

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
October 2020



Signatory of:



Fund Objective

The Fund seeks long term capital growth by investing in global shares and excluding direct investments in entities involved in environmental destruction, intensive animal farming, tobacco, alcohol, armaments and gambling. The Fund aims to have exposures in companies that are cheap, of high quality and where momentum supports the investment thesis. The Fund can also hedge to manage risk.

	Investment returns*					3 Years (p.a.)	ITD (p.a.)
	1 Month	3 Months	CYTD	1 Year			
Morphic Global Opportunities Fund	-0.11%	2.11%	3.27%	6.51%	5.60%	13.28%	
Index ¹	-0.42%	2.33%	-1.00%	2.90%	8.65%	14.60%	

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

On Sept 23rd the Governor of California announced that by 2035, all new cars and passenger trucks sold in the State are to be zero-emission vehicles as it looks to drastically reduce demand for fossil fuel in California's fight against climate change. The Governor indicated that Transportation currently accounts for more than 50 percent of California's Greenhouse Gas Emissions

California is leading the nation in this effort with New Jersey and New York also providing strong commitments in addressing the defining issue of our time, climate change. There are 15 countries globally that have already committed to phase out gasoline-powered cars and we believe many more will follow as the world recognises the need for climate action.

Portfolio review

The Fund fell -0.11% in October, outperforming global markets which fell -0.42% in AUD terms. Leading up to the early November US Elections, global equity markets were generally weak during the month with the S&P 500 and Nasdaq down 2.7% and 2.3% respectively while increasing Covid-19 cases in Europe saw the French and German markets down by 4.4% and 9.4%.

Most of the US election noise is now (hopefully) behind us and while the players at the top have changed, it looks likely that the political gridlock of a divided government will remain in place. While this does reduce the potential for aggressive fiscal stimulus, it also takes aggressive Democratic tax policy changes off the table in the near term. The growth and economic recovery narrative has not changed and we consider strong fiscal measures remain a matter of when and not if.

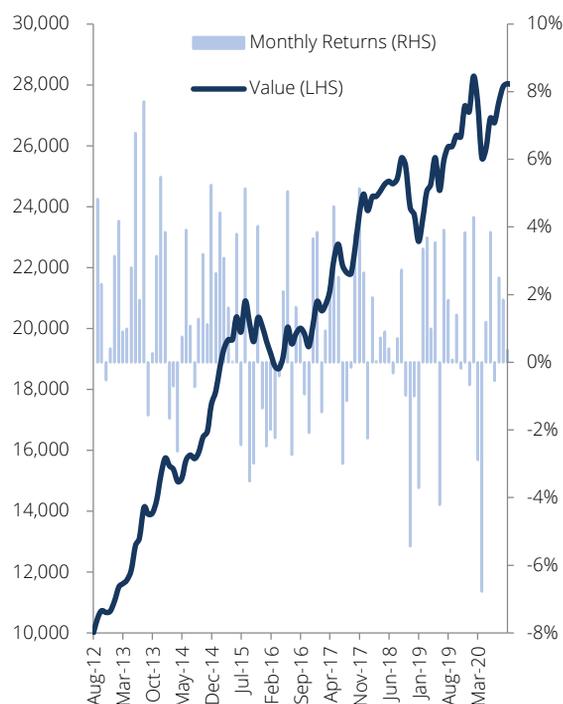
The portfolio's top three contributors Tencent, LiveRamp and Cellnex added 65bps to performance while Alstom, NEC Corp and Fujitsu detracted 63bps. We had a very busy month with 15 companies reporting quarterly results or trading updates, some of which we include below:

Fujitsu is a beneficiary of medium-term digitalisation trends at the corporate and government level. Fujitsu 2Q results disappointed the market after a strong 1Q as a result of a delay in project deployment related to the Covid-19 pandemic. Management did however reiterate their full year guidance as they look to deploy resources to high growth areas and focus on operational efficiencies. Despite weakness in IT spending during the quarter, Fujitsu, as well as some of their key competitors have held their full-year guidance which suggests a strong 2H.

Groupe SEB is the global leader in small domestic equipment which covers both cookware and small electric appliances owning strong brands such as Tefal and Moulinex. It delivered 4.4% like for like Q3 revenue growth which was ahead of market expectations and marked a strong turnaround from the negative 12.6% performance of the first half. Its consumer business of cookware and small domestic appliances grew 10% as it benefits from the favourable trends of "homemade over processed" and "Health and Wellness".

Sensata (ST) is a global leader in sensor technology and sensor-based solutions used in mission critical applications underpinned by megatrends such as vehicle electrification, smart and connected fleets, clean, efficient and autonomous vehicles. ST upgraded Q3 guidance in September however reported numbers exceeded this guide by quite a margin with EBIT of \$155m well ahead of its \$132-\$142m guide. The business continues to grow faster than its underlying auto and heavy vehicle end markets which are under extreme pressure as demand for its emission, electrification and safety related sensor technology continues to provide increased content per vehicle.

Performance of AUD \$10,000



Key Facts^{2,3}

Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.05%
Performance Fee ⁵	15%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.25% each side
Unit Price	\$ 1.3241
Funds Under Management – Fund (AUD)	\$ 46m
Funds Under Management – Morphic (AUD) ⁶	\$ 108m



STOCK IN FOCUS: Bureau Veritas (BVI FP, €9.0bn Market Cap)

BVI is a global leader in the €200bn testing, inspection and certification (TIC) market which is being driven by its client's needs to reduce risk and improve performance through BVI's expertise in quality, safety, health, environment and social responsibility. Its stated mission is to reduce risk, improve its clients' performance and help them innovate to meet society's challenges with confidence. As a business to business to society service company it establishes an unbiased, independent relationship of trust between consumers, governments and businesses.

The business generated about €5.1bn of revenue and over €600m of FCF last year with operations around the globe and in many diverse industries. It has dominant market share in ensuring safety at sea through ship and offshore platform classification services, ensuring the safety, reliability and integrity of industrial assets throughout their life cycle and providing assurance that property assets and infrastructure in service or under construction are safe, energy efficient and comply with applicable regulations. It also has #2 or #3 positions in certifying standards compliance of large companies, testing and certifying consumer products and improving transparency of the commodity supply chain.

In its last conference call Management highlighted 3 megatrends providing considerable opportunities and all driven by sustainability. With its global testing, inspection and certification capabilities it can fully support energy players transition to renewables, ensure quality, safety and traceability of products sourced through fragmenting supply chains and lastly as the leader in building and infrastructure, the European Green Deal will deliver revenue opportunities associated with green buildings, sustainable mobility and clean energy.



Source: BVI Q3 Trading Update Presentation

Like many companies, results in the first half of 2020 will be atypical and with approximately 17% of revenues from China, BVI felt the global pandemic early in the piece with group revenues down 11% in the half. BVI released its third quarter trading update near the end of October and provided an encouraging turnaround in organic revenue growth which was down 4.4% compared with market expectations for a decline greater than 8%. Additionally, it "upgraded" its base case scenario to a slow and gradual recovery from its previous base case of a muted recovery which subsequently resulted in market upgrades to earnings.

At the time of writing, BVI is trading at €20.98 which represents a nice uplift from when we entered the stock following its first half result which was weaker than expected causing the stock to decline double digits. The business is currently trading on about 10x forward EBITDA which is a 5-point discount to its listed comparables and 20-30% discount to its recent history.

We consider that BVI represents compelling value and is well placed in an environment of increasing supply chain complexity, heightened regulations and increasing business risk associated with safety and reliability of products and services.

Kind Regards,

Bill Pridham

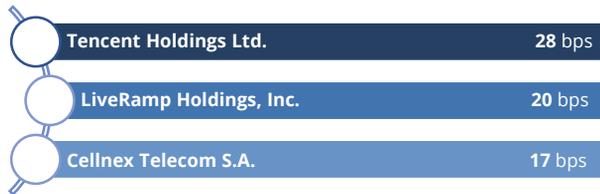
Morphic Global Opportunities Fund Portfolio Manager

Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
New Oriental Education	Consumer Discretionary	Asia Pacific	2.6%
Cellnex	Telecom	Europe	2.5%
Assurant	Financials	North America	2.3%
Keysight Technologies	Information Technology	North America	2.3%
Techtronic	Industrials	Asia Pacific	2.0%
Fujitsu	Information Technology	Asia Pacific	2.0%
Bureau Veritas	Industrials	Europe	1.9%
Sensata Technologies	Industrials	North America	1.9%
SEB SA	Consumer Discretionary	Europe	1.8%
WillScot Mobile	Industrials	North America	1.7%

Risk Measures	
Net Exposure ⁷	90.09%
Gross Exposure ⁸	98.62%
VAR ⁹	1.98%
Best Month	7.71%
Worst Month	-6.78%
Average Gain in Up Months	2.66%
Average Loss in Down Months	-1.94%
Annual Volatility	9.56%
Index Volatility	10.20%

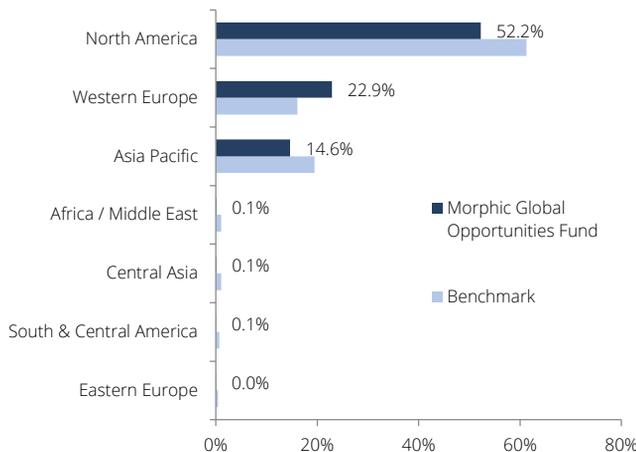
Top three alpha contributors¹² (bps)



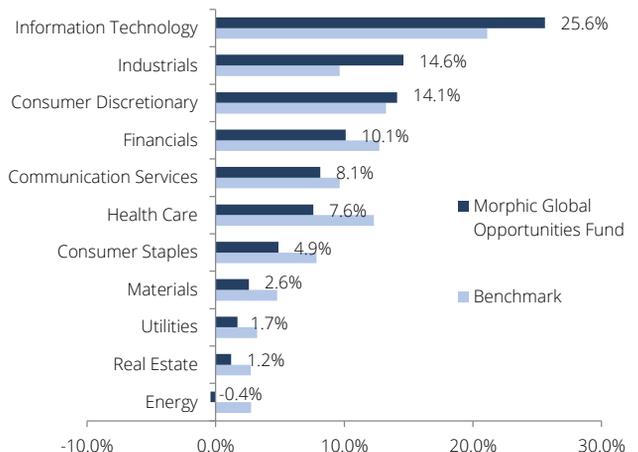
Top three alpha detractors¹² (bps)



Equity Exposure Summary By region



Equity Exposure Summary By sector



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1 The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUEACWF) in AUD; 2 ISIN AU60PER06735, APIR PER0673AU; 3 All fees shown are inclusive of GST; 4 The Manager may also recoup a maximum of 0.27% in expenses related to operating the Fund; 5 The Performance Fee is payable semi-annually in respect of the Fund's out-performance of the Index. Performance Fees are only payable when the Fund achieves positive absolute performance and is subject to a high water mark; 6 Total funds under management of Morphic Asset Management; 7 Includes Equities and Commodities - longs and shorts are netted; 8 Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; 9 VAR is Value at Risk based upon the 95th percentile with a 1 day holding period using a 1 year look back; 10 Based on gross returns since Fund's inception; 11 As a percentage of the Fund's Value at Risk (VaR) Limit; 12 Attribution; relative returns against the Index excluding the effect of hedges.