

# MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report  
August 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	1.85%	3.83%	3.01%	7.54%	8.62%	13.54%	
Index <sup>1</sup>	2.91%	3.49%	-0.44%	6.16%	11.56%	15.00%	

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

## Ethical Investing in Focus

In its continued trend of breaking with the rest of the world, the Trump administration last month had the Department of Labor propose new rules that would discourage pension (superannuation) plans in the USA from considering Environmental, Social and Governance (ESG) issues when picking investments.

This is despite research that shows that [more than 70% of American](#) investors were interested in ethical investing and the increasing amounts of academic evidence supporting the role of ESG within the investment process.

Thankfully American companies continue to push ahead with improving both disclosure and efforts towards sustainability, despite their government's efforts, rather than because of them.

## Portfolio review

The Fund rose 1.9% in August, underperforming global markets which rose 2.9% in AUD terms. Global equities rose 6.0% in USD terms, as markets continued their rebound from March lows. Global markets have now recouped all their COVID-19 related losses to make new all-time highs in August. Something that felt implausible in the depths of March. The rise in the AUD dampened returns.

Japan rebounded from its laggard status of July to lead markets in August (+7.6%), whilst the USA was not far behind (7.3%). Asia Pacific (+3.6%) and Emerging Markets (2.1%) lagged. For the third month, Tech hardware (+12%) was near the best performing sector, with Utilities (-2%) struggling as the market was led by cyclical sectors over the month.

The Fund's holding in Techtronic, the owner of the Ryobi brand of power-tools, was the best performing stock over the month. The company has been the beneficiary of the stay at home DIY trend of COVID-19 lockdowns globally. The Fund accumulated during the March sell off and the results were ahead of even our optimistic forecasts. With the stock up 15% since results, the Fund has reduced its holding but will look to add on pullbacks.

Having been a large contributor in the prior month, NEC gave back some of its performance post quarterly earnings results. The market was disappointed that management appears to have been overly optimistic and walked back on some its prior bullish comments. There was also little news on both capital management and 5G growth. The Fund remains a holder, with hopefully the upcoming capital markets day to provide more colour to investors on these areas.

## Outlook

It is worth noting the continued narrowness of the market moves we are seeing at the moment. One way to measure this is looked at an equal weight index (SPW - where every stock is given the same size) versus the usual market cap weighted one (SPX) as a way to measure "breadth". In August, the SPW trailed the SPX by the largest margin since June 2000, and 9th largest margin since 1990.

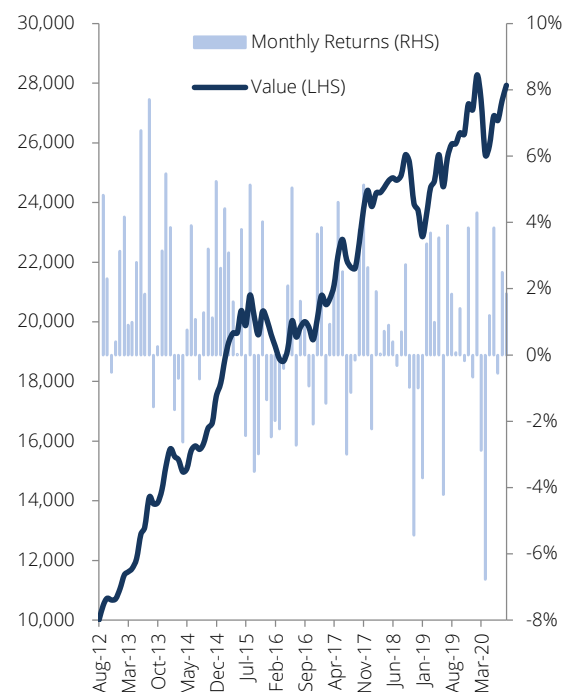
Or another one: the market cap of Apple is now more than the Russell Index of 2000 US stock names put together, having only been 50% of the Russell's size just last year. This narrowness makes stock selection even more challenging than usual when there are so few stocks outperforming the market.

This would be more palatable as a fundamental investor if Apple earnings forecasts were rising rapidly. They are not. Instead, Apple's P/E has gone from 22x in May to 35x today. Extreme re-rating of earnings (faster than the 1999 bubble) is not the foundation of long term bull markets. Put together, these are some of the unsavoury statistics that give rise to comparisons with 1999/2000. The following years were not kind to investors.

What is different to then, is that the US Dollar is weakening rapidly as the Federal Reserve, rather than take away the punchbowl, is encouraging more. As such calling the end is likely to be an expensive and unsatisfying exercise.

Cash levels remain broadly unchanged from last month, along with Fund positioning.

## 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	\$ 1.7206
Funds Under Management - Fund (AUD)	\$ 50m
Funds Under Management - Morphic (AUD) <sup>6</sup>	\$ 113m

## Top 10 Active Positions

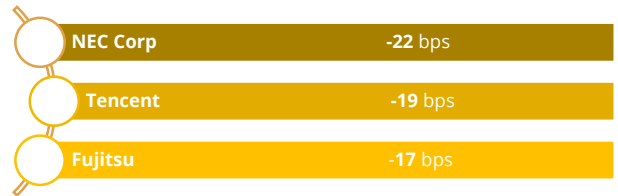
Stocks (Shorts)	Industry	Region	Position Weighting
Fujitsu	Information Technology	Asia Pacific	2.2%
NetEase	Information Technology	Asia Pacific	2.2%
Cellnex	Telecom	Europe	2.1%
New Oriental Education	Telecom	Europe	1.8%
NEC Corp	Information Technology	Asia Pacific	1.8%
Tencent	Information Technology	Asia Pacific	1.7%
Alstom	Industrials	Europe	1.4%
Keysight Technologies	Information Technology	North America	1.4%
Techtronic Industries	Industrials	Asia Pacific	1.2%
Joyoung	Consumer Discretionary	Asia Pacific	1.2%

Risk Measures	
Net Exposure <sup>7</sup>	99%
Gross Exposure <sup>8</sup>	110%
VAR <sup>9</sup>	2.70%
Upside Capture <sup>10</sup>	94%
Downside Capture <sup>10</sup>	83%
Best Month	7.71%
Worst Month	-6.78%
Average Gain in Up Months	2.70%
Average Loss in Down Months	-2.06%
Annual Volatility	9.82%
Index Volatility	10.27%

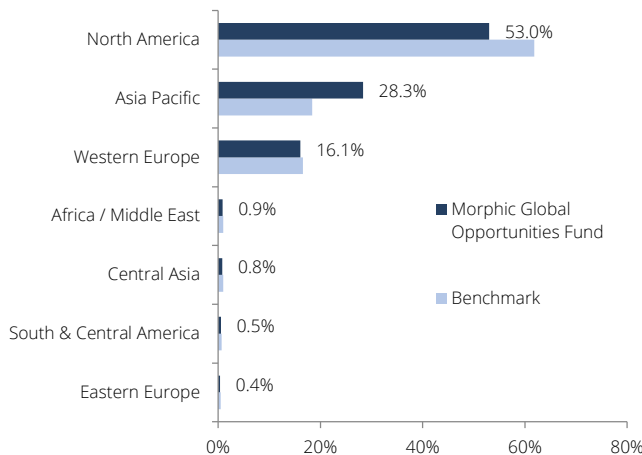
## Top three alpha contributors<sup>12</sup> (bps)



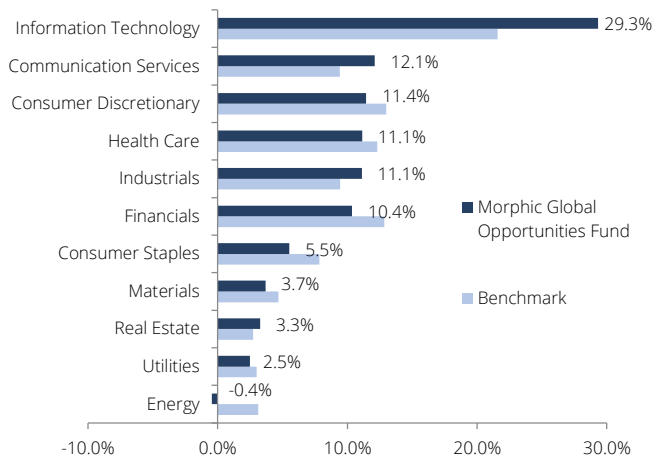
## Top three alpha detractors<sup>12</sup> (bps)



## 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, 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.