

# MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report  
April 2021



A proud founder of:



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\*

	1 Month	3 Months	CYTD	1 Year	3 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	1.20%	5.28%	14.97%	31.76%	11.34%	15.06%
Index <sup>1</sup>	2.91%	8.90%	9.03%	23.53%	12.46%	15.73%

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

## Ethical Investing in Focus

In early March, the UN Environment Programme released its 2021 Food Waste Index Report and while I think we all know that there is substantial leakage in our food supply chain, the enormity will likely come as a surprise. To put it in context, the report highlights that if food loss and wastage were a country, it would be the third largest source of greenhouse gas emissions globally and is “a major contributor to the three planetary crises of climate change, nature and biodiversity loss, and pollution and waste”.

The UN report estimates that food waste from households, retail establishments and the food service industry totals 931 million tonnes each year. Nearly 570 million tonnes of this waste occurs at the household level and the global food wastage per capita is around 74kg – that’s a lot of meat and veg going into the bin!

Sustainable Development Goal 12.3 (SDG 12.3) captures a commitment to halve food waste at the retail and consumer level and to reduce food loss across supply chains. This is incredibly important when you consider approximately 17% of all global food production is wasted each year.

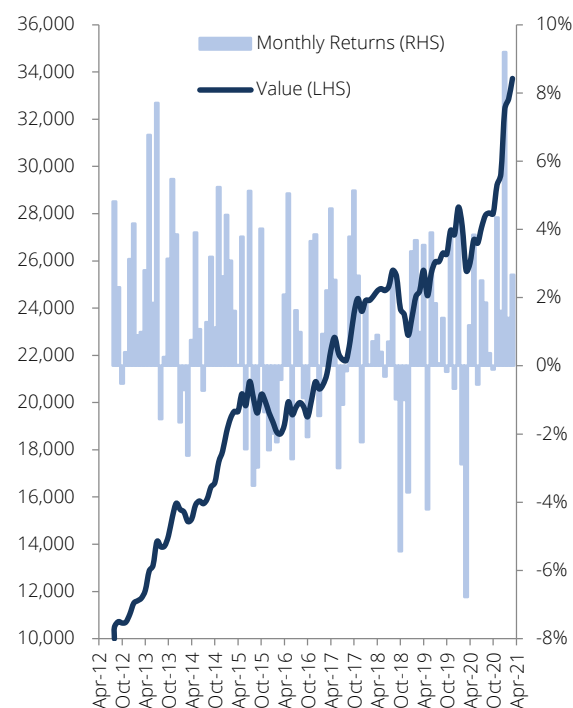
## Portfolio Review

The Morphic Global Opportunities Fund increased 1.2% net during the month with positive equity performance of 1.3% impacted by a stronger Aussie dollar. The MSCI All Countries World Daily Total Return Index (AUD) increased by 2.91% over the same period.

The portfolio’s top three contributors XPO Logistics, AZEK and MIPS added 97bps to performance while Danimer, Anritsu and PTC detracted 96 bps. The Fund had 17 portfolio companies reporting quarterly results, or trading updates, in April and while in aggregate we noted substantial earnings beats and upgraded guidance, the subsequent share price performance was generally muted on the day of release.

Our regional banks in the US (Comerica, BankUnited and Webster Group) kicked off reporting season with significant earnings beats driven by loan loss reserve releases as the US economy rebounded convincingly. Cumulatively, our banks provisioned >USD \$850m in the first quarter of last year representing over 9% of September 2020 market value when we bought them. We are now seeing this reverse with book values and potential capital returns increasing.

## 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% p.a.
Performance Fee <sup>5</sup>	15%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.25% on application/ 0.25% on redemption
Unit Price	\$ 1.614048

Groupe SEB is one of the largest small domestic appliance and cookware companies globally owning international brands such as Tefal and Moulinex. In its Q121 trading update it highlighted 39% organic growth in its consumer business with total EBIT increasing to €198m compared with a pandemic impacted €18m in the same period last year. On the back of continued solid demand, Management now expects 10% revenue growth this year which compared well with market expectations closer to 6.0%. Despite a nice bounce since reporting, the business still only trades on forward PE and EBITDA multiples of 15.0 and 8.1x respectively.

Bureau Veritas is one of the larger testing, inspection and certification businesses globally and while it is still being impacted by pandemic limitations, the business grew >6% organically this quarter which was well ahead of market expectations at just over 1%. Bureau Veritas Assurance of CSR and Sustainability reporting services grew by more than 20%, driven by a strong demand for greenhouse gas emission verification and Wood Management Systems certification. Sustainability is at the heart of Bureau Veritas and is a key underlying driver to the group's future goals.



## STOCK IN FOCUS: Corbion (CRBN NA, €2.9b Market Cap)

Corbion is an ingredients solution business listed in Amsterdam with over 90 years experience in the fermentation industry primarily focused on the production and end use cases of lactic acid. It has over 40% market share in lactic acid production globally and as the lowest cost producer it is the only player with plants spread across all continents. Lactic acid is an incredibly versatile product used in natural food preservation, salt reduction, medical/pharma applications as well as a replacement for fossil fuel based plastics. Lactic acid is derived from the fermentation of renewable feedstock and in the case of Corbion, this is predominately sustainably sourced sugar cane.

The business is organised into three main segments:

<b>SUSTAINABLE FOOD SOLUTIONS</b>	<ul style="list-style-type: none"> <li>• Preservation</li> <li>• Functional systems</li> <li>• Single ingredients</li> </ul>
<b>LACTIC ACID &amp; SPECIALTIES</b>	<ul style="list-style-type: none"> <li>• Lactic acid</li> <li>• Lactic acid derivatives</li> <li>• Biopolymers</li> </ul>
<b>INCUBATOR</b>	<ul style="list-style-type: none"> <li>• Omega – 3 (DHA)</li> <li>• Algae protein</li> <li>• Co-polymer platform</li> </ul>
<b>TOTAL CORBION PLA JOINT VENTURE (50/50)</b>	<ul style="list-style-type: none"> <li>• Poly Lactic Acid (PLA)</li> </ul>

Sustainable Food Solutions is primarily targeted at natural preservation of the food supply chain while also providing consumers label transparency and traceability. With better preservation techniques delivered by natural ingredients based on lactic acid, food shelf life extension can really impact the problem of global food waste. People want to understand what they eat therefore traceability is also incredibly important. There is a big move from fossil-based synthetic preservatives in our food to natural alternatives such as fermentation-based products like lactic acid. As a result, the natural portion or the fermentation-based portion is growing at twice the market rate of the overall preservation market.

Lactic Acid and Specialties basically feeds the rest of the group as it houses the lactic acid production assets however it also contains a couple of other interesting growth arms. The main growth angle here is its joint venture with oil giant Total in PLA. The JV is the #2 player globally in the production of PLA, an alternative to fossil fuel based plastics, however it is targeting the #1 position with the construction of a new 100k tonne plant in France. It also has a strong biopolymer play here with 50% global share in resorbable polymers such as biodegradable sutures and screws used in hospitals.

A new market segment opening up for Corbion is in the green solvent market, again underpinned by the natural properties of lactic acid as customers look for more sustainable alternatives in antimicrobial and hygiene applications.

Based on strong core demand from food preservation, increasing demand from its PLA JV and nascent opportunities in other categories such as sustainable hygiene, Corbion is expanding on its existing market leading lactic acid footprint with a 125k tonne facility to be built over the next few years.

The Incubator includes a few initiatives which will graduate into one of the other divisions or standalone if size warrants. The main near term opportunity is around DHA omega-3 from algae, this solution is already in the market.

In its trading update released on the last day of April, Management indicated that it is benefiting from strong demand in Sustainable Food Solutions which delivered >12% organic growth. Lactic acid demand is expected to ramp through the year and will no doubt be driven by its PLA JV (which utilises internal lactic acid capacity) which grew revenues and EBITDA by 20% and 69%, respectively. On the back of the strong start to the year, Management upgraded its organic growth expectations which are now expected to come in between 7-10% compared with its earlier forecast of close to 7%.

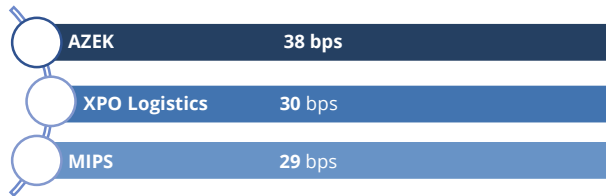
We see Corbion as a strong global player in natural food preservation, fossil-fuel based plastic replacement along with nascent optionality as it leverages its market leading capabilities into other verticals over the long term.

## Top 10 Active Positions

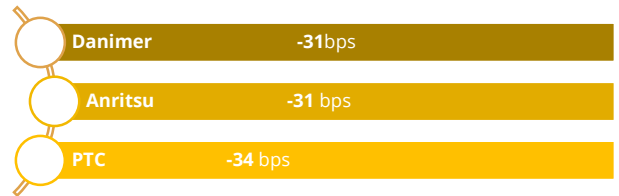
Stocks (Shorts)	Industry	Region	Position Weighting
Cellnex Telecom	Communication Services	Europe	5.33
PTC Inc.	Information Technology	North America	5.05
Sensata Technologies	Industrials	North America	5.04
Bureau Veritas	Industrials	Europe	4.87
Option Care Health	Health Care	North America	4.49
Flex	Information Technology	Asia Pacific	4.36
Comerica	Financials	North America	4.04
SEB	Consumer Discretionary	Europe	4.03
Tempur Sealy International	Consumer Discretionary	North America	3.78
Techtronic Industries	Industrials	Asia Pacific	3.59

Risk Measures	
Net Exposure <sup>6</sup>	90.52%
Gross Exposure <sup>7</sup>	96.13%
VAR <sup>8</sup>	2.13%
Best Month	9.20%
Worst Month	-6.78%
Average Gain in Up Months	2.70%
Average Loss in Down Months	-1.63%
Annual Volatility	9.70%
Index Volatility	10.13%

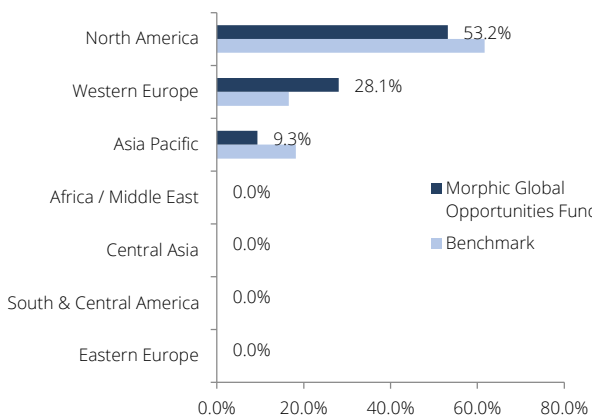
## Top three alpha contributors<sup>9</sup> (bps)



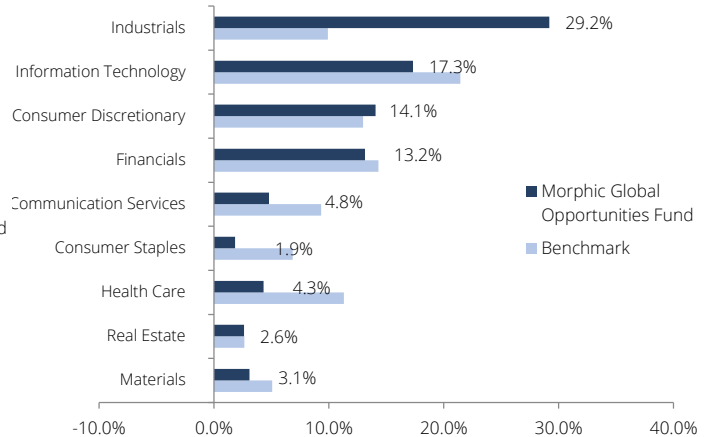
## Top three alpha detractors<sup>9</sup> (bps)



## 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 NDUACWF) 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.