A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report

June 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*

	1 Month	3 Months	CYTD	1 Year	3 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	4.56%	8.18%	22.90%	36.38%	13.82%	15.62%
Index[1]	4.46%	8.95%	15.43%	27.72%	13.96%	16.16%

* Past Performance is not an indication of future performance.

ESG In Focus

The global fashion industry is worth $2.5trn each year and equivalent to 3% of global GDP. Approximately 100bn apparel items are sold every year, up 50% from 2006 (UBS, 2021). The exponential growth in fast fashion consumption has been driven by decades of apparel price deflation.

Cheaper clothing is made possible by increasingly global supply chains, the use of cheaper synthetic materials and some human rights violations of workers in developing markets. As consumption habits continued to grow, increasing speed to market has facilitated the consumers desire to stay on trend.

The World Economic Forum found that while people bought 60% more garments in 2014 as they did in 2000, they only kept them for half as long. Garments are made cheaply, quickly and with inherent obsolescence. The majority of clothing ends up in landfill or is burnt within one year of production. The opaque and disjointed nature of the global fast fashion industry means consumer demand and habits will be a key driver for change in the future.

Portfolio Commentary

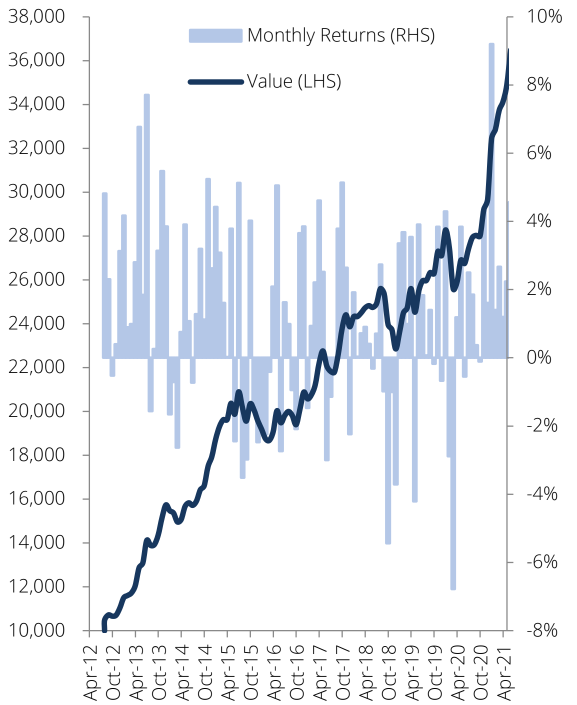
The Morphic Global Opportunities Fund increased 4.56% net during the month taking full year to end June 2021 returns to 36.38%. Notably with the Aussie dollar being quite strong through the period and the portfolio unhedged, the underlying stock performance was muted quite substantially.

The portfolio's top three contributors for the month Option Care Health, Bed Bath and Beyond and QTS Realty added 219bps to performance while BankUnited, Comerica and Webster Financial detracted 43bps. The Fund had 2 portfolio companies reporting quarterly results during the month however the next reporting season will begin in earnest from late July.

QTS Realty has been held in this Fund and in a previous life since its $21.00 per share IPO in October 2013. As one of the larger pure play data center companies in the US we have been benefiting from the compounding nature of its earnings and with only half of its addressable footprint built out, the longer-term opportunity remained attractive. Clearly this was apparent to private equity as Blackstone Infrastructure Partners lobbed a $78.00 per share cash bid early in the month. We consider the offer fair in the near term and given the likelihood of a superior offer is quite small we have exited the position at the takeover price.

PVH is the owner of two very iconic brands, Tommy Hilfiger and Calvin Klein. It announced Q122 results which highlighted the business is now moving from navigating the pandemic into an accelerating growth phase with revenues up strongly. COVID has brought forward e-commerce spending by several years in our opinion and we are seeing it in our retail stocks. PVH's digital revenue grew 95% this quarter and now represents about a quarter of total sales. Tommy and Calvin are taking market share driven by strong consumer demand for its assortments – this is driving pricing power and margin expansion. PVH raised EPS guidance a little over 8% to $6.50 per share with underlying momentum placing it on track to return to >$9.00 EPS within 12-18 months, at which point it would be trading on <12.0x PE.

Performance of AUD $10,000



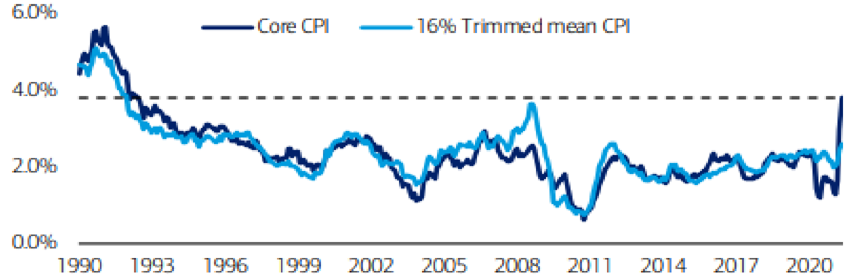
Key Facts[2, 3]	
Launch Date	August 2nd, 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee[4]	1.05% p.a.
Performance Fee[5]	15%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.25% on application/ 0.25% on redemption
Unit Price	$ 1.7254

Given we are currently half way through the calendar year and there are so many moving parts as the world begins (and hopefully sustains) its exit from the clutches of COVID-19 we wanted to highlight how we are seeing things and therefore positioned.

Right now it seems every discussion is focused on inflation and whether it is transitory or perhaps more sustained. Inflation is currently very elevated however this is due to low base effects (remember that we are cycling pandemic effects from last year) and from limited supply of goods in demand such as steel, chemicals and used cars. These prices should stop going up and, in many cases, start moving lower (note lumber prices are down >50% from the peak in early May). Inflation is not just coming from soaring commodity prices but also from stronger than expected growth, supply chain bottlenecks, semiconductor shortages, freight and increasingly wages.

Core CPI and Trimmed mean inflation (%yoy)

Trimmed Mean CPI has also bounced back strongly, suggesting improved persistent inflation



Source: BLS, Cleveland Fed

The discussion around inflation makes sense as it is key in driving interest rates and subsequently valuations with runaway inflation boosting the former and impairing the latter. That said, what is more important to monitor is inflation expectations and these are comfortably anchored around 2.0%. You could say the Fed has achieved the desired inflation outcome here however it believes there is still work to do on reaching full employment as there is still >7m fewer people working compared with pre pandemic levels.

Only time will tell on what level of inflation we settle at however what we focus on in our businesses is pricing power and the ability of our companies to pass on this inflation in protecting and perhaps expanding margins. The bigger question will be how much of the recent price increases remain permanent if the underlying commodity inflation does prove transitory – could see some outsized margin opportunity here:

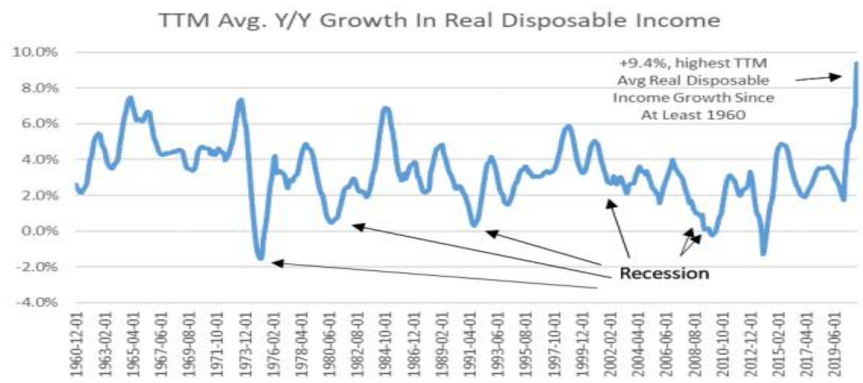
Tempur Sealy is currently enjoying double digit average selling price growth driven by product mix and the ability to raise prices. In its last quarterly call, Management highlighted that it raised prices in Q420 and Q221 to offset commodity price inflation with no impact on demand. Tempur Sealy upgraded guidance in its last result and trades on 13.3x PE.

Azek is one of the leaders in the North American composite decking market and while it recycles a significant amount of waste plastic into its products, it is still a net buyer of resins. Management raised end prices in Q420, Q221 and a further increase has been announced and will flow through next quarter. All with no impact on demand as it actually increased its capacity expansion plans by 15% to capture significant inbound interest. Azek also increased earnings guidance in the past quarter and we have added to the position.

Travis Perkins is the largest building product distributor in the UK and actually benefits from inflation as the majority of its sales are based on pass through pricing. It maintains margins on the increased pricing and therefore grows absolute dollars in this environment. Travis recently provided an intra quarter trading update which highlighted earnings to come in significantly ahead of market expectations. The business is currently trading on less than 8.0x EBITDA.

Now with the inflation bogey discussed, what other demand trends are we looking to participate in over the next year:

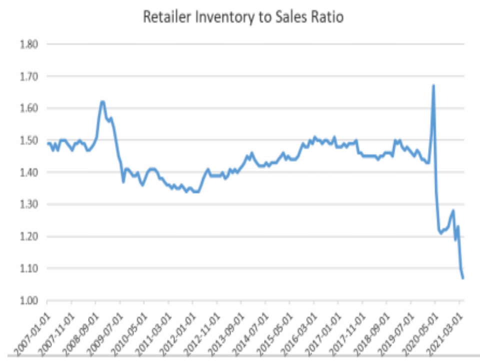
Consumer who is in great shape with many economists estimating excess savings of over $2tr as direct income support drove the highest growth in disposable income for decades:



Source: FactSet, St Louis Federal Reserve, Bloomberg, and Raymond James Research.

We are participating in this with Tempur Sealy, PVH and Azek which were previously mentioned however also benefiting would include:
Bed Bath and Beyond which is going through a transformation under the watchful eye of CEO Mark Tritton. If the strategy is fulfilled, the business will be trading on 3.0x EBITDA with a net cash balance sheet in a couple of years time.

Groupe SEB which is one of the largest small domestic appliance businesses and the largest global cookware provider owning brands such as Tefal and Moulinex. It upgraded full year expectations in its last result and is currently trading on 15.5x PE and just over 8.0x EBITDA.
Auto, Business and Retailer inventories at record lows paving the way for an inventory restocking cycle and probably then some as business owners don't want to be caught short to this degree again:



Source: FactSet, Bloomberg, Cox Automotive, and Raymond James research

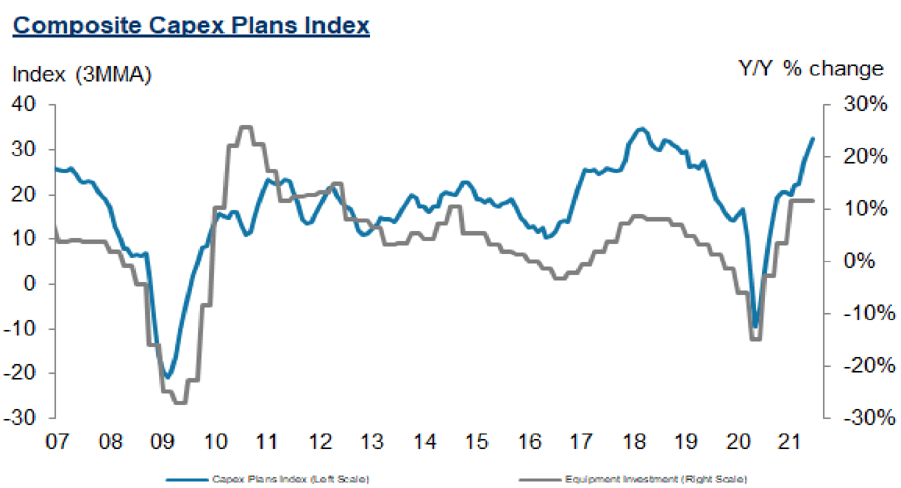
Sensata is one of the largest providers of mission critical sensors in both automotive and heavy vehicle markets globally. Approximately 60% of the business is tied to the global auto market while the remaining 40% is driven by heavy vehicles and industrial applications. It outgrows its end markets by several hundred basis points and while semiconductor chip shortages are currently impairing auto production, end demand indicators remain strong. Sensata trades on less than 14x forward earnings.

XPO Logistics is the third largest less than truckload (LTL) operator in the US, a leading LTL player in Europe and the second largest contract logistics player globally. It is spinning off its contract logistics business in the third quarter after which we will own a pure play transportation company and a pure play logistics company. All these goods to replenish inventories will require logistics and XPO is a prime beneificiary.

Flex Group is one of the largest contract manufacturers globally primarily serving Healthcare, Automotive, Industrial as well as consumer products. Its facilities will be operating at full capacity to replenish its end markets. It also owns the largest solar tracking business globally which is anticipated to be spun out in an IPO. Flex is trading on 10.0x PE and less than 6.0x EBITDA.

Bureau Veritas is one of the largest testing, inspection and compliance businesses globally. It monitors and maintains transparency in global supply chains, inspects and certifies new capital projects and has recently launched RESTART YOUR BUSINESS WITH BV which checks that all appropriate health, safety and hygiene conditions are in place to support business resumption.

The natural consequence of strong consumer and government demand (fiscal stimulus) and subsequent supply shortages is the need for increased spending on manufacturing, automation and infrastructure.



Source: Federal Reserve Banks of Richmond, Philadelphia, New York, Kansas City, Texas, Bureau of Economic Analysis, Morgan Stanley Research

Kion is listed in Germany and is the largest warehouse automation solutions provider globally and the second largest forklift truck provider as well. Companies are looking to do more with less and with supply chain automation becoming mission critical for business productivity, Kion is well placed to benefit from this trend. Despite its strong performance over the past several months it remains attractively valued at less than 8x EBITDA.

PTC is one of the largest computer aided design (CAD) and product lifecycle management (PLM) companies globally and is the leader in industrial internet of things, or basically helping the global manufacturing fleet become "smart" with data analytics and digital twins. It is a key beneficiary of increased industrial capex as well as onshoring of production in the US.

Willscot Mobile Mini is the largest owner and operator of modular office space in North America with c45% market share. It is driven by a number of end markets however non-residential construction; industrial and road infrastructure are some of its larger end exposures. With double digit pricing embedded in the model now coupled with higher fleet utilisation, we see strong growth ahead. Willscot is currently trading on 9.8x next year's EBITDA.

So we hope this gives some context in how we some of the end demand drivers and how we are looking to participate with strong market leading franchises trading at very attractive multiples.

With all that said there are clearly risks that we are constantly monitoring including:

New variants of COVID (such as Delta) which could impact growth expectations

Currently declining global bond yields which typically precede weaker economic growth periods

Expiring unemployment benefits and declining money supply impacting liquidity (tapering intentions from the Fed)

Supply chain bottlenecks worsening (especially around chip production) and impacting profits

Inflationary impact on input costs and the ability of companies to pass through to the end consumer (ok so far)

A stockmarket which has delivered the 7th best first half calendar gain for global stocks in the past 100yrs (Morgan Stanley)

As such we are comfortable owning and growing with our current portfolio however cognisant of the risks currently presented in the previous bullet points. With this in mind we maintain a strict focus on valuation and subsequent risk reward in our positioning. We are about to enter the June quarter reporting season which will help provide more data points for us to determine how are businesses are performing in this everchanging world and look forward to reporting back to you, our investors, with the progress.

Top 10 Active Positions

Stocks (*Shorts*)	Industry	Region	Position Weighting
Sensata	Industrials	North America	4.56%
Flex	Information Technology	North America	3.97%
Tempur Sealy	Consumer Discretionary	North America	3.73%
Bureau Veritas	Industrials	Europe	3.70%
Willscot Mobile	Industrials	North America	3.60%
Webster Financial	Financials	North America	3.56%
SEB	Consumer Discretionary	Europe	3.56%
Option Care Health	Health Care	North America	3.15%
XPO Logistics	Industrials	North America	2.91%
Cellnex	Communication Services	Europe	2.84%

Risk Measures	
Net Exposure[6]	77.26%
Gross Exposure[7]	89.85%
VAR[8]	1.37%
Best Month	9.20%
Worst Month	-6.78%
Average Gain in Up Months	2.72%
Average Loss in Down Months	-1.63%
Annual Volatility	9.68%
Index Volatility	10.09%

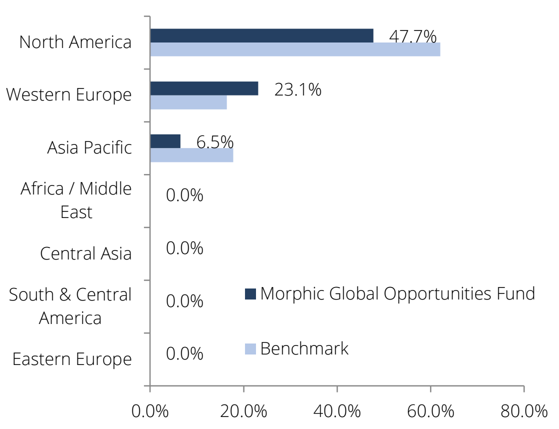
Top three alpha contributors[9] (bps)

Option Care Health	**98 bps**
Bed Bath and Beyond	**62** bps
QTS Realty	**59** bps

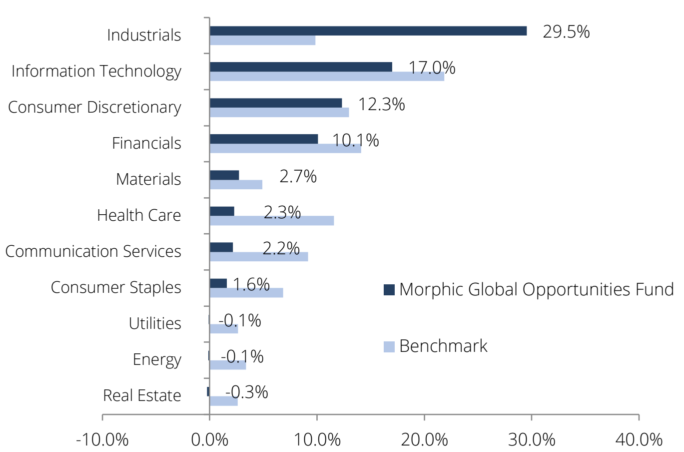
Top three alpha detractors[9] (bps)

Webster Financial	**-10**bps
Comerica	**-16** bps
BankUnited	**-17** bps

Equity Exposure Summary By Region



Equity Exposure Summary By Sector



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.