

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
December 2020



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*	Investment returns*					3 Years (p.a.)	ITD (p.a.)
	1 Month	3 Months	CYTD	1 Year			
Morphic Global Opportunities Fund	1.61%	5.90%	9.49%	9.49%	7.55%	13.79%	
Index ¹	-0.08%	6.52%	5.90%	5.90%	10.56%	15.21%	

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

The [United Nations](#) estimates that 300 million tonnes of plastic waste is produced every year, with the plastic industry accounting for 20% of total oil consumption. The largest contributor to this production is single-use plastics. Of all plastics ever produced, 79% have ended up in landfill and only 9% have been recycled, with the remaining amount incinerated. In 2019 the European Union approved a ban on key single-use plastic items which comes into effect in July this year and covers plastic plates, straws, cutlery and cotton swabs.

In response, hospitality, beverage and consumer staple companies have made commitments to ban the use of plastic straws and other single-use plastics as a step towards their larger sustainability targets. In 2019 PepsiCo promised to reduce their use of virgin plastics by 100% in nine European markets by 2022. At the same time, Nestle began the process of eliminating all plastic straws from their products. A popular alternative to plastic straws has been the paper straw due to its sustainable reputation. However, companies have received some backlash over this alternative due to its lower functionality.

Portfolio review

There is so much going on in the world right now however with a quick lookback on calendar year 2020 we are pleased to have delivered 9.49% net return which compared well to the benchmark which returned 5.9% over the same period.

Volatility this year was off the charts with one of the largest equity drawdowns in history followed by one of the fastest snapbacks as the global shutdown associated with the pandemic was met with "war time" levels of monetary and fiscal responses that were swift and decisive. It really did highlight that a balanced portfolio of high-quality businesses provides the best protection from the risk of permanent capital loss as they tend to outperform under most scenarios.

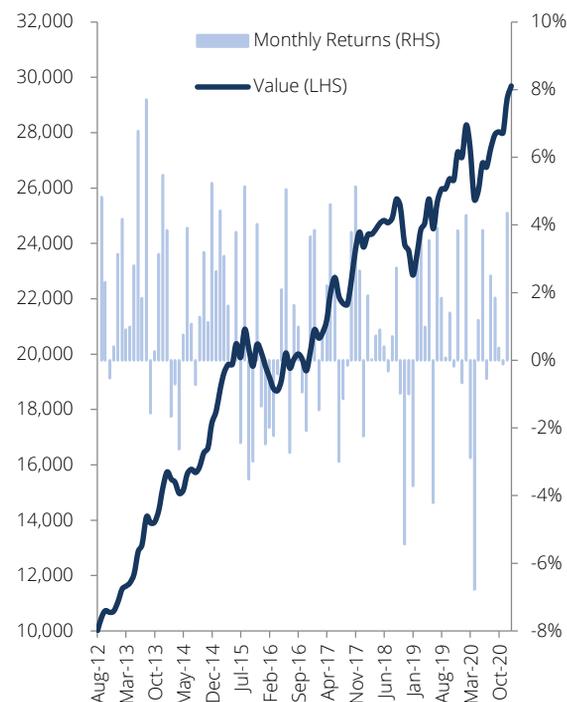
We have seen COVID-19 cases, and unfortunately deaths, skyrocket in the Northern Hemisphere with the US, UK and Europe in various forms of fresh lockdowns. Fortunately, we are getting more vaccines introduced into the market and with more likely to come, the market is currently looking through the near term COVID-19 spikes.

At the time of writing, the Democrats look to have won the Georgian election run-off and our hopes of a clean handover were dashed as Trump supporters marched on Congress in a violent, albeit short, insurgence. That said, now that Biden has been confirmed and the Senate is effectively controlled by the Democrats (50/50 split with VP Kamala Harris holding the deciding vote) we should now get a good indication of what the new administration will look to accomplish.

As the dust settles, we are expecting President-elect Biden's first priority will be getting the virus under control with accelerated vaccine rollouts to keep the economy rolling. This will be augmented with increased fiscal stimulus in the form of personal payments likely up to \$2k, increased infrastructure spending with a focus on creating American jobs, enhanced renewable energy policies and while this is not an exhaustive list, improving access to mortgage credit for prospective homeowners. The longer-term risk is increased tax and regulations however we consider the first priority to be sustaining the economic recovery which is still in its early cycle phase growth. These policies will likely supercharge near term growth while concurrently increase inflation expectations as supply chains are still trying to catch up with demand. We are seeing this manifest itself in the US 10yr Yield which has increased >60% in just over 3 months from 0.68% to almost 1.10% today.

Over the past few months we have been pivoting the portfolio into value/cyclical exposures including US regional banks and global industrials which have been funded by reducing our exposure to technology names. With this shift we have fortunately been participating ahead of the strong equity markets and while we still see good upside in many of our names, we will remain diligent in trimming position sizing when the risk/reward becomes more marginal. That said, we are also not shying away from adding to existing positions, or initiating new positions, where we deem the capital upside potential relative to the risk as extremely attractive for us all as investors in the Fund.

Performance of AUD \$10,000



Key Facts^{2, 3}

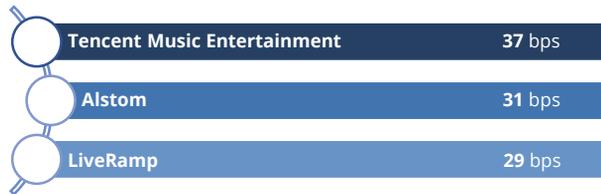
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.05%
Performance Fee ⁵	15%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.25% each side
Unit Price	\$ 1.4039
Funds Under Management – Fund (AUD)	\$ 20m
Funds Under Management – Morphic (AUD) ⁶	\$ 86m

Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Sensata Technologies	Industrials	North America	4.8%
Flex	Information Technology	North America	4.5%
Techtronic	Industrials	Asia Pacific	4.5%
PTC	Information Technology	North America	4.4%
Bureau Veritas	Industrials	Europe	4.4%
Anritsu Corporation	Information Technology	Asia Pacific	4.2%
Cellnex	Communication Services	Europe	4.2%
Tencent Music Entertainment	Communication Services	North America	4.2%
Option Care Health	Health Care	North America	4.1%
SEB SA	Consumer Discretionary	Europe	4.0%

Risk Measures	
Net Exposure ⁷	93.47%
Gross Exposure ⁸	96.37%
VAR ⁹	2.21%
Best Month	7.71%
Worst Month	-6.78%
Average Gain in Up Months	2.67%
Average Loss in Down Months	-1.94%
Annual Volatility	9.53%
Index Volatility	10.30%

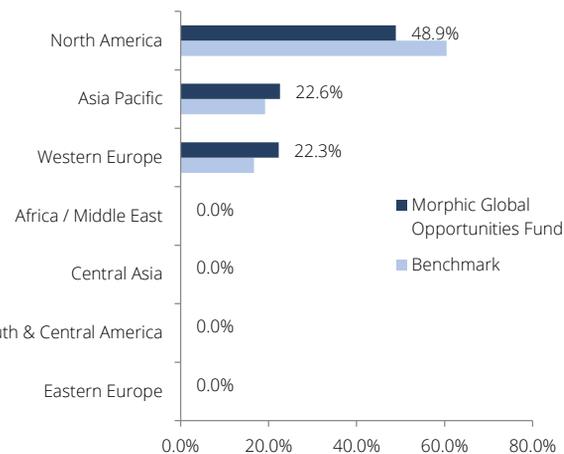
Top three alpha contributors¹² (bps)



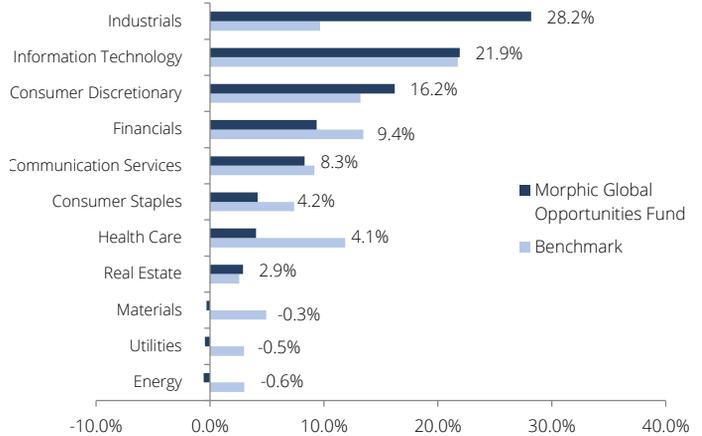
Top three alpha detractors¹² (bps)



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.