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MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report January 2021

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	9.20%	15.78%	9.20%	14.64%	10.06%	14.83%
Index ¹	0.12%	7.09%	0.12%	2.10%	9.86%	15.06%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Road, rail, air and marine transportation accounts for over 24% of global CO₂ emissions and roughly 15% of all global emissions. Within the transportation sector, road vehicles account for 72% of global CO₂ emissions. Despite increased awareness, the transportation sector is still the fastest growing source of global emissions.

In response to this, challenge governments are introducing national targets to reduce transport emissions and meet their Nationally Determined Contributions (NDC'S) under the Paris Climate Agreement. In particular the EU is targeting a 60% reduction in GHG emissions compared to 1990 levels by 2050. The EU recognises electric vehicle (EV) market development and adoption as a key pillar to achieving this target. While in the US, the recent inauguration of President Biden has already seen the weaker auto emissions policies of the Trump administration be reversed.

Portfolio review

Anyone hoping that 2021 would be a little less eventful than 2020 was quickly brought back to our current reality as the retail vigilantes, primarily driven by "swarm traders" of WallStreetBets, drove one of the largest de-grossing periods on record. According to the Economist, retail investors made up a tenth of trading volumes in 2019 and by January this year their share had risen to a quarter. This de-grossing impacted confidence in global stock markets, primarily in the last week of January with markets turning in a relatively subdued performance during the month.

The Morhic Global Opportunities Fund increased 9.2% net during the month outperforming the benchmark which increased by 0.1% over the same period.

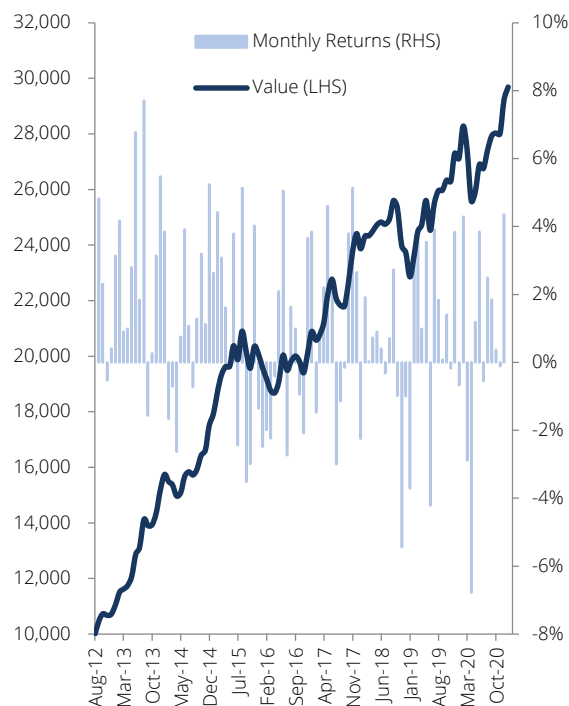
The portfolio's top three contributors Bed Bath and Beyond, Tencent Music Entertainment and Danimer Scientific added 536bps to performance while Tempur Sealy, Alstom and New Oriental Education & Technology detracted 56bps. The Fund had 9 portfolio companies reporting quarterly results or trading updates in January.

Bed Bath and Beyond is a new position in the Fund premised on relatively new CEO, Mark Tritton, turning around a business which has been historically mis-managed inside a very large addressable market. Rightsizing and investing in the existing store fleet, focusing on an omni-channel strategy, exiting non-core businesses and re-energising its buybuyBABY franchise will drive significant operating leverage and cash flow over the coming years. The stock got caught up in the retail frenzy during January increasing from \$18.00 to just under \$53.00 at the peak, pulling forward the entirety of our forward expectations into one month. We took advantage of the run and booked our entire initial cost position as profits and are now looking to add to the position as fundamental value is better reflected in the price.

Groupe SEB is one of the largest small domestic appliance and cookware companies globally owning strong brands such as Tefal and Moulinex. In its Q4 and FY20 sales update the company announced full year organic revenues down 3.8% compared with negative 5-6% guidance while earnings were upgraded by >10% as Europe performed better than expected. The resilience of its globally integrated manufacturing footprint was evidenced in the result.

Our regional US Banks, Comerica and Webster, both reported as expected with past provisioning proving to be very conservative as loan books remain healthy, although growth still remains elusive. The banking system is awash with excess deposits, currently invested in low yielding short duration assets, which provides significant optionality for the group.

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	\$ 1.5331
Funds Under Management – Fund (AUD)	\$ 14m
Funds Under Management – Morhic (AUD) ⁶	\$ 85m

STOCK IN FOCUS: Sensata (ST US, \$8.3bn Market Cap)



Sensata Technologies is a world leader and early innovator in mission-critical sensors and controls designed to make the world cleaner, safer and more efficient. Sensors are the fundamental building blocks for electrification, autonomy and smart, connected products in connecting the physical to the digital world. Sensata aims to be a leading provider of mission-critical sensor-rich hardware and software solutions to help customers transition to an Electrified future.

Its corporate name is literally derived from the latin word sensate or "those gifted with sense" while its logo also spells Sensata in braille. It is involved in four key megatrends which will shape its business and earnings growth over the next decade:



Clean & Efficient

Sensata sensors are being used to make more efficient industrial pumps, improve fuel efficiency in cars and heavy off-road vehicles and more.



Electrification

As electric vehicles rise in popularity and demand, they require sensors to monitor and optimize everything from battery systems to thermal management systems.



Autonomy

Sensata is developing sensors that will enable light passenger cars, off-road vehicles and material handling equipment to operate autonomously.



Smart & Connected

Sensata is developing smart, connected sensors that enable actionable insights for commercial vehicle operators.

Source: Sensata Corporate Website

Its end markets are dominated by auto and heavy duty/off road vehicles and with its highly customised and differentiated solutions it provides customers with better on-board diagnostics to address global regulatory mandates for cleaner and more efficient vehicles, safety and performance as they move to greater vehicle electrification and longer-term greater autonomy of global fleets.

On the back of increasing complexity of vehicles and subsequent sensor demand, Sensata benefits from increased sensor content per vehicle and, over the long term, typically outgrows its end global auto market by 400-600bps and by 600-800bps in the heavy vehicle/off road category. In its recently reported FY20 results, Sensata delivered market outgrowth above its target ranges for both heavy vehicle off-road and automotive coming in at 880bps and 690bps, respectively.

With the global auto market down almost 21% in 2020 and Heavy Vehicle down by 18.0%, the business is set up for some very strong growth over the coming years. Management indicated its EV-related revenue represented approximately 5% of its automotive end market, as compared to EVs representing approximately 3% of vehicles manufactured globally. It is confident that it can grow along with the accelerated growth of EVs especially when considering it has closed new electrification business with many of the largest and most innovative automotive OEMs around the globe. It has existing business or design-wins on future EVs with nearly every automotive OEM with an announced EV launch.

We believe that the global supply chains will continue to take time in recalibrating post the Covid-19 shutdown and therefore elongate the recovery cycle for Sensata's end markets. Management expects global automotive to rebound 13.0% this year with heavy vehicle to recover by 6.0% and when you couple its outgrowth characteristics, we should see FY21 revenues expand by close to 16.0% with EPS up by almost 50%. This is an early cycle play on the recovery and therefore we would expect solid growth over the next couple of years as well.

At the time of writing, Sensata is trading at \$52.85 which represents a forward PE of 13.1x, EV/EBITDA of 9.5x, >6% FCF yield. We consider that Sensata offers one of the cheapest, highest quality investing opportunities for those looking for exposure to global megatrends underpinned sustainability and increasingly stringent environmental regulations.

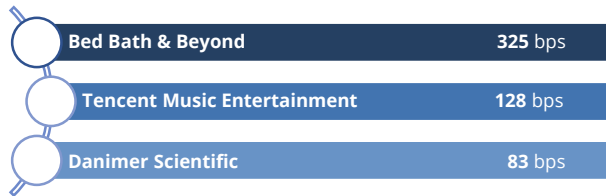
In the interest of keeping you updated on the performance and positioning of your holding in the Fund, we are hosting an investment update on Tuesday 16th February 2021 at 10am AEDT, for which you can register [here](#).

Top 10 Active Positions

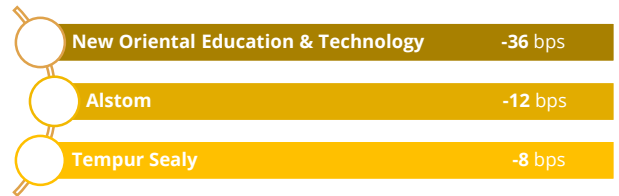
Stocks (Shorts)	Industry	Region	Position Weighting
PTC	Information Technology	North America	4.8%
Techtronic Industries	Industrials	Asia Pacific	4.5%
Flex	Information Technology	North America	4.1%
Bureau Veritas	Industrials	Europe	4.0%
Option Care Health	Health Care	North America	3.9%
Sensata Technologies	Industrials	North America	3.8%
SEB	Consumer Discretionary	Europe	3.6%
Anritsu	Information Technology	Asia Pacific	3.5%
Cellnex Telecom	Communication Services	Europe	3.4%
Alstom	Industrials	Europe	3.3%

Risk Measures	
Net Exposure ⁷	85.09%
Gross Exposure ⁸	90.75%
VAR ⁹	2.01%
Best Month	9.20%
Worst Month	-6.78%
Average Gain in Up Months	2.77%
Average Loss in Down Months	-1.94%
Annual Volatility	10.06%
Index Volatility	10.26%

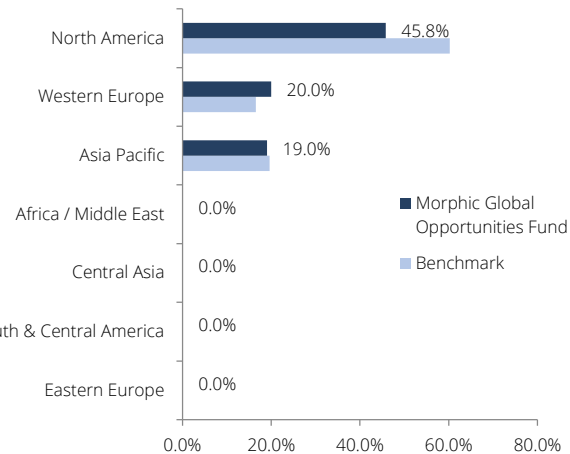
Top three alpha contributors¹⁰ (bps)



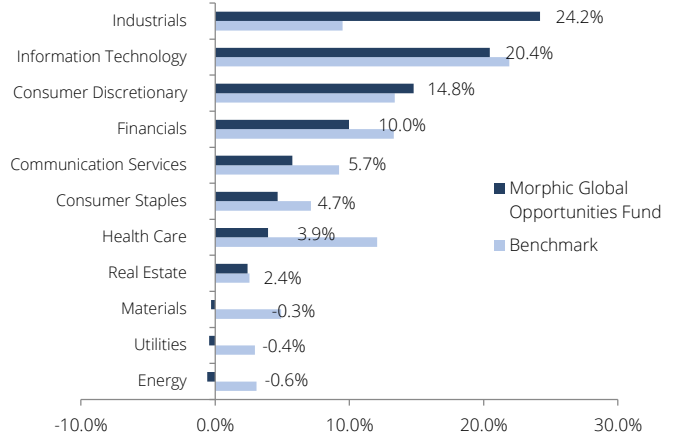
Top three alpha detractors¹⁰ (bps)



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 Attribution; relative returns against the Index excluding the effect of hedges.