

# MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report  
September 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	-3.39%	3.32%	26.98%	34.47%	14.14%	15.58%
Index <sup>1</sup>	-3.00%	2.84%	18.70%	26.45%	12.64%	16.04%

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

## ESG IN FOCUS

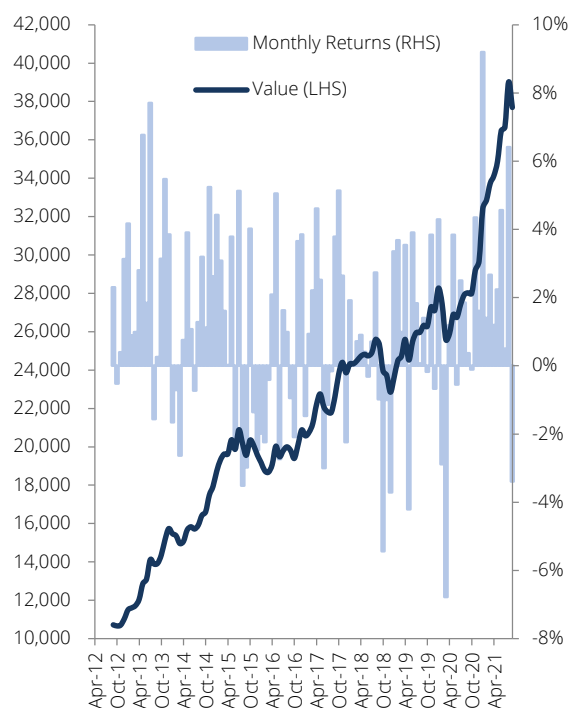
The 26<sup>th</sup> summit of the “Conference of the Parties” (COP26) will be held in Glasgow during the first couple of weeks in November. There will be a great deal of headlines around the event as it is becoming increasingly evident that the risk of climate change, or actually the consequence of not addressing this risk, is now a priority concern globally.

The Paris Agreement was borne out of COP21 in 2015 where attending countries committed to plans in setting out how much they would reduce carbon emissions, with a goal of limiting global warming to below 2 degrees and aim for 1.5 degrees. Unfortunately, these commitments are not proving sufficient as we are running closer to 2 degrees and potentially up to 3 degrees by 2100 compared with pre-industrial levels.

Given our run rate and the urgency in addressing this, COP26 is focused on four key objectives:

- Secure global net zero by mid-century and keep 1.5 degrees within reach** by accelerating the phase out of coal, curtailing deforestation, accelerating the shift to electric vehicles and encouraging investment in renewables.
- Adapt to protect communities and natural habitats** thereby protecting and restoring ecosystems while building defences, warning systems and resilient infrastructure to avoid loss of homes and potentially lives.
- Mobilise finance** with developed countries earmarking at least \$100bn of climate finance per year while international financial institutions co-ordinate in unleashing trillions in private and public financing vehicles.
- Work together** to deliver and finalise the Paris Rulebook while accelerating collaborative actions between governments, business and society in addressing the climate crisis.

## 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	\$ 1.4887

## PORTFOLIO COMMENTARY

The Morphic Global Opportunities Fund declined 3.39% net during the month which was slightly behind the MSCI All Countries World Index (AUD) which slipped 3.00% over the same period. The market focus has shifted from the Delta variant impact on growth to supply chain holdups (bottlenecks and shortage of pretty much everything), input cost inflation (commodities, energy and labour) and the potential for a Fed misstep, just to name a few.

The portfolio's top three contributors for the month **Webster Financial, Advantest** and **Willscot Mobile Mini** added 107bps to performance while **Sensata, Travis Perkins** and **Bed Bath and Beyond** detracted 202bps. The Fund had two portfolio companies report results during the month with the majority expected in October and November.

**Bed Bath and Beyond** reported disappointing sales and earnings as moderating end markets coupled with Management execution issues weighed on the quarter. This result reversed the strong execution track record we had been witnessing over the past few quarters as marketing and pricing actions fell behind. We have materially trimmed the position and will look to discuss the longer term prospects with the company in the coming weeks.

**Ciena** delivered a good set of numbers with revenue coming in above the top end of its guided range while strong margin growth drove earnings some 16% ahead of the street. Secular demand in network investment is very strong as customers add capacity to address bandwidth demand. Backlogs are expected to expand as supply chain constraints limits its ability to deploy its kit. Fortunately, this demand is not going away, only getting more intense, as data growth continues unabated.

### STOCK IN FOCUS: TKH Group (TWEKA NA, €2.4bn Market Cap)



TKH Group operates on a global scale, providing high end niche technologies in high growth markets around the world. Over the past several years it has shifted its portfolio from commoditized products to that of integrated solutions increasing the efficiency, safety and security of its customers. Its products are often embedded with software to create smart technologies in a one stop shop approach. With seven identified verticals expected to deliver outsized growth at incremental margins, the key ones to us include fibre optic cables, energy cables for infrastructure and wind farms, 3D vision technology for machine vision/5G consumer electronics and tyre manufacturing systems.

These growth verticals have a common platform underpinned by its three core technologies which are leveraged across many solutions:

- 1) Vision and Security** – Consists of 2D and 3D camera sensor technology and 3D laser technology. We understand TKH is the global leader in the more specialised 3D camera applications inspecting 5G phones etc. Vision technology is used for inspection, quality, product and process control in medical solutions, industrial automation (think Industry 4.0) and consumer electronics.
- 2) Connectivity** – Focuses on a complete portfolio of cable systems for energy distribution (offshore wind farms) and electrical applications in medical, construction and infrastructure sectors.
- 3) Smart Manufacturing** – With technology and controls around industrial process it boosts the reliability and flexibility of manufacturing systems in tyre manufacturing, robotics, medical and mechanical engineering industries.

The business is organised into three key reporting segments with Building and Industrial applications representing the bulk of its €1.4bn of revenues expected this year:



Source: TKH.

Telecom is predominately made up of fibre optic cables and network solutions serving the European markets. It is really benefiting from fibre to the home (FTTH) rollouts in Germany and France.

TKH's Building division houses its **Machine Vision** segment which is really benefiting from factory automation, logistics and strong orders in consumer electronics. Additionally, with the increased demand in **offshore wind farms**, TKH is seeing strong order intake for its offshore subsea cables which effectively link up the turbines to each other to transfer energy. It is also seeing a promising sales funnel for its **Aircraft Ground Lighting (AGL)** business which is a category disruptor in next generation runway lighting and is already installed in Vancouver, Geneva and Amsterdam airports.

Industrial is largely comprised of its **VMI Tire manufacturing system** business which is pioneering new technologies to address just in time requirements associated with multiple tyre SKUs as well as those associated with electric vehicles. It has approximately 70% global market share outside the top 5 (in which it is increasing its presence) and will benefit from the replacement of existing technology (12-15yrs old) with high productivity, waste reduction, quality improvement and "track and trace" capabilities of its systems. Another exciting business within its Industrial segment is **Indivion** which is a fully automated medical dosage system utilising its machine vision capabilities in dispensing repeat prescriptions. It is a one-of-a-kind system globally with all the large online and bricks and mortar pharmacy companies lining up for the product.

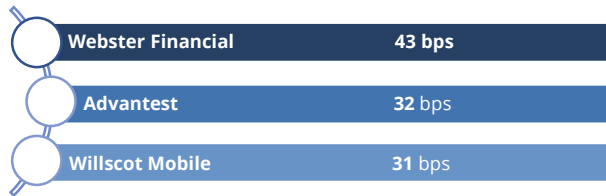
TKH delivered strong first half results in late August and provided full year guidance which was well ahead of market expectations. It is continuing on a "Simplify and Accelerate" strategy which is focused on pruning its portfolio to concentrate on its high growth verticals and will expand on this during its Investor Day on 17<sup>th</sup> November 2021. We have owned the business for just over 3 years now and are actually more intrigued by the story today than at any time of our ownership.

## Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Webster Financial	Financials	North America	5.97%
WillScot Mobile	Industrials	North America	5.39%
Sensata	Industrials	North America	5.34%
XPO Logistics	Industrials	North America	5.01%
Tempur Sealy	Consumer Discretionary	North America	4.83%
Flex	Information Technology	North America	4.70%
PVH Corp	Consumer Discretionary	North America	4.07%
Bureau Veritas	Industrials	Europe	3.92%
Anritsu	Information Technology	Japan	3.64%
PTC	Information Technology	North America	3.60%

Risk Measures	
Net Exposure <sup>6</sup>	87.61%
Gross Exposure <sup>7</sup>	106.47%
VAR <sup>8</sup>	1.50%
Best Month	9.20%
Worst Month	-6.78%
Average Gain in Up Months	2.74%
Average Loss in Down Months	-1.67%
Annual Volatility	9.82%
Index Volatility	10.09%

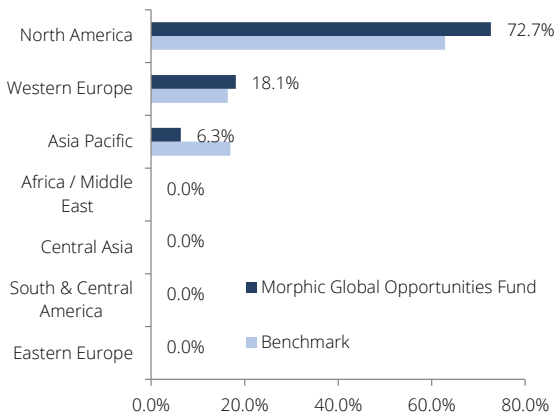
## Top three alpha contributors<sup>9</sup> (bps)



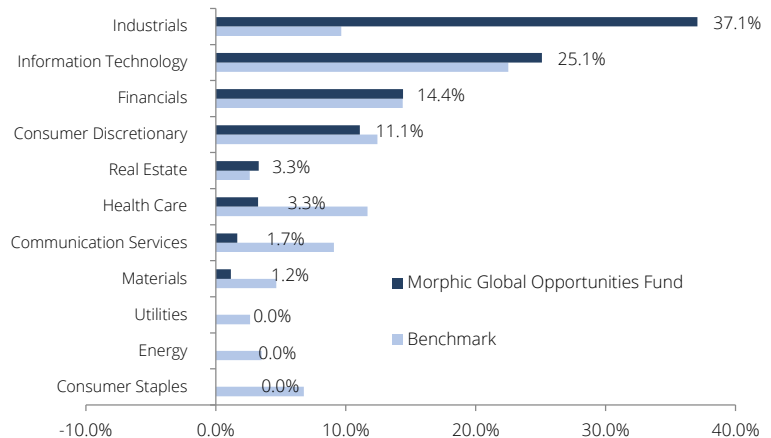
## Top three alpha detractors<sup>9</sup> (bps)



## 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 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.