

Global Small Caps Systematic Alpha Fund

Monthly Performance Report as at 31 December 2022



Highlights

- The **Blue Orbit** Global Small Caps Systematic Alpha Fund returned -5.1%, underperforming the Benchmark return of -4.65%.
- The weak December return saw the Benchmark end calendar year 2022 down 13%.
- Defensive was the best performing Alpha Signal in the weak market conditions, while Trend underperformed.

As at 30 December 2022	1 Month	3 Month	6 Months	1 Year	Since Inception p.a.
Blue Orbit Global Small Cap Systematic Alpha Fund ¹	-5.11%	4.82%	6.75%	-12.83%	-6.37%
Benchmark ²	-4.65%	4.93%	6.22%	-12.92%	-9.19%
Excess Return	-0.46%	-0.11%	0.52%	0.09%	2.82%

1. Fund inception Date is 5th October 2021. Performance for periods less than 1 year 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

Markets fell in December, capping off the worst year of returns for most global indices seen since the GFC. The S&P 500 fell 5.9% in December to finish the year down 19.4%, while the NASDAQ posted a -8.7% decline for an overall 2022 return of -33%. European markets saw more moderate falls than the US, however this was partly due to European currency weakness against the US Dollar. The Australian dollar was up 1.3% against the US dollar in December, but down 2.3% against the Euro. Brent Crude Oil was flat for the month, closing at US\$85.99/bbl.

The Small cap Benchmark fell 4.7% in December, to finish the year 13% lower. Energy was the weakest performing sector for the month, down 8.1%, while Consumer Staples outperformed (-1.8%). Larger capitalisation stocks underperformed, with the largest group of stocks by market cap within the Benchmark returning -5.6% versus only -3.6% for the smallest group. High volatility stocks underperformed low volatility, with the highest volatility group of stocks retuning -9% versus -1.5% for the lowest.

There was high dispersion in country level returns, with the US underperforming (-7.2%) against countries such as Japan (+1.5%), Hong Kong (+9.9%) and France (+2.7%).

The Fund benefited from its tilt to lower volatility stocks, however its tilt towards larger cap stocks was a detractor in December. Country positioning also detracted, with the Fund underweight Japan and overweight the US. Stock contributors in December included overweights to Fukuoka Financial (+16.6%), Kawasaki Kisen Kaisha (+12.0%) and American Equity Investment Life Holdings (+11.2%). Key stock detractors were Arcus Biosciences (-41.9%), Kinsale Capital Group (-16.25%), Mueller Industries (-15.1%) and World Wrestling Entertainment (-15.2%).

Portfolio Facts

Fund Details	
Fund Valuation (AUD)	\$3,941,900.44
NAV unit price (Mid)	\$0.9192
Inception date	5th October 2021
Performance benchmark	MSCI World ex Australia Small Cap Index (Net Dividends Reinvested) in AUD
Buy/sell spread	0.30%/ -0.30%
Distributions	Half Yearly (30 June and 31 December)
APIR	ETL2441AU

Signal Performance

Alpha Signal Returns (AUD)	1 Month Return	1 Month Excess	1 Year Return	1 Year Excess
Benchmark	-4.65%		-12.92%	
Defensive Alpha Signal	-3.58%	1.07%	-8.55%	4.37%
Quality Alpha Signal	-5.52%	-0.87%	-15.09%	-2.17%
Trend Alpha Signal	-5.99%	-1.34%	-14.15%	-1.23%
Value Alpha Signal	-4.75%	-0.10%	-5.60%	7.32%
Diversified Alpha Signal	-5.42%	-0.78%	-10.98%	1.94%

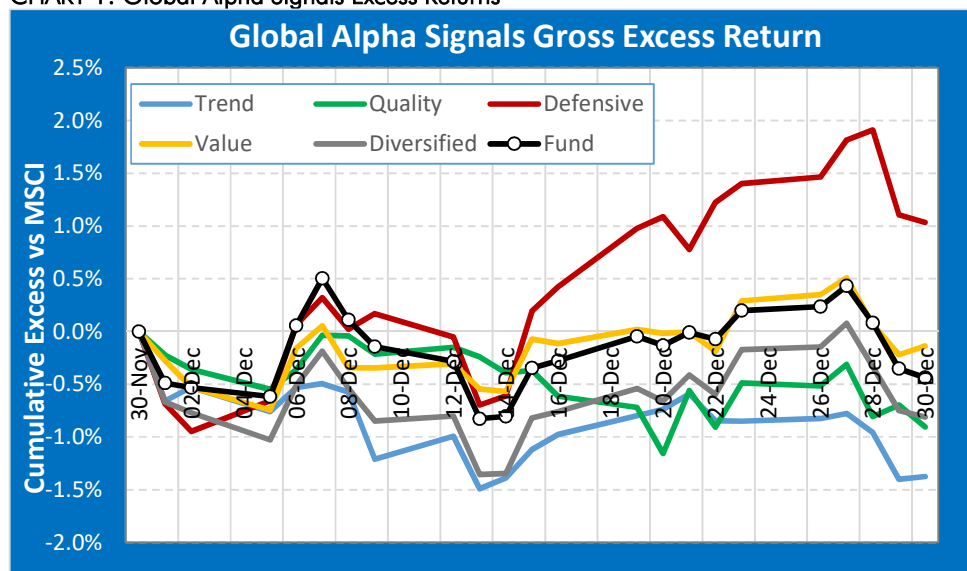
The Alpha Signal returns shown are for theoretical, paper strategies only. Performance numbers are gross returns and calculated in FactSet. Alpha Signal inception date was 31 December 2020.

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CHART 1: Global Alpha Signals Excess Returns



After a poor start to the month, Defensive Alpha rebounded to be the strongest performing Signal in December. Value was fairly flat against the Benchmark, while Quality and Trend lagged all month to finish as the weakest performers.

As expected in the weak market environment, Defensive Alpha outperformed the Benchmark. Much of the Signal's outperformance came from its low volatility positioning, with low volatility significantly outperforming high volatility over the month. Sector allocation was a small contributor, with very good stock selection within Consumer Discretionary a big contributor, particularly Isetan Mitsukoshi Holdings (+13.45) and not holding Gamestop (-30.5%). Other key stock positions were Nippon Steel Trading (+89.2%), and Fukuoka Financial Group (+16.6%).

Trend was negatively impacted by its larger capitalisation and higher volatility positioning than the Benchmark. Country positioning was also a large detractor, with the Signal overweight the US and underweight Japan. Poor stock selection within the Information Technology sector was a large detractor, such as First Solar (-14.3%) and Lattice Semiconductor (-12.0%). Key stock detractors were holdings in Shockwave Medical (-19.9%), Axon Enterprise (-11%) and Sunrun Inc (-27.2%).

The Fund outperformed the Diversified Signal in December by a small amount. The small cash position in the Fund helped in the down market, as did the smaller overweight to Energy. 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.

Closing Comments

Markets finished the year weaker, with global indices posting some of their worst calendar year returns since the GFC. In the difficult market environment, investors sought out stocks with lower volatility and stronger value characteristics. Globally, volatility remains elevated, along with high inflation and fears of recession in 2023. As we move into the new year, we maintain our well diversified positioning for the Fund, to best respond to the anticipated volatility ahead.

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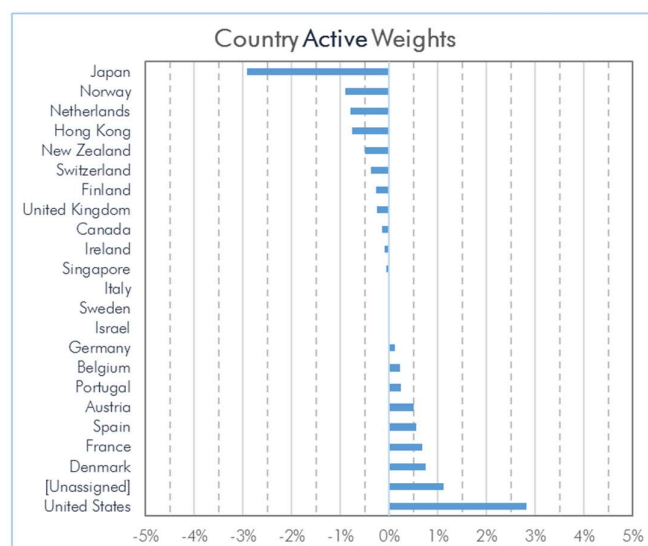
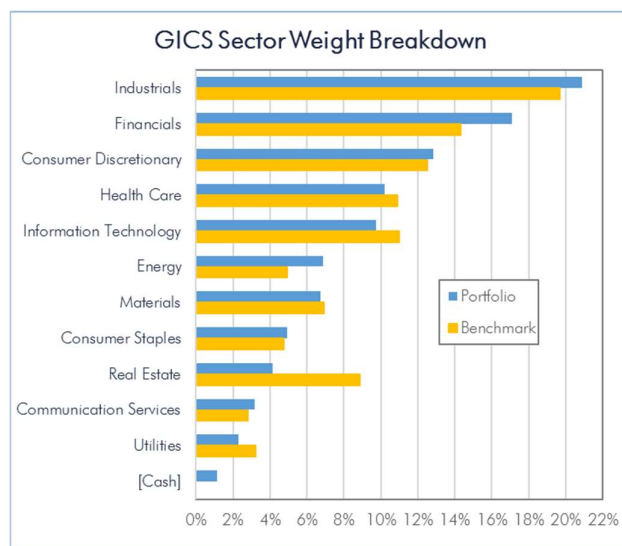


Strategy Characteristics

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	249	4248
Market Capitalization	7,327	5,407
Active Share	86.3	0.0
Dividend Yield	2.1	2.1
Price/Earnings	8.0	11.1
P/E using FY1 Est	8.7	11.8
Price/Cash Flow	6.7	7.7
Price/Book	2.0	1.6
ROA	12.8	4.7
ROE	27.9	11.4
LT Debt to Capital	32.6	35.5

Top 10 Holdings	Portfolio	Benchmark	Active
Toro Company	1.66%	0.19%	1.47%
Builders FirstSource, Inc.	1.42%	0.16%	1.26%
Dick's Sporting Goods, Inc.	1.29%	0.11%	1.19%
Enerplus Corporation	1.26%	0.07%	1.20%
Atkore Inc	1.24%	0.07%	1.16%
Reliance Steel & Aluminum Co.	1.21%	0.19%	1.01%
Louisiana-Pacific Corporation	1.17%	0.07%	1.10%
Reinsurance Group of America, Incor	1.17%	0.15%	1.02%
ExlService Holdings, Inc.	1.09%	0.09%	1.00%
Williams-Sonoma, Inc.	1.08%	0.12%	0.96%



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The Fund's Target Market Determination is available here <https://www.eqt.com.au/insto> A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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