

# Australian Small Caps Systematic Alpha Fund (Wholesale)

## Quarterly Performance Report as at 30 September 2022



### Highlights

- In the September Quarter, the *Blue Orbit* Australian Small Caps Systematic Alpha Fund returned 0.66%, outperforming the Benchmark return of -0.47%.
- Energy was the strongest sector performer over the quarter, up 12.4%.
- Quality was the strongest performing Signal over the quarter, while Trend was the only underperforming Signal.

As at 30 September 2022	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>	0.66%	-18.29%	-20.92%	-0.80%	-4.08%
Benchmark <sup>3</sup>	-0.47%	-20.76%	-22.56%	0.49%	-0.41%
Excess Return	1.13%	2.47%	1.64%	-1.30%	-3.66%

1. Returns shown are Total Returns, Net of Fees. Returns shown for the Lead Unit Series (October 2019). Past performance is no indication of future Performance.

2. Inception Date is 11 October 2019. Performance for periods less than 1 year has not been annualised.

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

### Performance Commentary

After the steep selloff in equity markets in the June quarter, investors were seeking opportunity and hoping for calmer months ahead. Globally, markets rallied strongly in July, before giving up their gains to end broadly lower by September quarter end. The S&P500 was down 4.9% for the quarter, FTSE100 returned -2.7%, and Nikkei 225 returned -0.8%. The Australian markets outperformed, with the large cap ASX 100 ending up 0.6%, while the Small Ordinaries Benchmark finished down -0.5%. The relatively muted headline return hides the volatility seen during the quarter, with the monthly returns of the Benchmark during this period ranging from +11% to -11%.

Within the Benchmark, the Energy sector was the standout over the quarter, up +12.4%. Despite global falls in oil prices on fears of global recession, the sector domestically saw its outperformance driven by the Coal & Consumable Fuels subindustry (+54.5%), which makes up nearly half of the Energy sector by weight. Consumer Staples (-9.6%) and Real Estate (-6.4%) were the poorest performing sectors in Q3.

The Fund's outperformance was supported by its sector positioning, with an overweight to Energy and underweight to Real Estate adding value. Stock selection made up the bulk of the performance (particularly within Energy and Industrials); with key contributors being overweights in New Hope (+81.8%), NRW Holdings (+44.3%) and Lovisa Holdings (+56.4%). The quarterly S&P index rebalance was held mid-September, with several suspended stocks (AVZ, FFX and BWX) being deleted from the Benchmark at zero price in line with S&P index construction rules. The Fund has not written down the value of its suspended holdings yet as per our valuation policy, and will continue to monitor these.

### Portfolio Facts

Fund Details	
Fund Valuation (AUD)	\$1,494,359
NAV unit price (Mid)	\$0.8198
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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### Portfolio Characteristics

Characteristics	Portfolio	Benchmark
Number of securities	105	200
Market Capitalization	2,313	2,066
Active Share	51.8	0.0
Dividend Yield	4.3	3.4
Price/Earnings	6.7	7.2
P/E using FY1 Est	9.4	12.4
Price/Cash Flow	6.8	8.2
Price/Book	1.5	1.6
ROE	16.8	10.7
LT Debt to Capital	27.4	22.7

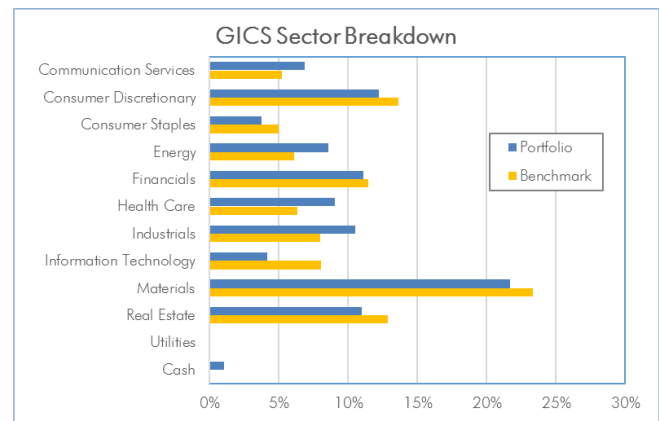
Top Ten Holdings	Portfolio	Benchmark
New Hope Corporation Limited	3.12%	1.47%
Eagers Automotive Limited	2.81%	0.89%
Viva Energy Group Ltd.	2.67%	0.83%
Healius Limited	2.62%	0.91%
Liontown Resources Li	2.41%	1.30%
Genworth Mortgage Insurance Australia Ltd	2.41%	0.42%
Spark New Zealand Limited	2.30%	0.47%
Pro Medicus Limited	2.28%	1.18%
Coronado Global Resources Inc.	2.28%	0.68%
Mcmillan Shakespeare Limited	2.07%	0.43%

#### Five Largest Overweight Positions

Security	Portfolio	Benchmark	Active
Genworth Mortgage Insurance Au	2.41%	0.42%	1.99%
Eagers Automotive Lim	2.81%	0.89%	1.92%
Viva Energy Group Ltd.	2.67%	0.83%	1.84%
Spark New Zealand	2.30%	0.47%	1.83%
Healius Limited	2.62%	0.91%	1.70%

#### Five Largest Underweight Positions

Security	Portfolio	Benchmark	Active
Corporate Travel Management	0.00%	1.00%	-1.00%
National Storage REIT	0.00%	1.12%	-1.12%
Chorus Limited	0.22%	1.38%	-1.15%
Charter Hall Long WALE REIT	0.00%	1.21%	-1.21%
Seven Group Holdings Limited	0.00%	1.24%	-1.24%



### Sector Attribution

Sector Attribution	ASX Small Systematic			S&P/ ASX Small Ordinaries			Attribution		
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation	Selection + Interaction	Total
Communication Services	7.99%	-4.46%	-0.25%	5.50%	-3.66%	-0.05%	-0.15%	-0.05%	-0.20%
Consumer Discretionary	11.87%	8.61%	0.83%	13.23%	0.03%	-0.08%	-0.02%	0.94%	0.92%
Consumer Staples	4.83%	-11.50%	-0.57%	5.11%	-9.64%	-0.53%	-0.17%	-0.09%	-0.25%
Energy	8.42%	21.19%	1.54%	5.11%	12.41%	0.49%	0.37%	0.61%	0.98%
Financials	10.90%	5.89%	0.62%	11.67%	2.39%	0.26%	0.01%	0.39%	0.40%
Health Care	6.27%	-11.16%	-1.06%	6.01%	4.49%	0.20%	-0.21%	-0.71%	-0.92%
Industrials	7.25%	24.73%	1.07%	7.48%	9.24%	0.56%	0.08%	0.87%	0.95%
Information Technology	7.15%	-12.79%	-0.68%	8.77%	-1.89%	-0.06%	-0.02%	-0.92%	-0.94%
Materials	21.84%	0.20%	0.03%	22.59%	-1.66%	-0.57%	-0.02%	0.34%	0.32%
Real Estate	12.40%	-7.34%	-0.68%	14.53%	-6.78%	-0.70%	0.14%	-0.09%	0.05%
Utilities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	1.09%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	0.00%	0.04%
<b>Total</b>	<b>100%</b>	<b>0.86%</b>	<b>0.86%</b>	<b>100%</b>	<b>-0.47%</b>	<b>-0.47%</b>	<b>0.04%</b>	<b>1.29%</b>	<b>1.33%</b>

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### Alpha Signal Attribution

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. The Signals are internally calculated paper portfolios, and do not include fees or transaction costs.

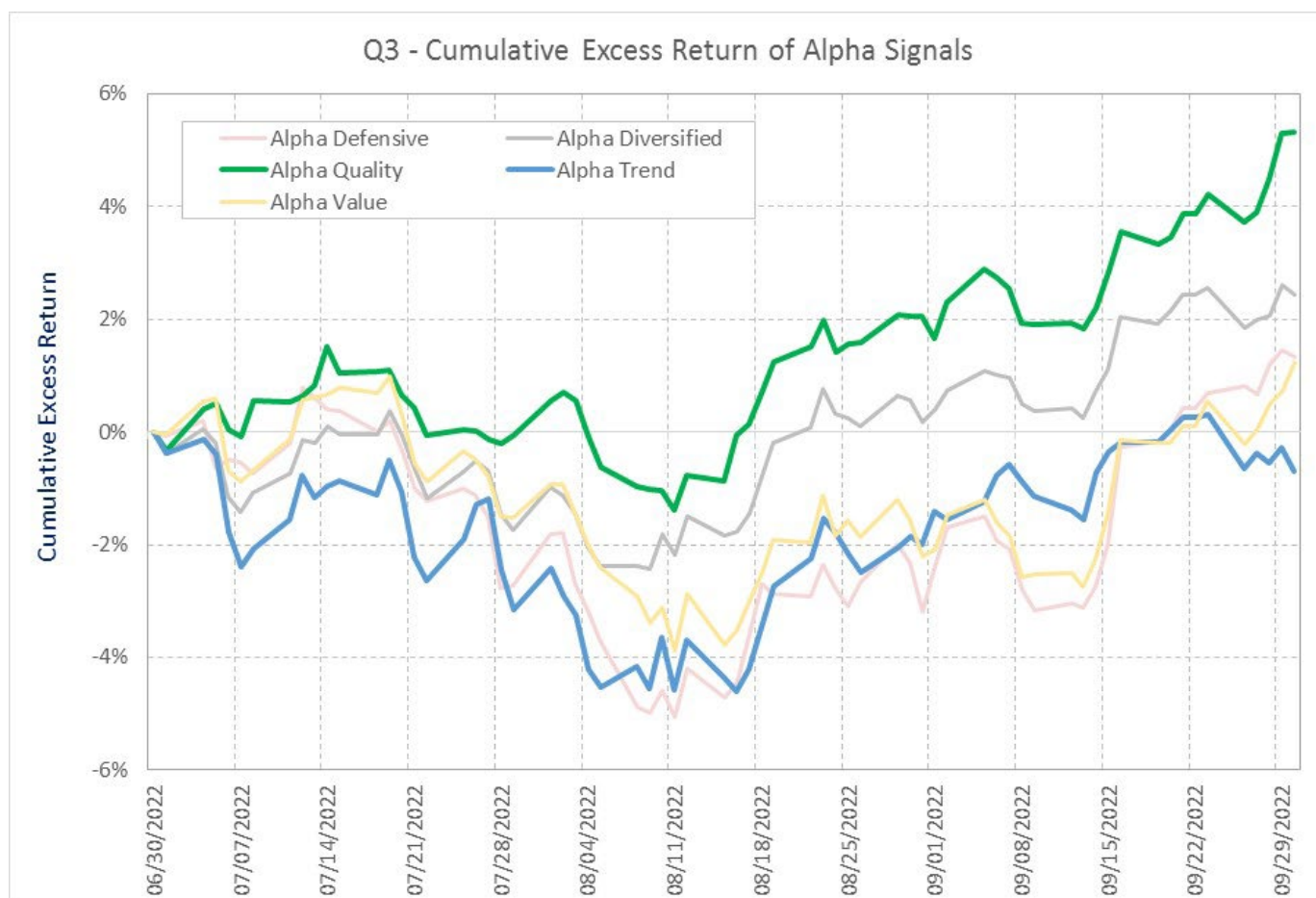


Figure 1: Cumulative Signal Performance

Figure 1 provides a summary of the relative performance of the Alpha Signals against the Benchmark over the September Quarter.

### Alpha Signal Commentary

In Q3 we have highlighted the relative performance of two of the Alpha Signals in the above chart- Quality Alpha and Trend Alpha.

After a fairly flat start in July, Quality Alpha picked up in mid-August, rallying strongly in September to finish up 5% over the Benchmark by the end of the quarter. Performance was in line with the strongly performing July market, but the majority of gains came as the market fell in late August and throughout September. Sector positioning added value, with Quality being overweight strongly performing Energy and Industrials, and underweight poorly performing Real Estate. The Signal's underweight to, and stock selection within, Materials was the largest detractor, primarily through the Signal not holding many of the strongly performing lithium and battery metal exploration names. Key stock contributors were overweights to New Hope, Lovisa and Nearmap (+95.2% on news of a takeover bid in August).

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Trend had a difficult quarter, falling lower in volatile fashion until it reached a low point of more than 4% under Benchmark in-mid August. Trend recovered through the end of the quarter to finish only 0.7% below the Benchmark. Much of Trend's underperformance came through its overweight to Consumer Staples (-9.6%) and underweight to Healthcare (+4.5%), together with poor stock selection within Materials. This was offset by its overweight position to Energy and Industrials, which added back significant value in August and September for the Signal. Key contributors to performance were overweights to Whitehaven Coal (+60%), New Hope, and Sayona Mining (+56.7%).

Alpha Signal	3 Month Return	3 Month Excess	1 Year Excess Return	1 Year Tracking Error	1 Year Information Ratio
Small Ordinaries	-0.5%				
Defensive Alpha Signal	0.9%	1.3%	6.2%	6.9%	0.86
Quality Alpha Signal	4.8%	5.3%	8.1%	4.5%	1.71
Trend Alpha Signal	-1.2%	-0.7%	1.1%	8.0%	0.13
Value Alpha Signal	0.8%	1.2%	8.7%	6.6%	1.27
Diversified Alpha Signal	2.0%	2.4%	4.5%	3.8%	1.16
Blue Orbit Australian Small Caps Systematic Alpha Fund*	0.9%	1.3%	2.3%	4.2%	0.53
Naive Factor Returns	3 Month Return	3 Month Excess	1 Year Excess Return	1 Year Tracking Error	1 Year Information Ratio
Price/Earnings	0.0%	0.5%	10.2%	6.7%	1.45
Dividend Yield	0.4%	0.9%	6.2%	6.1%	0.96
Low Volatility	0.0%	0.5%	3.4%	4.4%	0.74
Equal Weight	0.9%	1.4%	0.3%	4.5%	0.05
Naive Momentum	0.3%	0.8%	-1.4%	14.0%	-0.10

Alpha Signal and Factor returns are for theoretical, paper strategies only. Performance numbers are gross returns and calculated in Factset.

## Conclusion

The September quarter saw large monthly movements in the market, which fluctuated between +11% and -11% from July to September. Globally, interest rates increased rapidly throughout the quarter, with central banks yet to tame rising inflation. This led to high volatility in the markets as investors remain very cautious. We have seen large intra-month volatility in individual Signals, however overall the diversified positioning of the Fund has maintained its consistent performance.

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