MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
March 2020

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

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*

	1 Month	3 Months	CYTD	3 Years (p.a.)	5 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	-6.78%	-5.58%	-5.58%	6.45%	5.46%	13.04%
Index[1]	-8.88%	-9.69%	-9.69%	9.23%	7.51%	14.42%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Should ethical and ESG investing be discarded in a crisis? There is a school of thought that believes ethical investing is a “fair-weather friend”, a bull market luxury. That when markets turn investors discard their ethics to focus on returns. Bank Of America looked at this topic and concluded the opposite – it's a bear market necessity. Firstly on performance, from the peak to the 25th of March, top ranked ESG outperformed the broader US market by 5%, even adjusting for them not owning oil stocks. In Europe the top 50 ESG stocks have outperformed by over 10%.

Looking at client flows, Ethical funds are tracking with inflows, despite record outflows in other equities. We'd conclude that an ethical framework is not just 'nice to have', it is 'need to have' for clients.

Portfolio review

The Fund fell 6.8% in March, outperforming global markets which fell 8.9% in AUD terms. Global equities fell 13.7% in USD terms, as the contagion effects from the Coronavirus drove share markets down. March was a once in a lifetime event that broke many records: part of the worst quarter on record for global equities; the second highest volatility in 90 years; and the biggest rebound. A falling Australian dollar versus the US dollar cushioned the losses for Australian clients.

Unusually, Japan was the best performing region (-8%, USD), whilst Asia Ex-Japan (-14%) was the worst. With the collapse in oil prices, energy stocks (-29%) and banks (-25%) were the worst performers, with health care (-4%) the best.

Reversing declines seen in February, Logitech was the Fund's best performing stock as demand for devices to assist Working from Home led to a re-rating of the stock as investors anticipate a sustained change in working habits post COVID-19 crisis. Yonghui Superstores, a Chinese supermarket chain, was the other strong performer over the month. China as a lead indicator for post crisis shows people continue to not eat out in restaurants even after the lifting of restrictions.

The largest detractor for the month was the Fund's market neutral trade in Japanese homebuilders, Open House and Iida Group. Iida carries more debt and is more expensive than Open House, but it has a higher weighting in the ETF's that the Bank of Japan is buying as part of its QE programme. On the other, hand more foreigners own Open House, who sold their positon to reduce risk. We exited but will likely look to revisit when volatility calms down.

Outlook

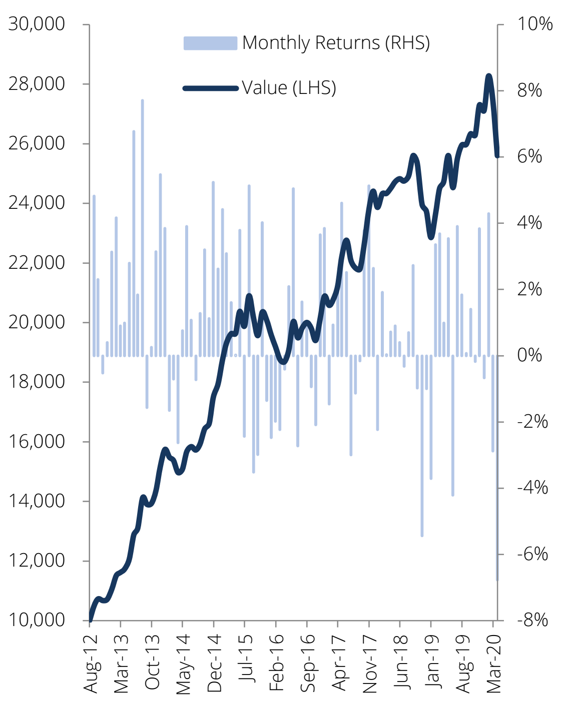
At the start of the March our working hypothesis, and therefore positioning, was that the world would see a recession and bounce back later this year. We underestimated the ineptitude on the US response which has led to much larger outbreak of COVID-19 in the world's largest economy. Reflecting this, markets fell further at their lows to a more “traditional” recession level of -35% peak to trough.

Countering this, the policy response has been nothing short of enormous. Rules have been thrown out the window. The total size of the US response, including Fed response may amount to 40% of GDP. The latter half of March saw this tension in markets as they grapple with the competing forces of lockdown/bad data vs. a tsunami of money. In our blog, we discussed how volatility needs to top out first, so markets can find a trough. This appears to be playing out.

Our working hypothesis currently is that with Italian (and Australian) new infection rates peaked, in April the market starts to look at what the other side looks like. If China is the lead indicator, it is locked borders and a slow return to “people based” consumption – eating out, buying in department stores etc with a generally recovering stockmarket.

The Fund finished the month with a cash weighting of 10%, having ranged up to 26.5% over the month.

Performance of AUD $10,000



Key Facts[2, 3]	
Launch Date	August 2nd, 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee[4]	1.35%
Performance Fee[5]	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	$ 1.6919
Funds Under Management – Fund (AUD)	$ 51m
Funds Under Management – Morphic (AUD)[6]	$ 109m

Top 10 Active Positions

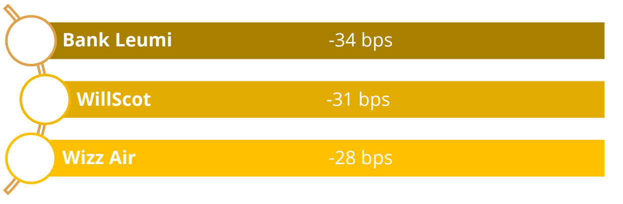
Stocks (*Shorts*)	Industry	Region	Position Weighting
Service Corp	Consumer Staples	North America	2.5%
Tencent	Information Technology	Asia Pacific	2.3%
Keysight Technologies	Industrials	North America	2.1%
Alstom	Industrials	Europe	2.1%
Cellnex	Telecom	Europe	2.0%
Fujitsu	Information Technology	Asia Pacific	1.7%
Logitech	Information Technology	Europe	1.5%
Graphic Packaging	Industrials	North America	1.3%
Yonghui Superstores	Consumer Staples	Asia Pacific	1.3%
Ping An Healthcare	Healthcare	Asia Pacific	1.0%

Risk Measures	
Net Exposure[7]	90%
Gross Exposure[8]	93%
VAR[9]	2.16%
Upside Capture[10]	94%
Downside Capture[10]	83%
Best Month	7.71%
Worst Month	-6.78%
Average Gain in Up Months	2.72%
Average Loss in Down Months	-2.04%
Annual Volatility	9.82%
Index Volatility	10.46%

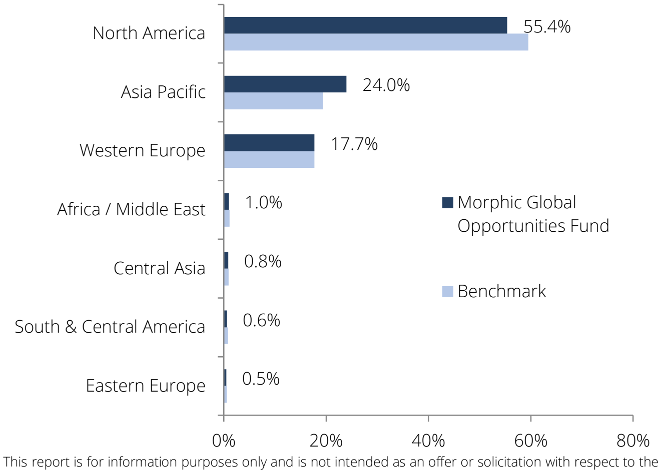
Hedge Positions	Risk Limit Utilisation (%)[11]
None	

Top three alpha contributors[12] (bps)

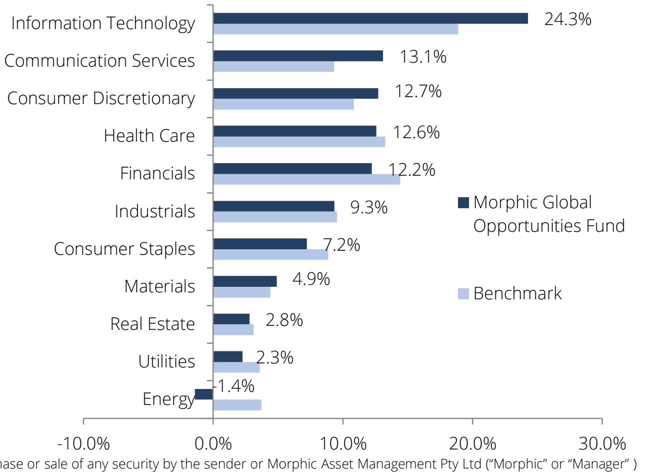
Top three alpha detractors[12] (bps)



Equity Exposure Summary By region



Equity Exposure Summary By sector



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.