A proud founder of:

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MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report

October 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*

	CYTD	1 Year	2 Years (p.a.)	3 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	23.48%	30.92%	18.08%	15.21%	15.07%
Index[1]	19.35%	27.67%	14.60%	15.01%	15.94%

* Past Performance is not an indication of future performance.

Portfolio Commentary

Further to our previous correspondence, we would like to inform investors that this is the last newsletter for the Morphic Global Opportunities Fund (MGOF). We thank all investors who supported the Fund.

As part of moving to close the Fund, all equity positions had been closed down and the Fund was invested 100% in cash by the middle of October. We thank those that transferred their trust into the Ellerston Global Mid Small Cap Fund (EGMS) during this period and wish those that exited all the best.

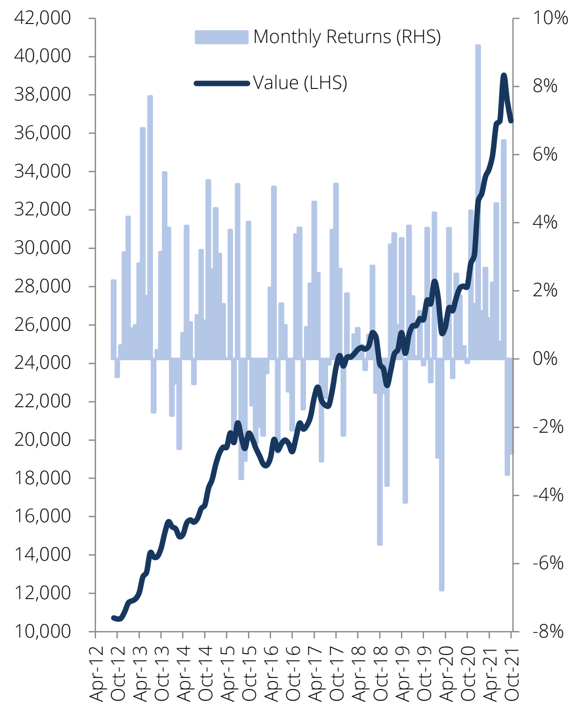
As you are hopefully aware the strategies and stock positioning of EGMS and MGOF were mirrors of each other, so we thought it important to provide one last update given we are at the tail end of the September reporting period. From the last two weeks of October to the time of writing we have had the majority of our businesses report results and we will provide highlights here:

We started the season with our regional US Banks, Comerica and Webster reporting results ahead of expectations as credit quality remained very strong, net interest margins stabilised and glimmers of loan growth begin to emerge. It seems now that most of the credit reserve releases are complete and with significant excess liquidity on their balance sheets, the potential leverage to improving loan demand is quite pronounced.

Chart Industries is a global leader in mission critical equipment for processing, storage and delivery of industrial gases which we highlighted in our August newsletter. It had been a top 10 position in July however we trimmed it meaningfully post a strong share price performance and concerns around margins given the substantial run up in steel and aluminium prices we have seen. We had been looking (hoping) for a poor result and it actually came in worse than expected as cost inflation ripped into margins. Management is aggressively pursuing additional pricing actions to recoup margins while robust demand (especially in hydrogen) continues unabated.

Kion Group reported a very strong set of results despite supply chain bottlenecks increasing lead times for industrial trucks from 8-12 weeks out to at least 6 months. Its order book for both industrial trucks and warehouse automation continues to build and with demand signals remaining solid it expects orders to come in at the top end of guidance.

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	$ 1.4477

Bureau Veritas continues to impress with organic revenues now 3% ahead of pre pandemic levels as strong industrial, building and infrastructure activity continues to drive results. Management maintained full year guidance however took time in outlining its "Green Line" of expertise in renewables, supply chain traceability and e-mobility. The stock has been strong over the past year.

Sensata was impacted by the semiconductor chip shortage in the global automotive market however it was still able to deliver quarterly results above expectations. Management estimates that it will generate more than $220m in revenues this year in electrification, driven by electrification trends, infrastructure requirements and the proliferation of IoT in stationary and mobile equipment. Despite the global auto market remaining weak over the next quarter or two, it is set up to participate when its end markets rebound next year.

Advantest operates in a global duopoly (c 50% market share) in system on chip (SoC) testing with US based Teradyne. It reported very strong order growth and increased full year order guidance to now come in at ¥565bn compared with previous expectations of ¥400bn. That said, it only increased revenues by around 4% implying continued supply chain issues curtailing deliveries. It will benefit from strong chip demand and greater complexity of chips for the foreseeable future and this demand is not transitory.

Anritsu operates in a global oligopoly in the 5G testing and certification market (alongside long time holding Keysight). Anritsu was the only company to report numbers below expectations for the quarter as semiconductor chip and component constraints impacted its ability to sell systems – the stock was down high single digit % on the day. With a solid backlog, 5G adoption tailwind and the prospect of an improving supply chain, management maintained full year revenue and earnings expectations.

Flex Group is one of the largest contract manufacturers globally primarily serving healthcare, automotive, industrial as well as consumer products. Reported revenue came in slightly below the midpoint of guidance as supply chains challenged automotive production, similar to Sensata. Bookings remain very strong with channel replenishment needs driving demand. It recently bought Anord Mardix which is a leader in data center power and infrastructure which should drive further growth next year. Management lowered revenue guidance to account for the supply chain bottlenecks however maintained EPS guidance as better margins and its stock buyback limited the impact to the bottom line

GXO Logistics reported its maiden result post its spinoff from XPO Logistics in August this year. As the second largest contract logistics players globally, it is benefiting from increased activity in ecommerce outsourcing from both existing and new clients. It beat earnings expectations handily and won new contracts in the third quarter alone worth $1bn of aggregate lifetime value taking total wins year to date up to $4.3bn. It is increasingly confident in delivering 8-12% revenue growth in 2022 with greater expansion in EBITDA. The stock has re-rated over 40% post spin.

XPO Logistics reported strong quarterly earnings and upgraded full year expectations however the beat was driven by its freight brokerage business as it's less than truckload (LTL) operations came in below expectations. In probably one of the tightest trucking markets for some time, expectations were high however some internal execution issues (which it is now addressing) tainted the headline result. It remains one of the cheapest transportation businesses in the market and with proper operational execution we see material upside.

Tempur Sealy delivered results in line with expectations with sales up 20% despite supply chain challenges resulting in backlogs increasing by $100m. Management upgraded full year EPS to $3.25 midpoint as it benefits from continued strong demand drivers. It will be rolling out a new line of Sealy products in North America including a line of eco-friendly mattresses, a new product lineup Internationally for its Tempur-Pedic mattresses as well as expanding on its manufacturing footprint in the US. Management indicated that these initiatives coupled with its recently completed Dreams acquisition in the UK will result in double digit sales and earnings growth for 2022 and beyond.

PTC has a September year end so this was its full year result. It delivered Q4 revenues above market expectations with EPS some 62% ahead. Guidance for next year was pretty much in line with expectations however management indicated that it is looking to speed up the transition to a "Software as a Service" model (SaaS) given the majority of its traditional customer base still manage workloads "on premise". This will take some lifting and shifting as it transitions customers to the cloud however the revenue and cash flow benefits will be quite pronounced over the coming years.

Cellnex generally provides very predictable results with organic growth typically in the 5%+ range. This quarter was well above that with implied organic growth in the third quarter of 6.5% driven by increased colocation and acceleration of its build-to-suit programs (likely some timing benefit here). Adjusted EBITDA grew 70% with margins expanding 280bps to 75.9%. Growth is being driven by past deal closures with Management also announcing its French Hivory deal had been approved as well.

Rentokil provided an inline third quarter trading update with organic revenue growth of 6.7% driven by Pest Control at 7.5% and Hygiene at 6.4%. Management maintained full year guidance despite continued lockdowns in Asia as well as here in Australia. The global pest and hygiene markets remain fragmented and as the largest global player in both categories, Rentokil has a large M&A pipeline in front of it. This year the business should complete at least £450-500m of bolt on opportunities which will complement earnings next year.

Travis Perkins is the largest distributor of building products in the UK and has recently restructured its business to become a pure play in this space. Management had marginally upgraded in is first half result to reflect higher property profits however provided a more material increase to expectations in its third quarter trading update. It now expects at least £340m EBIT as its Merchanting business benefits from higher pricing. With the UK government's commitment to decarbonisation, infrastructure and house building, management expects the RMI market to remain strong for some time to come.

Assurant reported a solid quarter which was ahead of the market as its Global Lifestyle segment and lower corporate expenses provided the beats. Connected Living, Global Automotive and Multi Family Housing platforms are expected to continue to grow strongly. The sale of Preneed has been completed with $900m of the net $1.2bn proceeds earmarked for a share buyback over the next 12 months. Management re-affirmed full year EPS growth of 10-14%, however now at the top end of the range despite increased investments in its mobile phone protection and service business as the 5G trade in cycle starts to accelerate.

Option Care Health had already pre-announced its Q3 results which were nicely ahead of our forecasts at the time and took the opportunity in the official release to upgrade its EBITDA guide for the full year. With patient referrals gaining momentum, supply of immunoglobulin continuing to improve and labour conditions manageable, we see a continuation of high single digit revenue and mid-teens earnings growth for the foreseeable future. With a strong cash flow profile and de-leveraging balance sheet, we also see further upside from accretive M&A over the coming quarters.

Willscot Mobile Mini benefits from double digit embedded pricing growth in its model and the third quarter result continued this trend with pricing up 20% in its North American modular office fleet. We note that deliveries were up strongly this quarter which portends well for future utilisation absorption as the fleet is still less than 70% utilised (strong leverage on existing base). The company held its inaugural Investor Day on November 8th in which management highlighted longer term growth targets and a very strong cash generation profile which will be used to fund tuck in acquisitions and a proactive share buyback program which we estimate at >25% of its current market cap over the next three years.

Digital Bridge is a US based Real Estate Investment Trust (REIT) which is now 100% focused on buying, building, operating and investing in digital assets. It has undergone a substantial transformation over the past 18 months as it sold non-core assets and re-deployed this capital into digital assets including towers, data centers, fiber and small cells. This marked its first quarter as a pure play digital REIT reporting >$40bn of assets under management in digital infrastructure. Now that the transformation is complete, management is moving to an acceleration phase with the potential to be one of the fastest growing digital REITs in the world.

We understand there is a significant amount of information here around our company results and if you made it this far, we appreciate your diligence. We hope that this extensive coverage of our recent reporting season was of value to you and once again, **we thank all investors who supported the Fund.**

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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.