

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
July 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	2.50%	5.86%	1.13%	5.66%	7.90%	13.43%	
Index ¹	1.08%	3.51%	-3.25%	3.03%	10.88%	14.76%	

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Morphic is a signatory to the Principles for Responsible Investing (PRI), a UN supported initiative to which over \$100trn of Assets managed by over 3,000 managers, have signed up to. There are 6 principles regarding Environmental, Social and Governance assets of responsible investing, which can be read [here](#).

Morphic, for the second year in a row, received the highest possible rating (A+), a rating that less than 1 in 3 signatories achieves. This underscores our ongoing commitment to the highest standards of engagement and transparency within the Asset Management industry. Thanks to James Tayler, Head of ESG, for his ongoing work for us in this area.

Portfolio review

The Fund rose 2.5% in July, outperforming global markets which rose 1.1% in AUD terms. Global equities rose 5.1% in USD terms, as markets continued their rebound from March lows. Global markets are now up 44% off their March lows and sit just 4.8% below the all-time highs of February. The rise in the AUD dampened returns.

Emerging Markets resumed their "risk-on" leadership (+8.4%), with Asia Ex Japan (+7.5%) also rising strongly, both regions being helped by a falling USD. Japan lagged for the second month in a row (-1.6%) along with Europe (+3.7%).

Tech and Tech Hardware (+11.4%) topped the sector performance yet again and are the seemingly unstoppable forces with both up over 20% YTD. Likewise, Energy was the worst performing sector again (-2.3%) for the second month in a row despite the oil price rising over the month.

The Fund's holding in French listed rail company, Alstom, was the largest positive contributor over the month. During the month, Alstom reported quarterly results that the market took positively. The Fund reduced its holding size with the stock rallying over 20% at one point in the month as the upside became more limited.

The second largest contributor was our position in NEC Corporation. The Fund owns NEC and Fujitsu for both ESG (Governance) and sector exposure to increased IT hardware expenditure and are "self-help" stories of improved capital management and governance. During July, the UK government announced that they would not be using Huawei for the provision of 5G network hardware, and NEC and Fujitsu have been mentioned as likely replacements.

The Fund's largest detractor was the Open House and Iida sector neutral pair discussed last month (as a large contributor). Open House did a capital raising during the month to take advantage of buoyant capital markets, to pay down debt and raise cash for faster growth. The stock fell on this news. The Fund remains a holder.

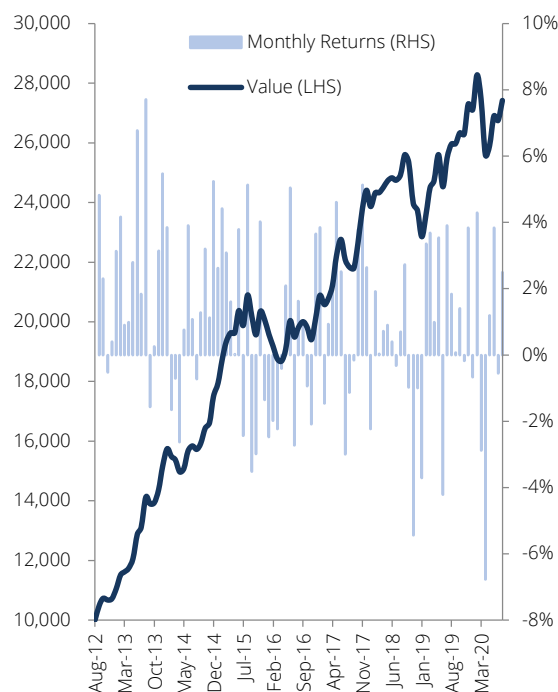
Outlook

The trading range continues. Markets continue in their range, though right at the top of it now. The biggest change in markets is the view on the USD. An emerging view is that the USA is debasing their currency with large funding needs, but have pinned interest rates down, resulting in lower real interest rates. Reflective of this, the gold price surged to highs during the month. Whether this remains the case if COVID-19 cases increase globally into a risk off environment remains to be seen.

Lastly, it should be noted the breadth of stocks in the market that are rising has fallen further. For example, of the S&P 500 (the USA's largest 500 stocks), the whole year's gain has been driven by five stocks. Breadth this narrow is usually not a sign of a healthy market.

Cash levels remain broadly unchanged from last month, along with Fund positioning. Higher frequency data, such as continuing claims have come in on the softer side. The Fund is positioned more for "COVID-19 risk off" in stock positioning (via long Tech and education and short air travel) even if the net exposure isn't as heavily positioned for that scenario as it was in March/April.

Performance of AUD \$10,000



Key Facts^{2,3}

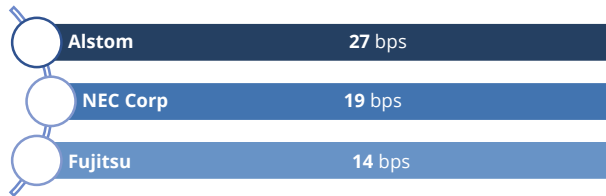
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.05%
Performance Fee ⁵	15%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.25% each side
Unit Price	\$ 1.6893
Funds Under Management – Fund (AUD)	\$ 50m
Funds Under Management – Morphic (AUD) ⁶	\$ 112m

Top 10 Active Positions

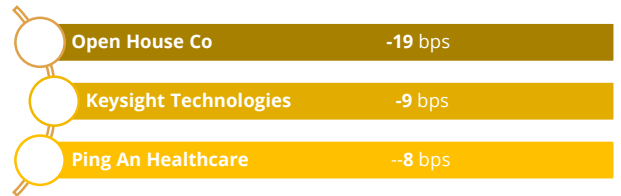
Stocks (Shorts)	Industry	Region	Position Weighting
Tencent	Information Technology	Asia Pacific	2.6%
NEC Corp	Information Technology	Asia Pacific	1.8%
Ciena Corp	Information Technology	North America	1.7%
Cellnex	Telecom	Europe	1.7%
Fujitsu	Information Technology	Asia Pacific	1.5%
Keysight Technologies	Industrials	North America	1.5%
Alstom	Industrials	Europe	1.5%
Sundrug	Pharmaceuticals	Asia Pacific	1.3%
Sugi	Pharmaceuticals	Asia Pacific	1.3%
NetEase Inc	Information Technology	Asia Pacific	1.3%

Risk Measures	
Net Exposure ⁷	98%
Gross Exposure ⁸	115%
VAR ⁹	2.41%
Upside Capture ¹⁰	94%
Downside Capture ¹⁰	83%
Best Month	7.71%
Worst Month	-6.78%
Average Gain in Up Months	2.71%
Average Loss in Down Months	-2.06%
Annual Volatility	9.87%
Index Volatility	10.31%

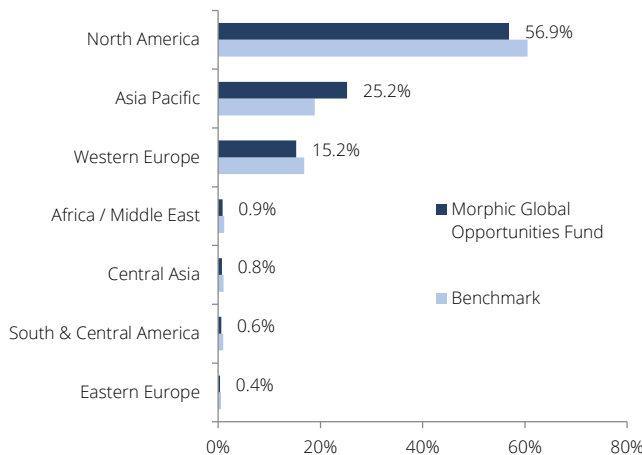
Top three alpha contributors¹² (bps)



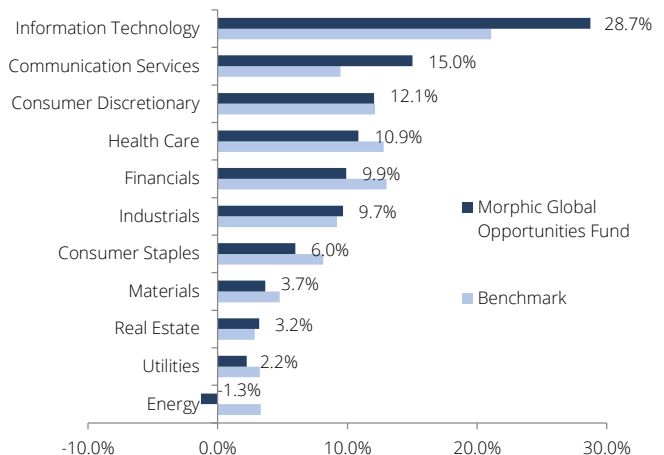
Top three alpha detractors¹² (bps)



Equity Exposure Summary By region



Equity Exposure Summary By sector



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The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Morphic Global Opportunities Fund adheres to the strict disclosure practices required under the Responsible Investment Certification Program for the category of Product Provider. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Morphic Global Opportunities Fund's methodology, performance and stock holdings can be found at www.responsibleinvestment.org, together with details about other responsible investment products certified by RIAA. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

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.