

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
February 2021



Signature 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*

	1 Month	3 Months	CYTD	1 Year	3 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	1.33%	12.44%	10.66%	19.62%	10.53%	14.86%
Index ¹	1.40%	1.44%	1.52%	8.47%	10.53%	15.10%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

According to a [Deloitte survey](#), corporations are beginning to consider a broader set of stakeholders which reflects not just economic performance but also societal impact. Approximately 70% of C-suite executives surveyed believe that long term business success requires the integration of Industry 4.0 technologies into their organisations.

Industry 4.0 is the marriage of physical assets and digital technology and with this data in hand, corporations are more productive, more innovative and better equipped to operate in a circular economy which [according to the World Economic Forum \(WEF\)](#) "promotes the elimination of waste and the continual safe use of natural resources, offers an alternative that can yield up to \$4.5 trillion in economic benefits to 2030."

A [recent report](#) from the WEF shows how the power of Industry 4.0 can be harnessed to improve the way materials are managed and steer society away from antiquated take-make-waste models towards sustainable, circular solutions.

We consider the shift to circular manufacturing, which requires a connection between physical and digital assets for effective measurement and therefore management, as a nascent yet powerful megatrend which will gain more prominence over the next several years.

Portfolio review

February was a key month in reminding the markets that higher growth will result in higher inflation and global bond yields kicked up as a result. The US 10yr started the month at 1.07% and with further evidence through reporting season of a tight supply chain and associated inflationary impact on company input costs, the 10yr finished the month above 1.40% and is currently just under 1.60% at time of writing.

The market is undergoing a regime change where over the past few years lower growth and lower rates benefited large cap growth and momentum stocks while now we are transitioning to higher growth (early-stage recovery), higher rates which should see mid/small cap stocks, industrials and financials continue to be relative winners.

The Morhic Global Opportunities Fund increased 1.3% net during the month slightly underperforming the benchmark which increased by 1.4% over the same period.

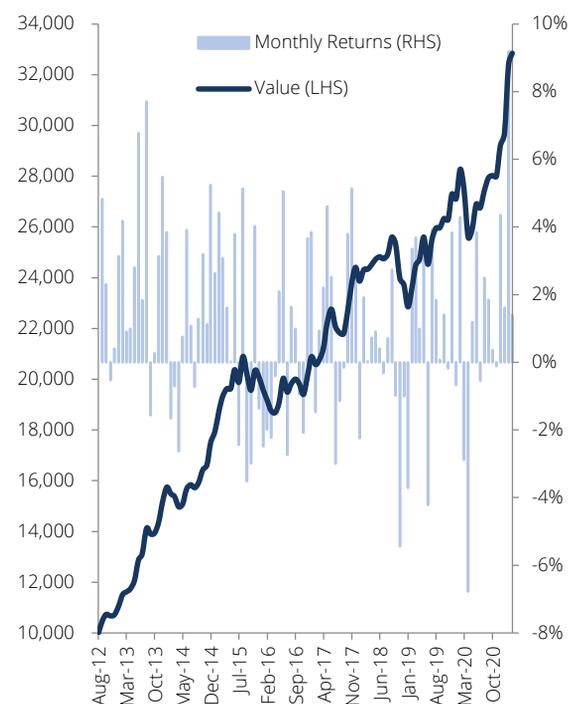
The portfolio's top three contributors Tempur Sealy, MIPS and Comerica added 189bps to performance while Anritsu, Health and Happiness (H&H) and Bed Bath & Beyond detracted 163bps. The Fund had 16 portfolio companies reporting quarterly results or trading updates in February with the bulk of reporting season now complete.

Sensata finished off the year with its first quarter of revenue growth in several quarters as global auto and heavy vehicle markets appear to have bottomed after a very difficult 2020. As content per vehicle continues to increase, Sensata is outperforming its end markets and Q420 was quite stellar with almost 10% outgrowth during the quarter. Management guided to 2021 in line with market expectations despite increased spending on future growth initiatives. While shorter term holders of the stock sold it down 4.5% over the next couple of days, we used the weakness as an opportunity to accumulate a larger position.

Tempur Sealy also delivered a very strong finish to 2020 with full year revenues up 18% and EBITDA up an even more impressive 53.5%. We had been concerned about pull forward as the business did benefit from increased home spending during the year however Management expects growth to continue with 15-20% revenue and about 20% EBITDA growth slated for 2021. This will come without much of a growth contribution from Europe, as these economies are slower to recover post Covid and should benefit the business more in 2022. The Board initiated a maiden dividend and increased its buyback authority as FCF is coming in very strong.

Anritsu is one of three players globally providing testing for next generation 5G deployments and while the need for 5G and its rollout has become even more pronounced since the pandemic, activity levels have been constrained somewhat on the back of lockdowns. Management upgraded full year earnings expectations however the outcome has become more Q4 weighted which adds a layer of risk to the result. With the business trading on an undemanding earnings multiple for exposure to the long tailed secular 5G tailwind, we remain convinced holders in the business.

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	\$ 1.5535

STOCK IN FOCUS: PTC Inc (PTC US, \$13.8b Market Cap)



PTC is a global leader in Computer Aided Design (CAD) and Product Lifecycle Management (PLM) software products and the leader in providing solutions serving the high growth Industrial IoT and Augmented Reality (AR) markets associated with Industry 4.0. The CAD and PLM market is dominated by four global players, including PTC which has demonstrated continued market share gains as it excels in helping customers design, manufacture, operate and service products across multiple industries. While it delivers its solutions via a software stack, the underlying business is really driven by industrial activity and innovation.

PTC has three significant partnerships with industry leaders including Microsoft, Rockwell Automation and Ansys. We consider its partnership with Microsoft as the largest driver of near-term revenue contribution as PTC's ThingWorx® Industrial Innovation Platform is now available on the Microsoft Azure cloud platform as its preferred cloud platform.

The business has really transformed over the past few years as Management made the hard decision to move from a perpetual licence model to a recurring revenue subscription product offering. This had the result of constraining top line growth and margins in the early days however in FY20 the model inflected with EBIT margin increasing almost 900bps and annual recurring revenue growing double digits despite the impact of the global pandemic.

FY21 has started out well for the business with Q1 revenue and EBIT up 20.5% and almost 65% respectively prompting Management to upgrade guidance quite materially compared with its last full year expectation. Recent acquisitions including OnShape and Arena are expected to drive outsized growth as the combination represents a powerful pure-SaaS solution that's number one in technology, customers and revenue.

DELIVERING SHAREHOLDER VALUE



Market Demand

- **Strong Q1'21 bookings** growth (>30%) driven by secular tailwinds.
- Industrial **Digital Transformation** catalyzed by pandemic-driven operational challenges.
- Customers creating **frictionless supply chains**, **connecting** products and factories, bringing **digital to the frontline**, enhancing **employees with AI**, and **freeing workers** from desktops.
- **SaaS leader** with solutions aligned to tomorrow's **workforce**, **work methods**, and **workplace**.



Top Line

- **ARR growth** of 16% (12% CC) **at the high-end** of guidance.
- Core businesses ARR growth continues to **outpace the market**.
- Growth businesses ARR growth **tracking to guidance**.
- **Strong ARR** growth in Americas and APAC with **Europe demand trends inflecting**.
- **Revenue growth** of 20% (17% CC) **well above guidance** driven by strong large-deal activity.
- **Healthy retention rates** despite ongoing pandemic.



Bottom Line

- **Strong operating and free cash flow** of \$114M and \$111m, respectively.
- GAAP EPS of \$0.20; Non-GAAP EPS of \$0.97 **up 70% YoY**.
- Strong **revenue growth** and operating **expense discipline** driving margin expansion.
- Continue to expect **record operating and free cash flow** in FY'21.

Source: PTC Q121 Earnings Presentation

Its core CAD and PLM business is expected to grow high-single digit to low double-digits over the coming years while the higher growth Augmented Reality group is expected to come in between 25-30% and represent close to a third of the total business in a few years. This should drive operating leverage across its "build it once, sell it many times" software stack with Management anticipating a further 700bps margin expansion over the coming years which subsequently drives 25-30% FCF growth for us as shareholders.

At the time of writing, PTC is trading at \$125.50 which represents a forward PE of 28x and EV/EBITDA of 15.4x which we consider solid value for a business growing 30%+ over the next few years and roughly half the multiple as its best comparable Autodesk. As FCF continues to build on the balance sheet (excluding any further M&A) we anticipate the balance sheet to be in a net cash position in two years which provides significant capital allocation optionality for the group.

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 March 2021 at 12pm AEDT, for which you can register [here](#).

Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Sensata Technologies	Industrials	North America	5.4%
PTC	Information Technology	North America	5.4%
Flex	Information Technology	North America	4.6%
Tempur Sealy	Consumer Discretionary	North America	4.5%
Bureau Veritas	Industrials	Europe	4.5%
Option Care Health	Health Care	North America	4.4%
Anritsu	Information Technology	Asia Pacific	4.0%
Techtronic Industries	Industrials	Asia Pacific	3.8%
Comerica	Financials	North America	3.7%
SEB	Consumer Discretionary	Europe	3.7%

Risk Measures	
Net Exposure ⁶	94.84%
Gross Exposure ⁷	100.17%
VAR ⁸	2.15%
Best Month	9.20%
Worst Month	-6.78%
Average Gain in Up Months	2.75%
Average Loss in Down Months	-1.94%
Annual Volatility	9.83%
Index Volatility	10.21%

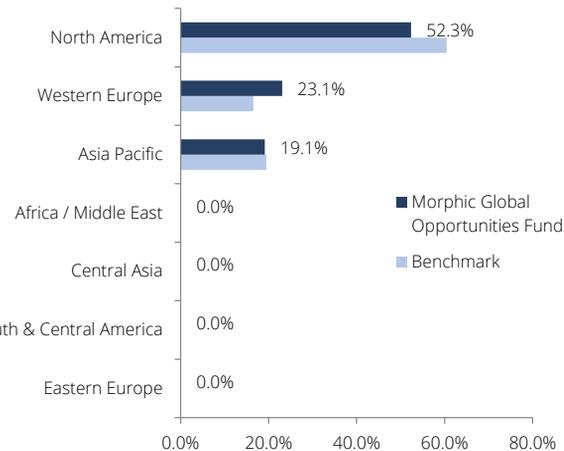
Top three alpha contributors⁹ (bps)



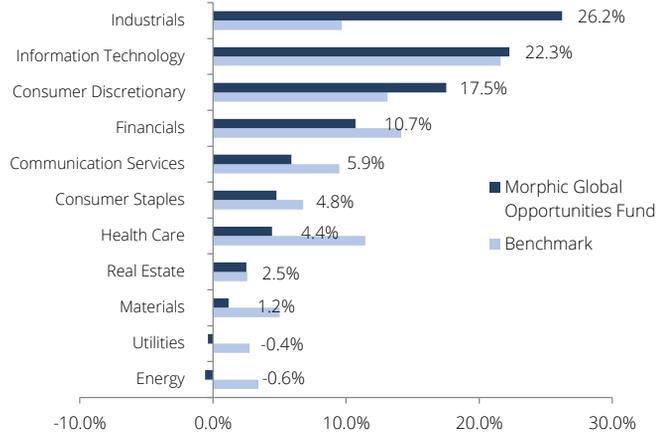
Top three alpha detractors⁹ (bps)



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 Includes Equities and Commodities - longs and shorts are netted; 7 Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; 8 VAR is Value at Risk based upon the 95th percentile with a 1 day holding period using a 1 year look back; 9 Attribution; relative returns against the Index excluding the effect of hedges.