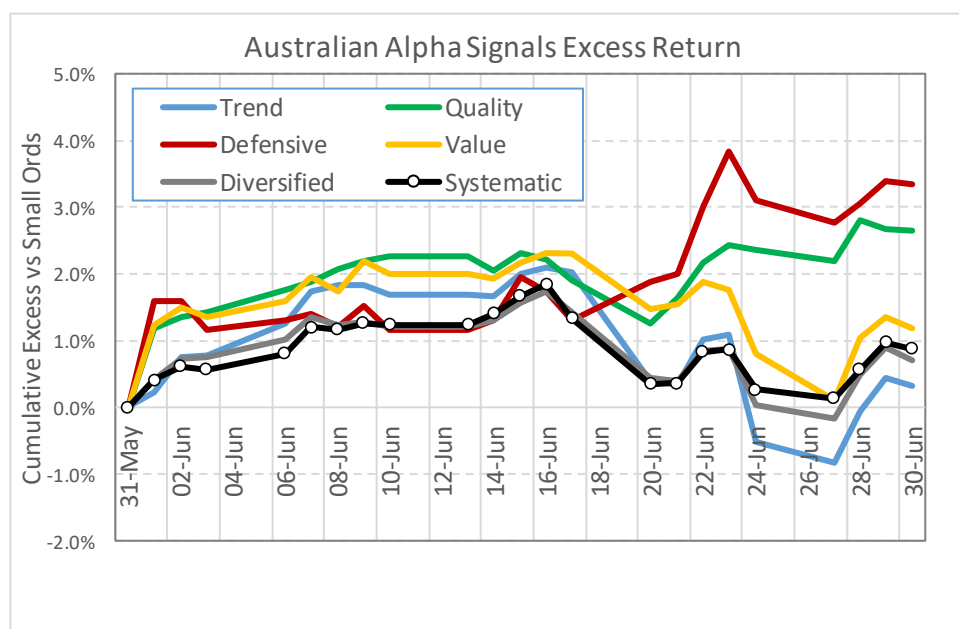


Figure 1 provides a summary of the relative performance of the Alpha Signals and the Fund against the Benchmark throughout the month. In June, performance was relatively muted until mid-month, when the overall market sell-down saw Trend and Value give up much of their early month gains. Defensive rallied strongly as the market fell, closely followed by Quality.

A large portion of Quality’s good return came from stock selection within Materials, particularly the underweight to lithium stocks, as well as good stock selection within Gold. Defensive was similar, but also benefited from strong selection in Communication Services.

Figure 1: Cumulative Signal Performance

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Strategy Characteristics

The strategy generally holds around 80-100 names, is Benchmark aware with a tracking error range around 4-6%, with active weight controls applied to stocks and sectors.

Characteristics	Portfolio	Benchmark
Number of securities	104	197
Market Capitalization	2,472	2,102
Active Share	50.3	0.0
Dividend Yield	4.3	3.4
Price/Earnings	9.0	9.5
P/E using FY1 Est	8.9	12.4
Price/Cash Flow	6.7	8.7
Price/Book	1.4	1.5
ROE	16.0	10.8
LT Debt to Capital	25.0	23.1

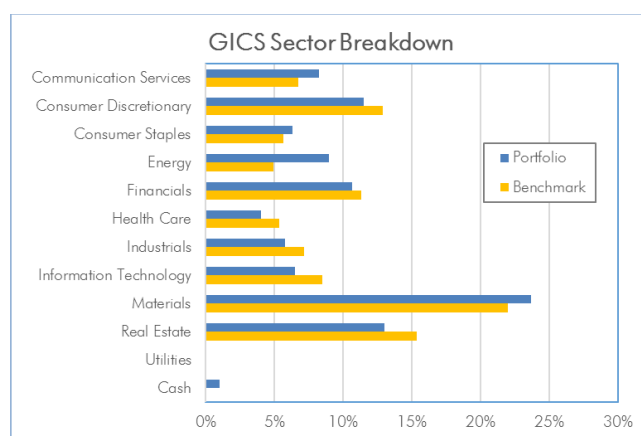
Top Ten Holdings	Portfolio	Benchmark
Graincorp Limited Class A	3.06%	1.03%
TPG Telecom Limited	2.92%	1.05%
Healius Limited	2.87%	1.01%
New Hope Corporation	2.70%	0.82%
Viva Energy Group Ltd	2.51%	0.98%
Perseus Mining Limited	2.50%	0.98%
Deterra Royalties Ltd	2.27%	0.85%
Spark New Zealand Limited	2.25%	0.46%
Coronado Global Resources Inc.	2.17%	0.63%
Cromwell Property Group	2.07%	0.51%

Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Graincorp Limited Clas	3.06%	1.03%	2.03%
New Hope Corporation	2.70%	0.82%	1.88%
TPG Telecom Limited	2.92%	1.05%	1.87%
Healius Limited	2.87%	1.01%	1.86%
Spark New Zealand Limited	2.25%	0.46%	1.79%

Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
IRESS Limited	0.00%	1.03%	-1.03%
National Storage REIT	0.00%	1.10%	-1.10%
Seven Group Holdings Limited	0.00%	1.23%	-1.23%
Charter Hall Long WALE REIT	0.00%	1.24%	-1.24%
Uniti Group Ltd.	0.00%	1.58%	-1.58%



Conclusion

Steep market falls in June showed that the volatility thematic is still very much in play. Globally, continuing high inflation and concerns around recession risks have pushed equity markets lower, with the latter concern leading to sharp selloffs in previously strong commodity and energy names. Overall market volatility has been reflected in the movement of style factors, with significant intra month style rotations as markets and thematics shift continually. Against this backdrop, Blue Orbit remains well positioned and well diversified across styles to weather the continued medium term uncertainty we see ahead.

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