

# MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report  
September 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*               | Investment returns* |          |        |        |                | ITD (p.a.) |
|-----------------------------------|---------------------|----------|--------|--------|----------------|------------|
|                                   | 1 Month             | 3 Months | CYTD   | 1 Year | 3 Years (p.a.) |            |
| Morphic Global Opportunities Fund | 0.37%               | 4.78%    | 3.39%  | 6.44%  | 7.41%          | 13.45%     |
| Index <sup>1</sup>                | -0.15%              | 3.87%    | -0.58% | 3.93%  | 10.40%         | 14.82%     |

\* Past Performance is not an indication of future performance.

## Ethical Investing in Focus

One side effect of the European push for a "green revolution" and [Net zero](#) targets by 2050 is the dawning realisation that to hit those numbers, there will need to be a way to stop businesses "importing" carbon from regions with no tax and bypassing the rules. Hence the need for a "carbon border tax" or what they are calling CBAM (Carbon Border Adjustment Mechanism) which is now rapidly moving forward.

Morphic [wrote about this idea in the AFR](#) some time ago, as it's a direct end conclusion of the fragmentation of consensus on climate change. This all matters to Australia. A lot. As our exports to Europe, will either get captured in the new Free Trade agreement with carbon, or we become part of their Emission trading scheme.

## Portfolio review

The Fund rose 0.4% in September, outperforming global markets which fell 0.1% in AUD terms. Global equities fell 3.4% in USD terms, as markets lost some steam after the big gains over the prior 6 months. The fall in the AUD over the month softened losses in absolute terms. For the second month, Japan was the leading region (+0.3%), with the USA, the strongest market Year to Date, the laggard (-3.9%). Europe (-3.4%) can't seem to catch a break, lagging in both rising and falling markets.

The Tech sector's stellar run came to an end (-6.1%) as the NASDAQ sold off heavily. Though somewhat remarkably it wasn't the worst sector over the month: Energy (-12%) was yet again the laggard. Industrials (+0.9%) performed best.

After underperforming last month, the Fund's conviction in NEC came good as the stock was the leading contributor this month. The new Japanese Prime Minister has promised two initiatives that are good for NEC. Firstly Japan is to prioritise the digitalisation of its government, an area that Japan has surprisingly lagged in. Secondly they are pushing for more 5G and lower mobile prices. Both these benefit NEC (and our other holding Fujitsu).

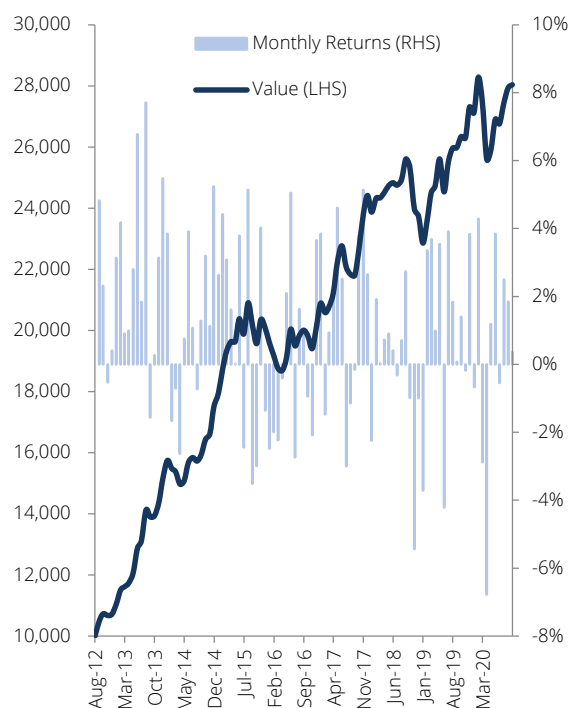
The Fund's holding in Ciena was the largest detractor over the month. Ciena dropped 30% over the month after reporting earnings, but guiding to a much weaker outlook. This was surprising because as recently as last quarter they had been very upbeat. Good portfolio management minimised the losses – the position had been trimmed into earnings and it was cut on the news. The Fund remains a holder in much reduced size – we need to see evidence this is a one off.

## Outlook

It is now less than one month to the USA elections and markets are increasingly jittery about the outcome. Having been surprised by Brexit the election of Trump, it seems they are determined to not have this happen again: Implied volatility is much higher for both the day and the month after, as investors fear Trump disputing the result.

Whilst we have no edge on who wins and how and when it is decided, the bigger debate is whether the impetus for more fiscal stimulus is there. If it's a "blue sweep", then the answer would be yes. If not, the backdrop may look more like 2010-14: fiscal was a drag. This matters as it says what sectors do best. The latter is tech and USA heavy, the former is more cyclical and banks and to some extent Asia. The Fund is not averse to owning cyclical exposure, a "Blue sweep" may be time to revisit those stocks.

## Performance of AUD \$10,000



## Key Facts<sup>2, 3</sup>

|                                                     |                               |
|-----------------------------------------------------|-------------------------------|
| Launch Date                                         | August 2 <sup>nd</sup> , 2012 |
| Minimum Initial Investment                          | AUD 10,000                    |
| Pricing and Liquidity                               | Daily                         |
| Distributions                                       | January and July              |
| Management Fee <sup>4</sup>                         | 1.05%                         |
| Performance Fee <sup>5</sup>                        | 15%                           |
| Entry and Exit Fees                                 | Zero                          |
| Buy/Sell Spread                                     | 0.25% each side               |
| Unit Price                                          | \$ 1.7269                     |
| Funds Under Management – Fund (AUD)                 | \$ 50m                        |
| Funds Under Management – Morphic (AUD) <sup>6</sup> | \$ 113m                       |

## Top 10 Active Positions

| Stocks (Shorts)             | Industry               | Region        | Position Weighting |
|-----------------------------|------------------------|---------------|--------------------|
| Fujitsu                     | Information Technology | Asia Pacific  | 3.2%               |
| NEC Corp                    | Information Technology | Asia Pacific  | 2.4%               |
| Tencent                     | Information Technology | Asia Pacific  | 2.2%               |
| Cellnex                     | Telecom                | Europe        | 2.1%               |
| NetEase                     | Information Technology | Asia Pacific  | 1.9%               |
| New Oriental Education      | Telecom                | Europe        | 1.5%               |
| CHACHA FOOD CO              | Consumer Staples       | Asia Pacific  | 1.4%               |
| Keysight Technologies       | Information Technology | North America | 1.4%               |
| Assurant                    | Financials             | North America | 1.4%               |
| Tencent Music Entertainment | Communications         | Asia Pacific  | 1.3%               |

| Risk Measures               |        |
|-----------------------------|--------|
| Net Exposure <sup>7</sup>   | 100%   |
| Gross Exposure <sup>8</sup> | 112%   |
| VAR <sup>9</sup>            | 2.66%  |
| Best Month                  | 7.71%  |
| Worst Month                 | -6.78% |
| Average Gain in Up Months   | 2.66%  |
| Average Loss in Down Months | -1.99% |
| Annual Volatility           | 9.60%  |
| Index Volatility            | 10.23% |

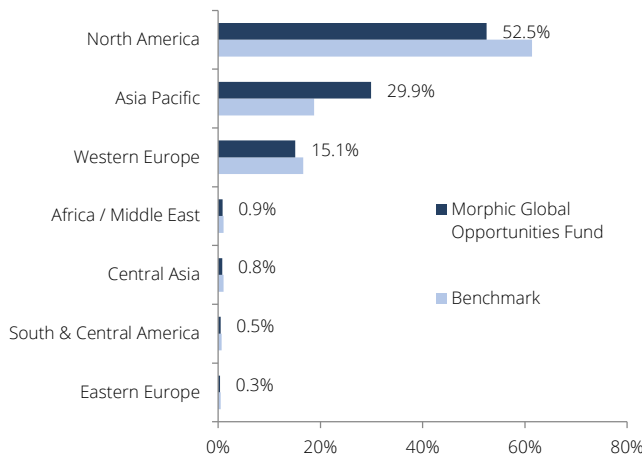
## Top three alpha contributors<sup>12</sup> (bps)



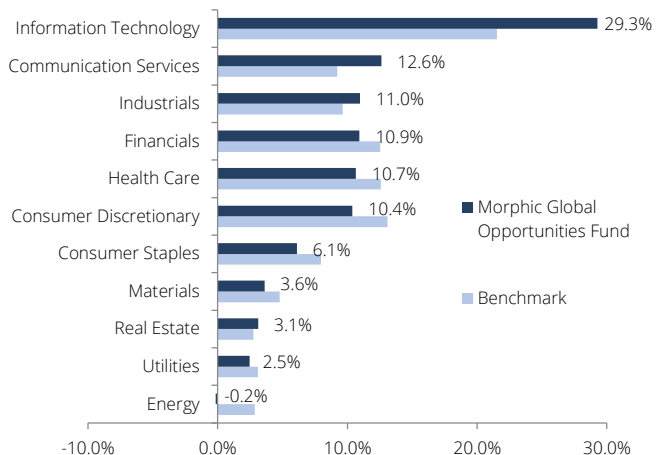
## Top three alpha detractors<sup>12</sup> (bps)



## 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, APRI 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.