

morpho ADVISORY



# ABSOLUTE RETURN STRATEGIES



fuck the establishment



# INVESTING GOES PUNK!

## Contents

### 1. MORPHOLOGY

Background to our strategies

### 2. MARKET RISK DIAGNOSTICS

Genesis – the creation of light over a dark formless void

A three-tiered systematic methodology

### 3. ASYMMETRIC ASSET ALLOCATION

Evolution – from phyletic gradualism to punctuated equilibrium

The four iterations of the advent

### 4. THE RELATIVITY OF THEORY

Testing the theory across markets, asset classes and strategies

Morpho risk diagnostics – a process that works across global markets & investment strategies

Morpho's strategy iterations vs passive asset classes & traditional investing strategies

A quick & dirty summary

### 5. ABSOLUTE RETURN STRATEGIES

U.S. market absolute return strategy

Emerging markets absolute return strategy

Uncorrelated Alpha diversifying strategy

Absolute return strategy metrics

### 6. WTF?

Why punk? Because it's an apt response to the institutionally controlled society in which we live; the asset management industry within which we work needs a reality check; and the ethos resonates. Bitcoin is a punk response to our monetary system. Investing needs its punk moment! "Punk was an art movement as much as a political one. If you were young and pissed off about something in the 1970s, punk would have surely been your acerbic filter ... Punk is an ethos more than it is sound. Punk is an attempt to castrate oppressive control both socially and politically. It is a reality check - an exertion of freedom both in music and idea. Above all, punk is an unapologetic affirmation of self-identity." Edward Lola



## 1. MORPHOLOGY

### Background to our strategies

Morpho Advisory Limited (“Morpho”) was birthed with the purpose of transforming investing by understanding the shape and structure of markets – their morphology. Morpho made an intentional departure from the static asset class-based diversification orthodoxy (i.e. the establishment), which we deemed as being dogmatic in its design, myopic in its implementation and not fully serving the interests of the end investor to the degree that professionally managed investing should. This failing within the investment orthodoxy is further exacerbated by a continual drift within the asset management industry to focus on ever shorter time horizons when making investing decisions. This is despite the fact that the purpose of their service offering is meant to serve investors over a multi-decade time horizon. The decay in time horizon is combined with clustering that is driven by not wanting to move too far away from the positioning of other asset managers. This clustering behaviour is clear evidence that, despite what a company’s marketing may say, those asset managers in question do not possess a competitive advantage and have not developed an investing ‘edge’. On the contrary, it confirms that these companies are, in fact, marketing companies first, investment managers second. All of this results in an industry that, at a high level, offers little in the way of variance from one manager to another. To retail investors however, asset management firms do provide a useful service. Essentially, they offer a service that delivers aggregated investments that would be inaccessible to most retail investors, plus they provide a useful reporting function.

The orthodox approach to portfolio construction exposes investors to more risk than most professional asset managers are aware and consequently delivering inferior investment returns. We came to this view based on our experience over multiple decades managing fixed income portfolios; being on the investment committees of large institutional investors; and studying the data. Orthodox investment portfolio construction is based around holding slightly more than half of investor’s funds in stocks and the remainder in bonds, more or less. Thereafter, the asset manager does materially little other than periodically biasing this exposure one way or the other by a few percentage points. When markets fall, they shrug and tell investors to ride it out. This is not the Morpho way. We don’t want to give back the gains made with a *c'est la vie* attitude. We asked ourselves, ‘What would we want or expect from a professional investment service or asset manager that we were paying based on the belief that they possessed expertise?’ The answer was simple: to capture upside and to avoid downside.

We have witnessed investment professionals laugh off this simple objective. The notion of avoiding losses whilst participating in upside market moves lies beyond the realm of their conditioning. However, that made our job easier because closed minds pose no competitive threat when it comes to finding solutions.

Naturally, to capture upside and avoid downside required that we be able to identify when downside might occur. This made Morpho’s approach to investing about identifying risk, not about chasing return. Ultimately, that is what Morpho is all about – identifying and managing market risk.

This document demonstrates what we developed in our goal to transform investing by understanding the shape and structure of markets. Spoiler alert! We discovered that:

- the more risk that can be avoided, i.e. downside, the greater the investing returns (mathematically, a simple concept);
- the better the risk detection process, the more ‘risk’ positioning an investment portfolio can take to enhance returns; and
- while our initial frustration stemmed from how poorly investing was done on behalf of retail clients, as our insight grew we became even more exasperated at those ‘specialist’ investing companies – often labelled “hedge funds” – the majority of whom (and there are a lot of them) add even less value for their institutional investing clients than providers of retail investing solutions.

But to make these discoveries required that Morpho be able to diagnose the presence of risk in financial markets before the symptoms became self-evident to all.



## 2. MARKET RISK DIAGNOSTICS

### Genesis – the creation of light over a dark formless void

The nature of investing has hardly changed since the formation of Modern Portfolio Theory in 1952 because too few have applied their minds to improving on its underlying assumptions or how it has been applied. This has seen orthodox investment portfolio construction change only gradually. By comparison, our unique and unorthodox approach has resulted in several leaps forward. The essence of our strategies is the combination of the best aspects of total return investing and absolute return investing. This is constructed upon the foundation of a systematic process that makes a diagnosis on market risk and signals between markets entering risk-on or risk-off phases. Our risk signalling methodology has three tiers:

#### a. Primary signal (macroeconomic)

Like many of our breakthroughs, we had observed certain market nuances over the years while managing institutional portfolios and wondered about them but had not been given the time or freedom to investigate and develop these. Our insights have often come from observing how the real-world deviates from espoused theories and asking ourselves, ‘why?’ The unique insight that formed the basis for our primary signal was one such situation. We observed the real-world without letting academic theory cloud our judgement. This enabled us to uncover a multi-dimensional relationship between cause and effect in markets, though we didn’t fully appreciate what we had found at the time – although we knew we had found something of value. Only later, as we investigated further did it reveal itself and become the core of our systematic risk identification process.

We utilised this first insight to develop an asset allocation methodology that we applied to orthodox portfolio construction. Our insight proved superior to the traditional approach to investing, capturing upside while experiencing less downside, but we still weren’t satisfied because we wanted our risk identification process to continue working in a world of QE, ZIRP and NIRP<sup>1</sup>, where traditional macroeconomic signals are not as evident or frequent. Nevertheless, we had developed a dynamic and systematic Tactical Asset Allocation (TAA) process.

#### b. Secondary signal (market)

The second insight was again the result of ongoing research. As with our primary signal, it was an incidental discovery as we were performing other analysis, but we had become more attuned in recognising valuable insights. We discovered that, in the absence of traditional macroeconomic signals, the market had been sending the necessary signal. Combined with our primary signal, this new risk indicator improved the efficacy of our TAA process.

As we applied this two-tiered risk detection methodology it opened a whole new world to us. No longer were we limited to the orthodox method of portfolio construction (i.e. relatively static allocations to stocks and bonds). We came to realise that our risk diagnosis technique enabled us to take more ‘market risk’. That is to say, because we had the risk component materially managed (i.e. a process that delivered an asymmetric risk outcome), we could add exposure to assets further out along the risk spectrum (e.g. commodities) without experiencing the drawdowns that such exposures traditionally experience. Our Tactical Asset Allocation process had evolved into an Absolute Return strategy - but we didn’t know it initially because we hadn’t run any asset price data through it at this stage<sup>2</sup>.

#### c. Tertiary signal (periodic)

It was only after we developed our insight-based investment methodology utilising our core and secondary signals that we ran market data through it. There was no historical optimisation or ‘curve fitting’ involved. We have never tweaked our original systematic process or played with any formula to improve the outcome. Our method is insight-based, which we observed over a relatively small period of time. We then created an algorithm that captured our observation. This was subsequently applied to a much larger timeframe and over multiple global markets and

<sup>1</sup> QE is ‘quantitative easing’. NIRP is ‘negative interest rate policy’. ZIRP is ‘zero interest rate policy’

<sup>2</sup> We had only run the S&P 500 Index and U.S. Treasury Note Index as a general test of the TAA process. Later we found that it also worked (unchanged and without amendment) across global stocks; fixed income credit; commodities; and volatility.



resulted in superior outcomes compared to traditional asset management practices. The fact that our process proved successful across a broad spectrum of markets and asset classes is testament to the insight-based nature of our methodology rather than it being a fitted solution derived from a single market.

Applying our two-tier process to 60 years of market data, we observed that there were two brief periods where our process didn't display the efficacy we would expect. We quickly identified a third risk signal that is only used periodically (often decades apart). This is as close to historical optimisation as our process comes. On the rare occasion that this third risk signal is called upon, it has the ability to countermand, or temporarily defer, the risk-on or risk-off signal of our two-tier systematic process described above. To demonstrate the infrequent nature of this third signal, the strategy illustrations demonstrated later in this document (over the last 20 years) have not employed this third signal.

In summary, we have found that there is a cause and effect relationship that impacts markets, but it takes unique insight to see it. That is Morpho's point of difference - the ability to understand the shape and structure (the morphology) of markets. We have been able to isolate what is important from the surrounding noise.

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*"The essence of our strategies is the combination of the best aspects of total return investing and absolute return investing. This is constructed upon the foundation of a systematic process..."*

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### 3. ASYMMETRIC ASSET ALLOCATION

#### Evolution – from phyletic gradualism to punctuated equilibrium

Having solved the problem of diagnosing risk in markets, the next step was to develop a robust treatment via portfolio construction. We researched and developed a robust remedy that delivers asymmetric market risk outcomes in the portfolio under either diagnosis (i.e. risk-on or risk-off) for each of our strategies. We wanted a relatively simple and clean

*“...our focus is on low frequency, medium-term outcomes – this was dictated by our risk diagnosis methodology...”*

portfolio invested in liquid and scalable securities that would deliver superior performance without demonstrating undue losses. Additionally, our focus is on low frequency, medium-term outcomes – this was dictated by our risk diagnosis methodology - rather than building a high maintenance portfolio that required constant activity. The assets we selected had to demonstrate consistent behaviour over economic and market cycles, appropriate for risk-on or risk-off periods. This developed slowly because we wanted to be thorough. It ultimately evolved through four iterations as we gained new insights along the way, with continual research leading to new discoveries.

Even though we have been through four iterations in refining our absolute return strategies to their current form, each predecessor remains a viable investment strategy that delivers superior long-term performance when compared to a traditionally constructed investment portfolio. Investors who have certain constraints on their investment activities could successfully utilise our earlier versions to diversify their investment strategies and to enhance their returns.

The following is a summary of each of the four major leaps forward we have made:

##### a. Version 1.0 (an alternative tactical asset allocation process)

The first iteration of our insight-based approach to investing was as a dynamic and systematic asset allocation methodology applied to a traditional 60/40 asset class-based portfolio. However, instead of a steady allocation to 60% stocks and 40% bonds, we held 100% stocks during risk-on and 100% sovereign bonds<sup>3</sup> during risk-off phases. As we mention above, this delivered superior absolute and risk-adjusted performance compared to a traditional 60/40 portfolio over the medium to long-term.

This remains the most scalable strategy that we have developed due to the investible assets being the traditional asset classes of stocks and bonds. We estimate that this strategy has capacity to be deployed by portfolios valued into the hundreds of billions.

##### b. Version 2.0 (a long-only total return strategy utilising commodities)

Version 2.0 improved on our tactical asset allocation process and is a Long-Only total return strategy that includes commodities alongside equities during risk-on periods. Risk-off positioning was still solely the domain of sovereign issued fixed income.

The capacity of this strategy (like iterations 3 and 4 of Morpho's strategies) is constrained by the commodity markets utilised. We estimate that this strategy has scope to be deployed by portfolios valued into the billions. Because commodity market liquidity sets the limit in terms of maintaining efficacy within the strategy, preference will be given to our latest and most innovative strategy<sup>4</sup>.

<sup>3</sup> Corporate bonds were not used due to credit spreads being highly correlated to equities, which could potentially defeat the purpose of investing in these during risk-off periods.

<sup>4</sup> Alternatively, the fee structure will be set according to the potential of our superior strategies.





c. Version 3.0 (an absolute return strategy utilising fixed income)

Active downside was added in the third iteration. We added the ability to actively profit from downward moves in markets through a mixture of long fixed income but also holding short positions in predefined futures contracts.

d. Version 4.0 (an absolute return strategy utilising long volatility)

No fixed income! That was the goal behind this iteration. We redefined our tactic to actively profit from downward moves in markets through a mixture of investing in long volatility funds<sup>5</sup> whilst also holding short positions in predefined futures contracts.

With our background in fixed income portfolio management, we have long been of the view that all major developed bond market yields were going to zero – if not lower – just like Japan and Europe. Now that this has fundamentally occurred, we are of the view that interest rates will stay near these levels for a decade or two. As such, we wanted to move away from placing any reliance on fixed income as an investment that provides defensive traits. At these low yields, bonds will provide essentially no income but will be a source of volatility and the uncorrelated attributes they have displayed for the last 40 years is unlikely to continue.

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*Having solved the problem of diagnosing risk in markets, the next step was to develop a robust treatment via portfolio construction.*

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<sup>5</sup> Our research into the viability of this new aspect was undertaken using the CBOE Eurekahedge Long Volatility Index, allowing 1.0% p.a. for slippage and transaction costs.



## 4. THE RELATIVITY OF THEORY

### Testing the theory across markets, asset classes and strategies

Our systematic strategies are low frequency. They only change their positioning over periods ranging from several months to several years. The average time period between position changes under the various strategies has been approximately 20 months over the 20 year period illustrated. This means lower transaction costs and less slippage. Despite this, we have allowed approximately 1.0% p.a. to cover slippage and transaction costs for each of our absolute return strategies contained in this document. Additionally, the analysis is based on performance after deducting both management and performance fees.

The charts in this section illustrate Morpho Advisory's proprietary market risk diagnostic approach to investing. It is the same signal applied in each case across multiple markets and asset classes. We compare our insight-based approach to that of passive asset class allocations and traditional investment strategies. We also repeat this comparison for the three earlier iterations of our strategy development, which shows the progression of our improvements.

#### MORPHO RISK DIAGNOSTICS – A PROCESS THAT WORKS ACROSS GLOBAL MARKETS & INVESTMENT STRATEGIES

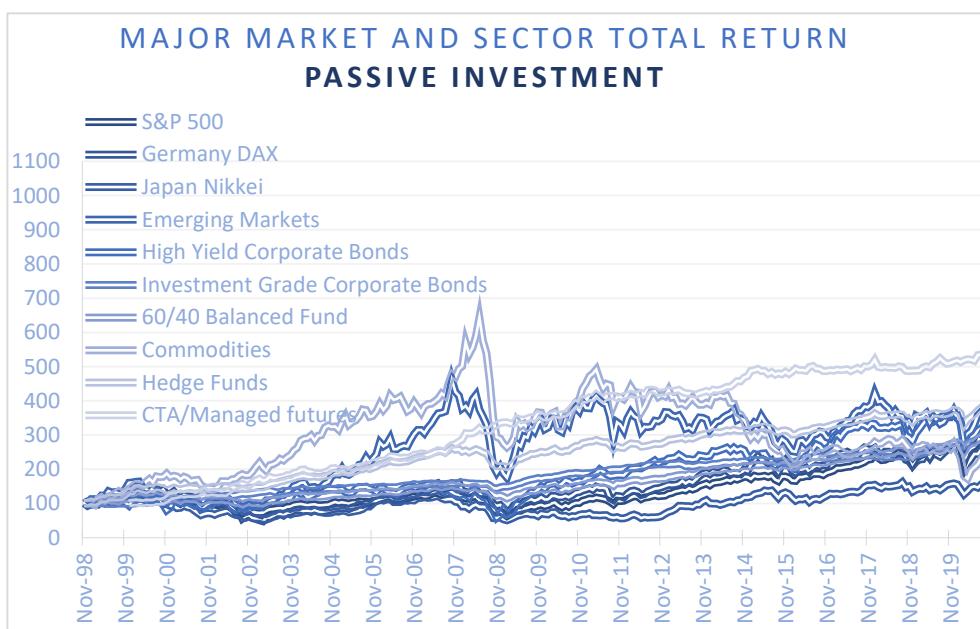


Fig. 4.1 (top left) illustrates the total return of passive investments in major global equity markets; asset classes; and investment strategies.

Returns are indexed to 100 at November 1998.

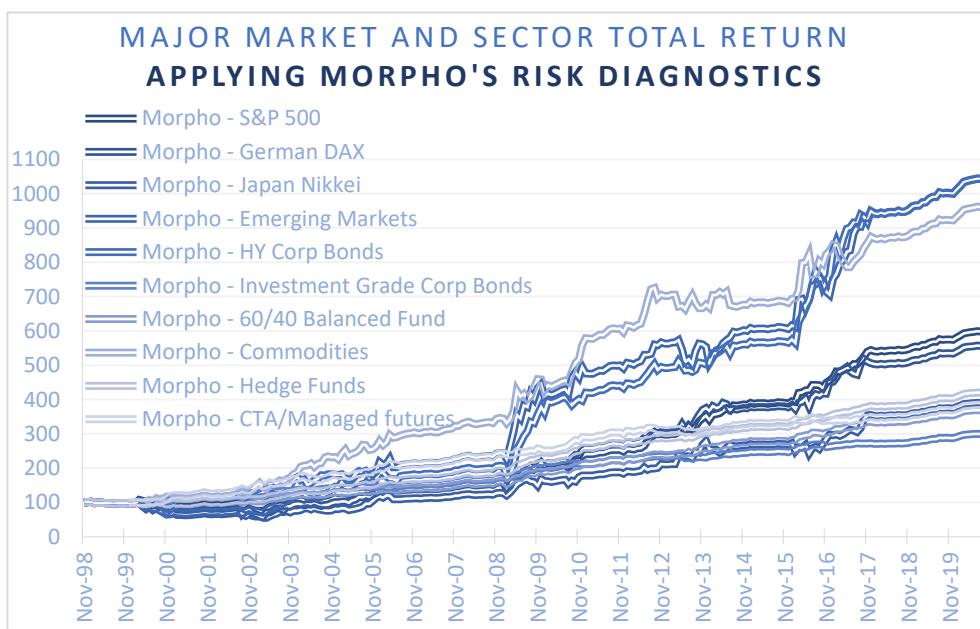


Fig. 4.2 (bottom left) illustrates the total return of the same investments shown in Fig. 4.1 above after applying Morpho Advisory's proprietary risk diagnostics methodology. Returns are indexed to 100 at November 1998.

NOTE: this chart does not demonstrate our absolute return strategies, it is merely an illustration of the impact of applying our process to individual markets and asset classes. Even using this rudimentary application it demonstrates the value of our approach. The more consistent long-term growth (and morphology of performance) across global markets and asset classes of Morpho Advisory's unique approach is clear to see.

No allowance has been made for Morpho's fees – this is an academic exercise for illustrative purposes.



As these first two charts show, by using Morpho Advisory's unique risk diagnostics methodology an array of investing options becomes available, even to the extent of empowering investors to enter markets in which they have no expertise – markets that have traditionally been thought of as requiring specialist knowledge. This is evidenced by the three highest lines in the chart (Figure 4.2 above) being Emerging Market equities, High Yield Corporate Bonds and Commodities.

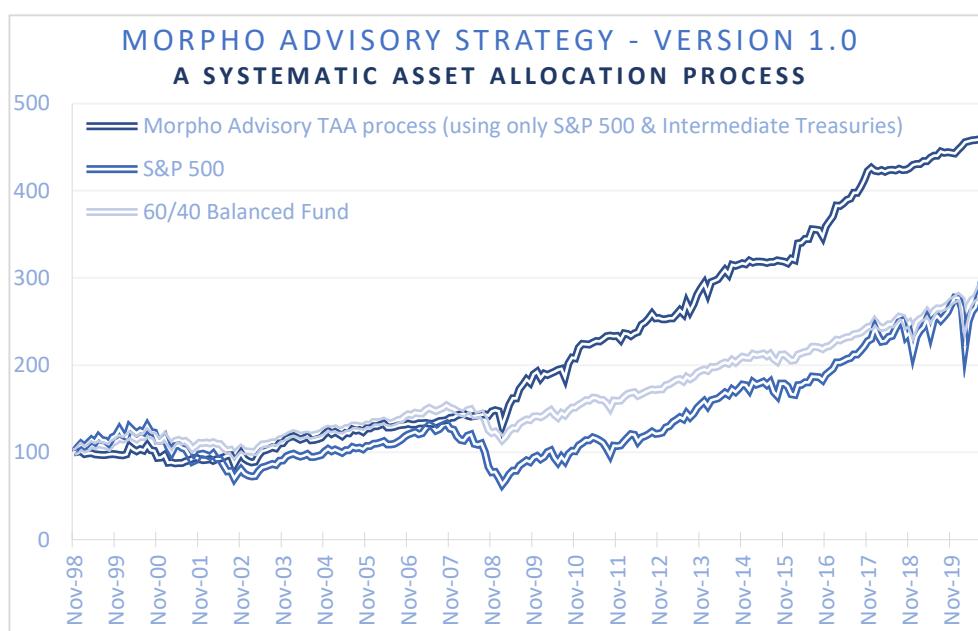
### MORPHO'S STRATEGY ITERATIONS VS PASSIVE ASSET CLASSES & TRADITIONAL INVESTING STRATEGIES

In the following comparisons we use Morpho Advisory's U.S. based strategy, which is the least of our strategies. That is to say, it delivers a lower return than our Emerging Markets or Uncorrelated Alpha strategies. Our other strategies are illustrated in their most current form in the next section of this document.

All returns in the following illustrations are shown after fees and have been indexed to 100 as at November 1998.

### VERSION 1.0 – ASSET ALLOCATION PROCESS – NEW APPROACH TO OLD THEORY, FOCUSING ON TOTAL RETURN

Our risk diagnostic-based asset allocation process switches between traditional assets: S&P 500 & Intermediate Treasuries.



#### Morpho v1.0 fees & allowances:

The following allowances have been made in calculating the returns for Morpho's strategy:

Management fee: 0.50% p.a.

Slippage & costs: 0.50% p.a.

Total expenses: 1.00% p.a.

Performance fee: 10%\*

\*subject to high-water mark

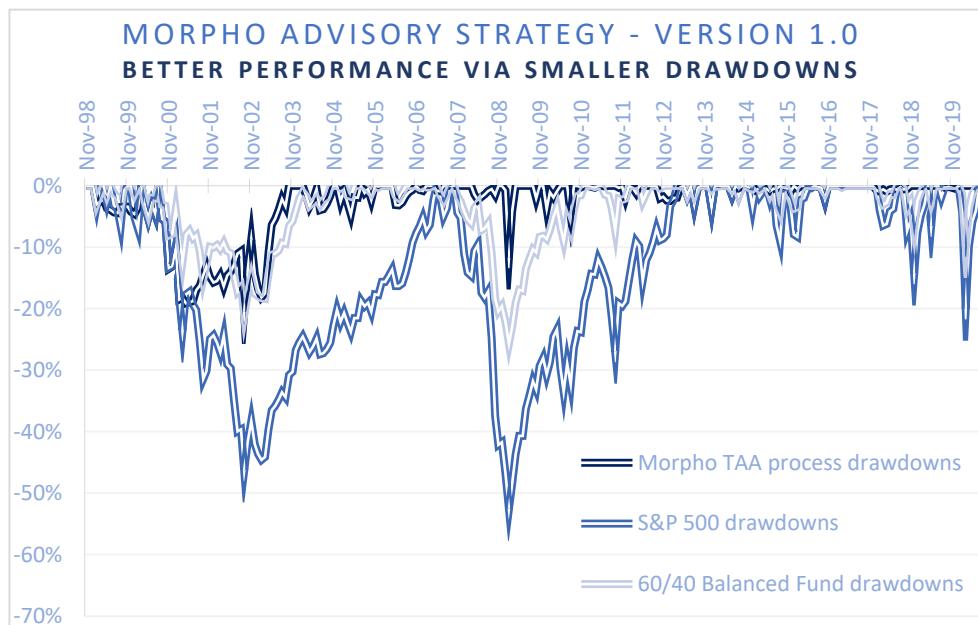


Fig. 4.3 (above left) illustrates the total return achieved by Morpho strategy version 1.0 - our systematic tactical asset allocation process - compared to passive investments in the S&P 500 and a 60/40 Balanced Fund. In this analysis, Morpho's tactical asset allocation process uses only the S&P 500 and Intermediate Treasuries.

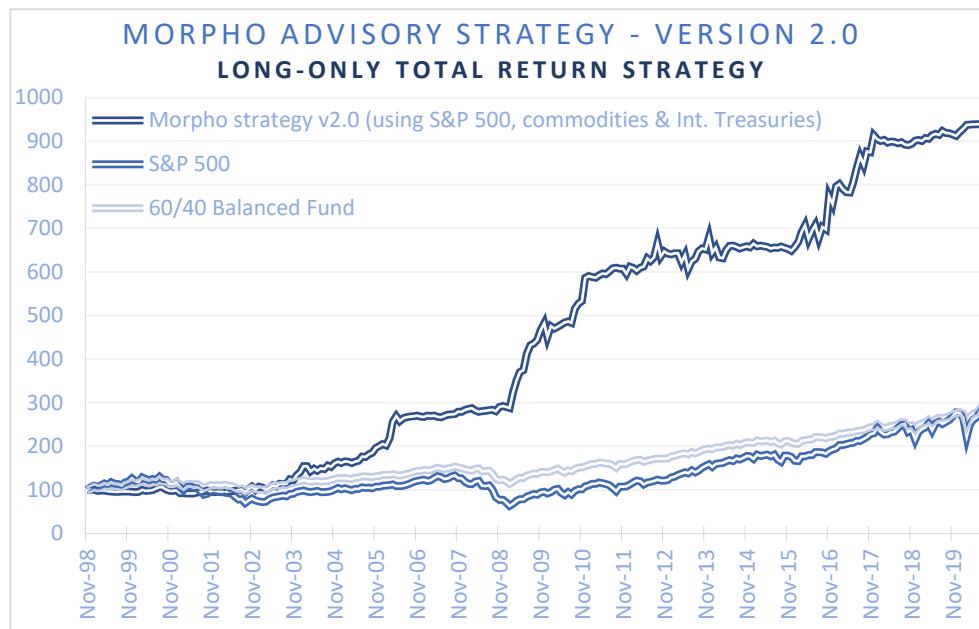
Fig. 4.4 (below left) illustrates the percentage fall (the "drawdown") from the all-time-high achieved in total return for the same investments as shown in Fig. 4.3 above.



**VERSION 2.0 – A FOCUS ON MORE TOTAL RETURN – OUR PROCESS LETS US TAKE ON MORE ‘RISK’**

Version 2.0 of Morpho's systematic methodology is a long-only total return strategy that incorporates commodities during risk-on phases.

Having discovered the efficacy of our risk diagnostic process and how little downside was experienced by our methodology, we experimented to see if it worked on other markets. It did. After applying it to global equity markets in developed countries and credit markets, we tried emerging markets. In each case we achieved similar results, so we went even further out on the risk spectrum. We found it worked on commodities too - to great effect. So we began adding more risk to our portfolio construction to see if we could generate greater return but still avoid significant losses or volatility.


**Morpho v2.0 fees & allowances:**

The following allowances have been made in calculating the returns for Morpho's strategy:

Management fee: 1.00% p.a.

Slippage & costs: 1.00% p.a.

**Total expenses:** 2.00% p.a.

Performance fee: 15%\*

\*subject to high-water mark

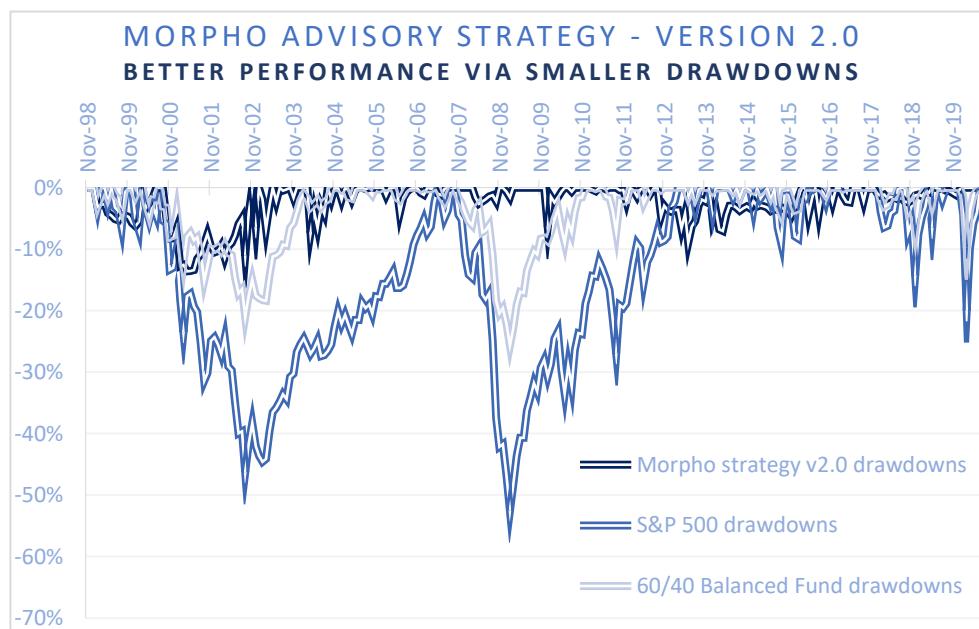


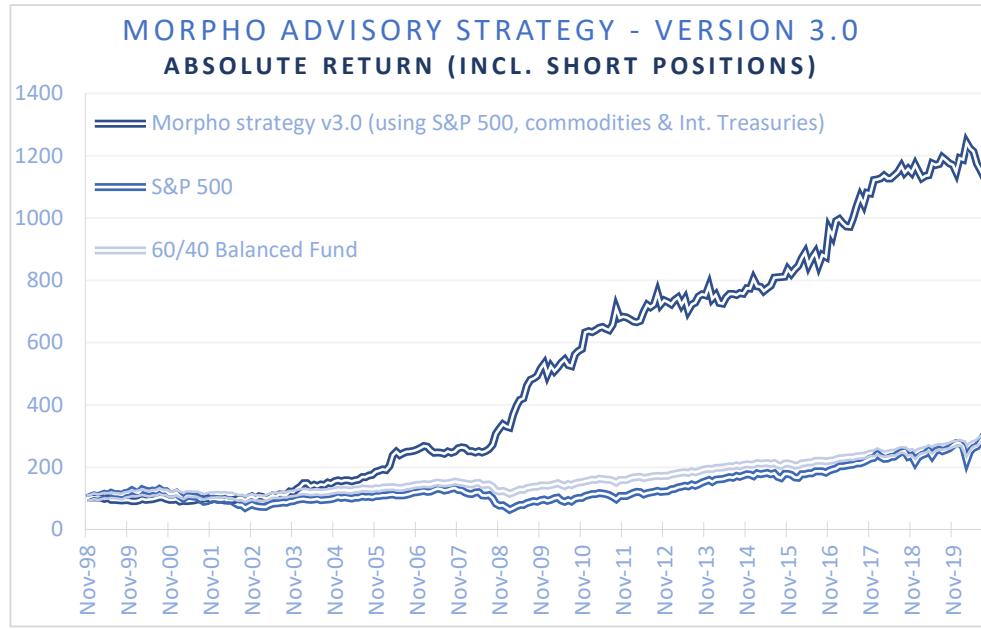
Fig. 4.5 (above left) illustrates the total return achieved by Morpho strategy version 2.0 - our long-only total return strategy - compared to passive investments in the S&P 500 and a 60/40 Balanced Fund. In this analysis, Morpho's long-only total return strategy uses the S&P 500, commodities and Intermediate Treasuries.

Fig. 4.6 (below left) illustrates the percentage fall (the “drawdown”) from the all-time-high achieved in total return for the same investments as shown in Fig. 4.5 above.



**VERSION 3.0 – A FOCUS ON ABSOLUTE RETURN – SURELY THERE'S VALUE IN THE DOWNSIDE?**

Version 3.0 was when we began to add short positioning to our strategies after having gleaned insight into how this might be achieved without significantly increasing drawdowns and volatility to the return profile. This iteration was when we moved into absolute return but importantly, without giving up any of the previously earned total return benefits.


**Morpho v3.0 fees & allowances:**

The following allowances have been made in calculating the returns for Morpho's strategy:

Management fee: 1.00% p.a.

Slippage & costs: 1.00% p.a.

**Total expenses:** 2.00% p.a.

Performance fee: 20%\*

\*subject to high-water mark

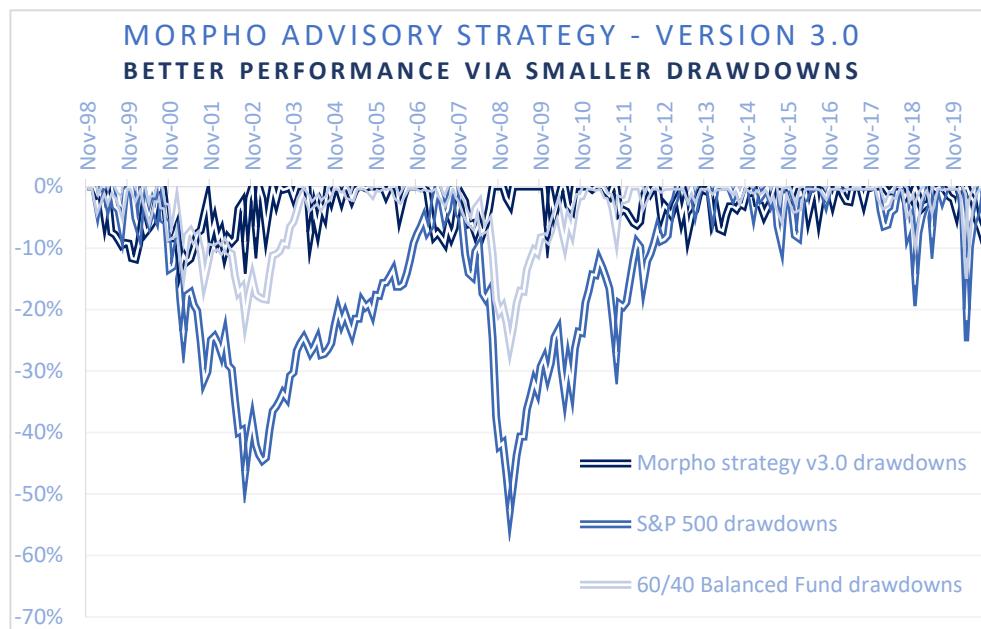


Fig. 4.7 (above left) illustrates the total return achieved by Morpho strategy version 3.0 - our absolute return strategy - compared to passive investments in the S&P 500 and a 60/40 Balanced Fund. In this analysis, Morpho's absolute return strategy uses the S&P 500, commodities and Intermediate Treasuries but also includes short positions during risk-off phases to enhance return whilst maintaining an asymmetric risk/return profile.

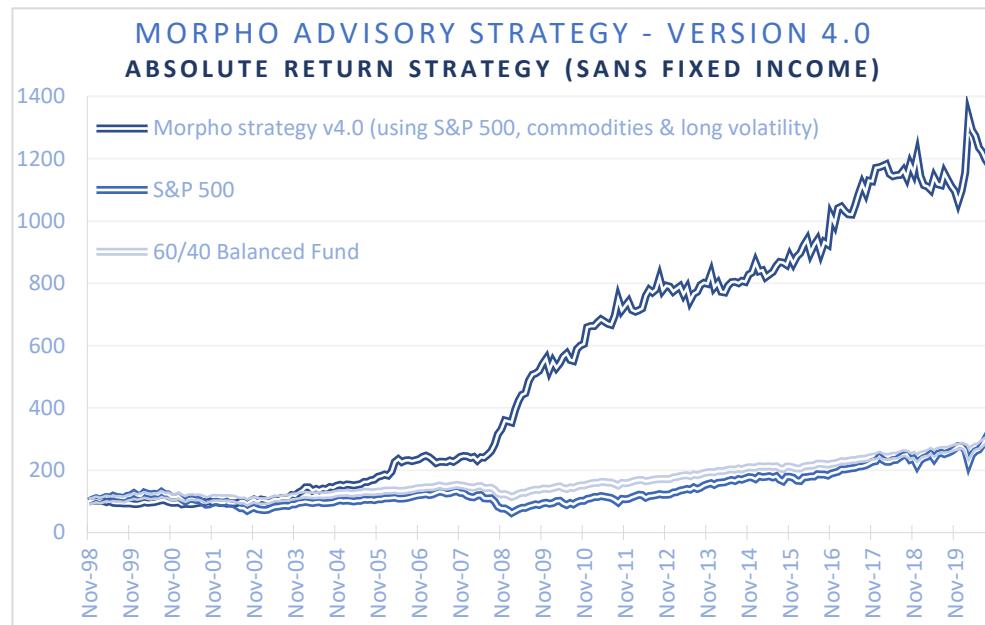
Fig. 4.8 (below left) illustrates the percentage fall (the "drawdown") from the all-time-high achieved in total return for the same investments as shown in Fig. 4.7 above.



**VERSION 4.0 – LOSE THE FIXED INCOME, ITS DEAD WEIGHT**

Our latest strategy iteration is illustrated in more detail in the next chapter, where we also show our Emerging Markets & Uncorrelated Alpha strategies. Nevertheless, for the purposes of comparison and to show the process of development from our earlier strategy iterations, we include it here.

As mentioned in the previous section, we believe that over the coming decades fixed income will not deliver the benefits enjoyed over the last four decades. Fixed income will not offer the diversification that is the premise upon which 60/40 Balanced Funds are constructed. Nor will fixed income be a source of any meaningful income. Most of all, it will not be a 'risk-free' rate of return. Rather, we think it will be a 'return-free rate of risk' due to the volatility it will add to a portfolio.


**Morpho v4.0 fees & allowances:**

The following allowances have been made in calculating the returns for Morpho's strategy:

Management fee: 1.00% p.a.

Slippage & costs: 1.00% p.a.

**Total expenses:** **2.00% p.a.**

Performance fee: **25%\***

*\*subject to high-water mark*

Fig. 4.9 (above left) illustrates the total return achieved by Morpho strategy version 4.0 - the latest iteration of our absolute return strategy - compared to passive investments in the S&P 500 and a 60/40 Balanced Fund. In this analysis, Morpho's version 4.0 absolute return strategy is essentially the same as our version 3.0 strategy but replaces fixed income during risk-off with long volatility and demonstrates the versatility of our underlying insight-based risk diagnostics process through continuing to enhance return whilst maintaining an asymmetric risk/return profile.



Fig. 4.10 (below left) illustrates the percentage fall (the "drawdown") from the all-time-high achieved in total return for the same investments as shown in Fig. 4.9 above.



**A QUICK AND DIRTY SUMMARY**

The following table summarises the data illustrated in the charts from this section.

Investment strategy	Annualised return	Annualised standard deviation	Maximum drawdown	Correlation to 60/40 Balanced Fund	Correlation to S&P 500
Morpho U.S. strategy v1.0	7.18%	8.86%	-20.50%	0.51	0.51
Morpho U.S. strategy v2.0	10.73%	10.70%	-13.58%	0.30	0.30
Morpho U.S. strategy v3.0	11.69%	11.79%	-13.05%	0.08	0.07
Morpho U.S. strategy v4.0	12.05%	12.41%	-13.05%	-0.03	-0.05
60/40 Balanced Fund	4.93%	7.66%	-25.68%	-	0.96
S&P 500 Index	4.83%	15.04%	-52.56%	0.96	-

*Returns are after fees based on monthly data between November 1998 and November 2020.*

We don't claim that our methodology is perfect, nor do we attempt to pick market tops or bottoms. We haven't employed any leverage in generating the performance illustrated above. We have simply developed a robust process that delivers consistently superior absolute and risk-adjusted returns over the medium to long-term, which came about as a result of looking beyond the boundaries of orthopraxy and academic orthodoxy in an industry of conformity.

In recent years the phrase "TINA" ('There Is No Alternative') has been used by the investment industry who claim there is a lack of suitable investment alternatives. That is only true as long as they persist in trying to use the same old asset class-based approach in the same old way. Asset management and investing professionals everywhere know the investing landscape has changed. What they need is alternative thinking to create new tactics.



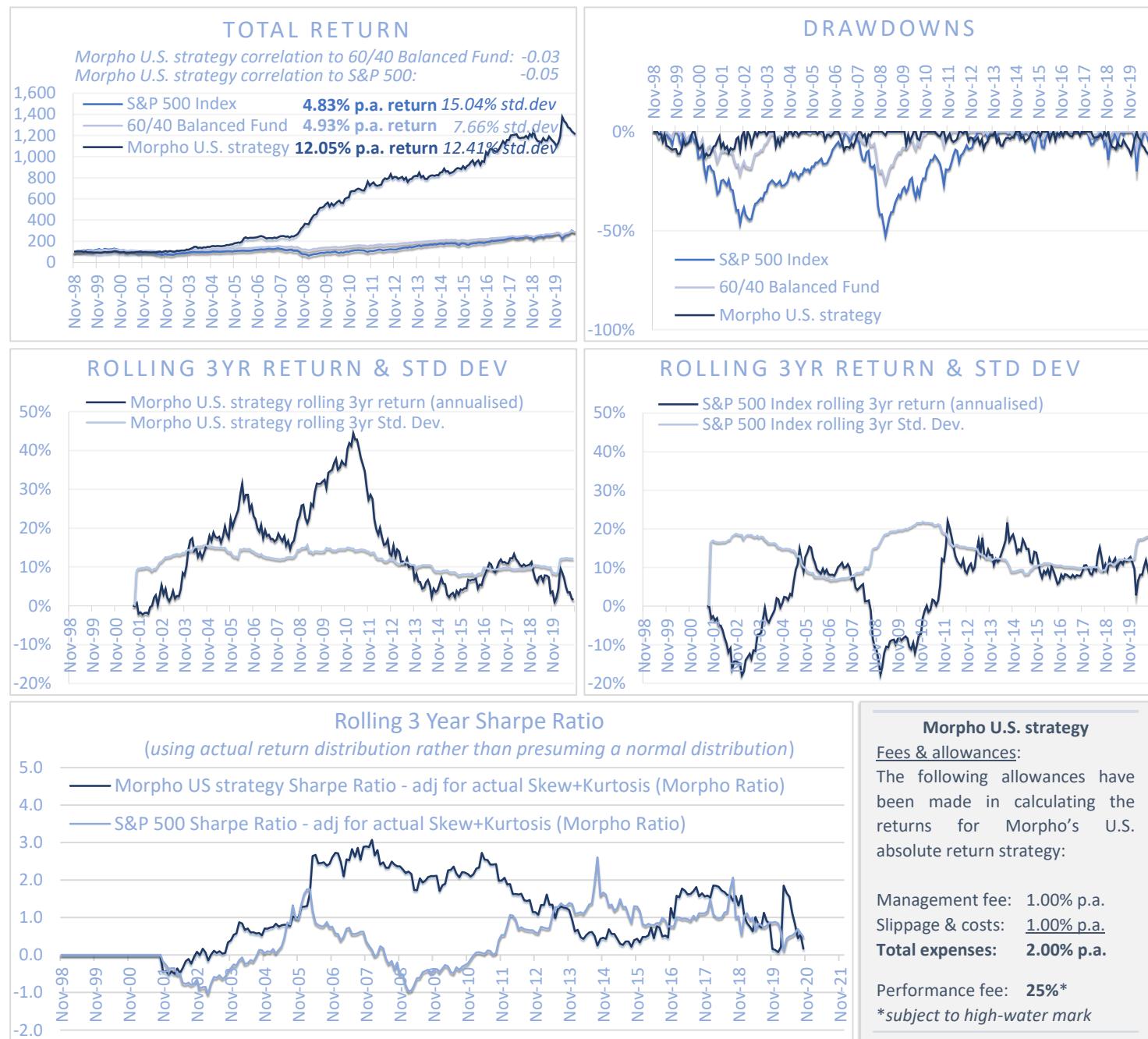
## 5. ABSOLUTE RETURN STRATEGIES

This section lays out Morpho Advisory's most advanced and future-focused absolute return strategies. In addition to the U.S. market strategy used in the previous section to illustrate the evolution of our strategies, there is our Emerging Market strategy and our Uncorrelated Alpha strategy. As per previous charts, the data covers the period from November 1998.

### U.S. market absolute return strategy

Our U.S. market strategy is so named due to the S&P 500 (via the SPDR SPY ETF) forming the equity component of this strategy. The strategy also uses commodities during both risk-on and risk-off phases, and long volatility during risk-off.

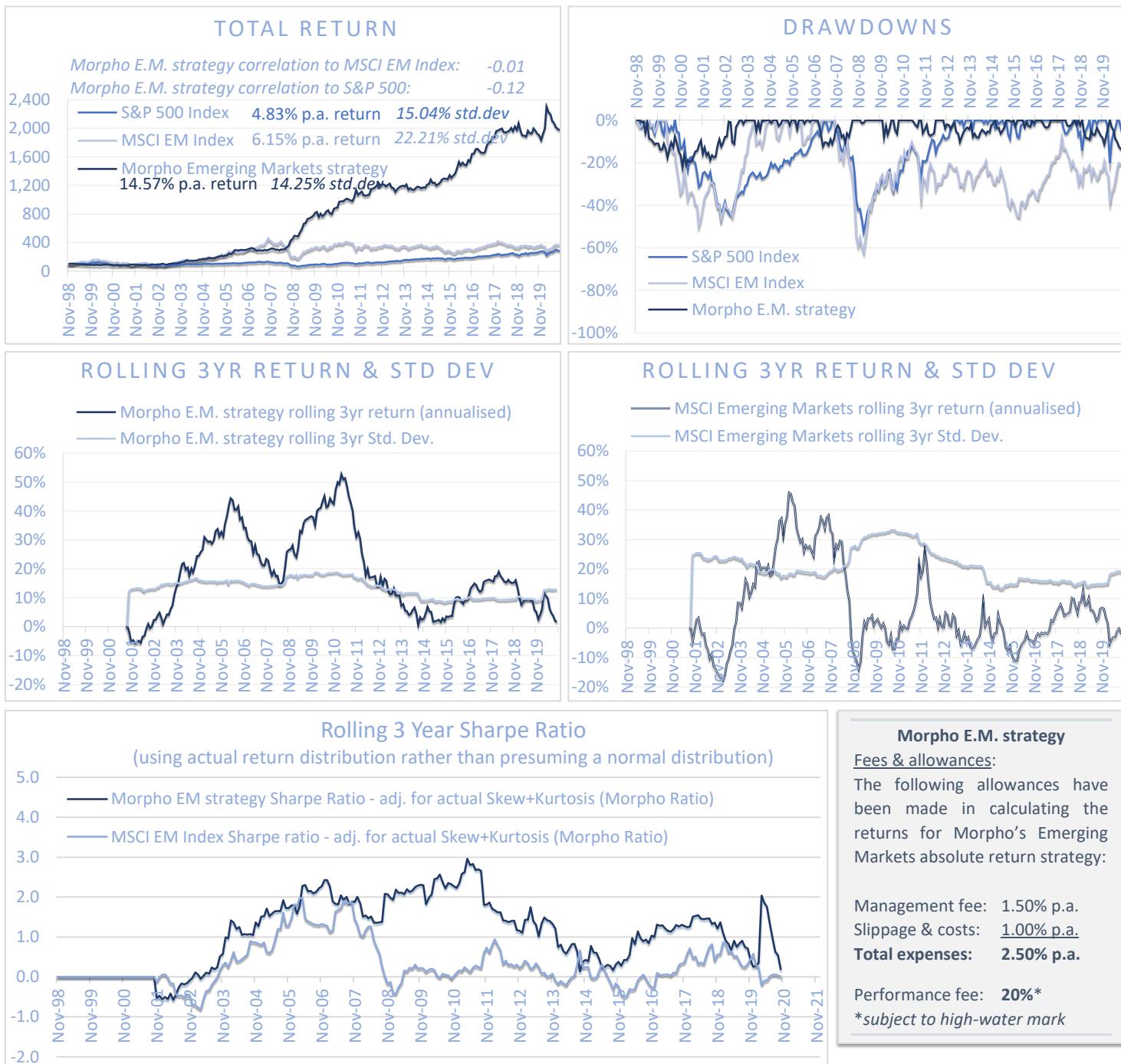
The following charts compare our U.S. strategy to the S&P 500 over multiple market cycles. By comparison, Morpho's strategy demonstrates favourable asymmetry with positively skewed returns, unlike the negatively skewed cyclical of the S&P 500.



## Emerging markets absolute return strategy

Our Emerging Markets strategy replaces the S&P 500 with the iShares MSCI Emerging Markets ETF (EEM) for the equity component of this strategy. The strategy also uses additional commodities compared to our U.S. strategy.

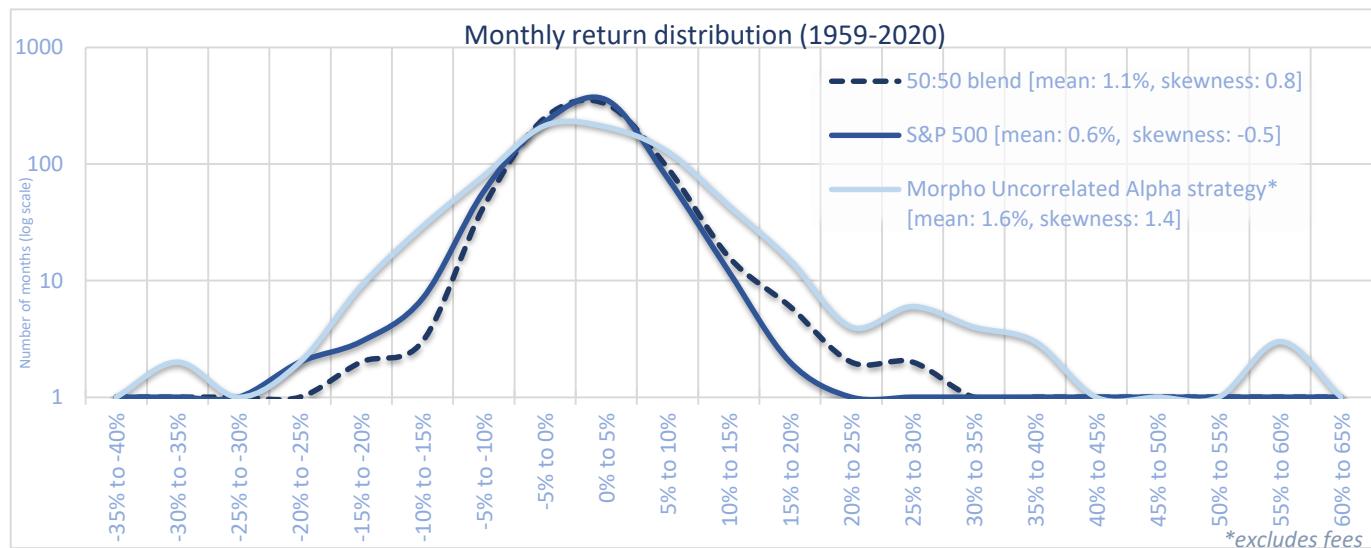
This strategy shows the same lack of correlation to major stock markets and an asymmetric return profile as per our U.S. strategy. But our Emerging Market strategy delivers higher returns along with an increase in volatility of returns relative to our U.S. strategy.



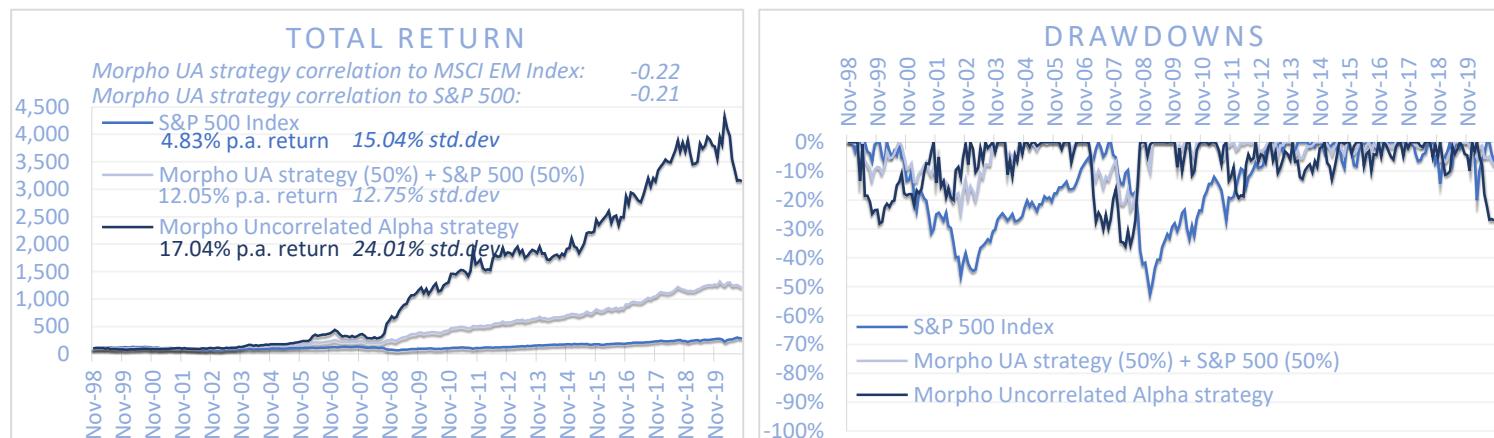
## Uncorrelated Alpha diversifying strategy

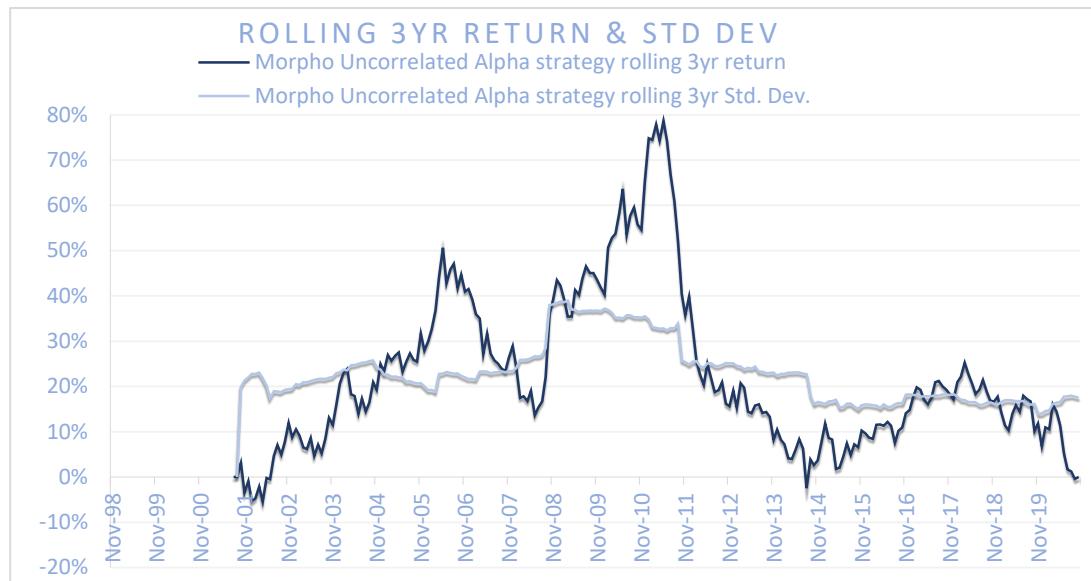
Whereas our U.S. and Emerging Markets strategies are designed as robust standalone investments, our Uncorrelated Alpha strategy is designed primarily as a diversifying strategy to compliment an existing investment portfolio heavily weighted toward stocks. It is constructed purely of commodities. On a standalone basis, this strategy delivers a higher total return than our other two strategies but it also experiences increased volatility and larger drawdowns. However, the fact that it is uncorrelated to major equity markets is what makes this such an advantageous strategy.

The following chart shows 60 years of monthly data and illustrates how Morpho's Uncorrelated Alpha strategy improves the return distribution of the S&P 500 favourably. In fact, when combined in equal measure, our Uncorrelated Alpha diversifying strategy increases the mean monthly return by shortening the left tail of the distribution and extending the right tail. It also changed the skewness of the distribution of the S&P 500 from negative to positive.



The following chart sequence shows comparatives of Morpho's Uncorrelated Alpha strategy with the S&P 500 and the MSCI Emerging Markets Index over the last 20 years. We also illustrate a 50:50 blend of our Uncorrelated Alpha strategy and the S&P 500.





**Morpho Uncorrelated Alpha strategy**

Fees & allowances:

The following allowances have been made in calculating the returns for Morpho's Emerging Markets absolute return strategy:

Management fee: 1.50% p.a.

Slippage & costs: 1.00% p.a.

**Total expenses:** 2.50% p.a.

Performance fee: **25%\***

*\*subject to high-water mark*



## Morpho absolute return strategy metrics

The following table summarises the data illustrated in the charts from this section.

Investment strategy	Annualised return	Annualised standard deviation	Maximum drawdown	Correlation to 60/40 Balanced Fund	Correlation to S&P 500
Morpho U.S. strategy	12.05%	12.41%	-13.05%	-0.03	-0.05
Morpho E.M. strategy	14.57%	14.25%	-22.05%	-0.09	-0.12
Morpho UA strategy	17.04%	24.01%	-35.99%	-0.20	-0.21
Morpho UA + S&P 500	12.05%	12.75%	-23.86%	0.38	0.39
60/40 Balanced Fund	4.93%	7.66%	-25.68%	-	0.96
S&P 500 Index	4.83%	15.04%	-52.56%	0.96	-

*Returns are after fees based on monthly data between November 1998 and November 2020.*

This is where we say that, “Past performance does not guarantee future results”. We are however, confident the insight-based approach that we have developed is robust enough to continue delivering superior performance compared to passive asset class allocation-based investments – with the caveat that we believe this to be the case over the medium to long-term (preferably more than one market cycle). As to the magnitude of future returns, that depends on the size of future market moves. Whether that is more or less than the past is uncertain. Nevertheless, our risk diagnostic methodology favours us being on the right side of those moves - or avoiding most of the downside, at least.



## 6. WTF?

Morpho Advisory was founded by Brett Tulloch, who has over 30 years of financial and capital markets experience across an uncommonly diverse range of applications. His background has been in the management of:

- major global fixed income portfolios for billion dollar asset management firms;
- billion dollar corporate balance sheets requiring issuance of debt securities across the world's capital markets; and
- corporate finance, structured finance and infrastructure-related project finance transactions.

As the founder, Morpho Advisory reflects Brett's inimitable style. Creativity and unorthodox approaches to the challenges that financial and capital markets pose are encouraged. These are amalgamated with a strategic outlook that doesn't only encompass economic and market data, but also the very structure of the economic and financial market environment. We believe that the medium is very often the message, to quote Marshall McLuhan. That is to say, that environment shapes behaviour. This sets Morpho Advisory apart. While the asset management industry clings to, and celebrates, its orthodoxy, we at Morpho Advisory can no longer maintain orthodoxy's delusion. The Emperor has no clothes! The orthodox approach to asset management has reached its 'use by' date. The world is at an inflection point where everything must change. The current economic system faces a period of extended crisis. Whether the current system crumbles (or a substantial part thereof) or whether it experiences a significant regime change remains in the balance. Morpho Advisory has chosen to go rogue and turn onto the road less travelled. We simply got to the point where we could no longer accept the unthinking ways of orthodoxy and so donned the punk ethos that resonates with our soul and thought, "Fuck the establishment!"



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Morpho Advisory  
UNIQUE INVESTMENT & MARKET RISK SOLUTIONS

Market Risk  
ACTMELY MANAGED

Strategic Outlook  
MULTIPLE METHODS OF APPLICATION

Improved Measures of Risk  
MEANINGFUL, REAL-WORLD APPLICATION

Reduced Drawdowns  
REAL-WORLD RISK MANAGEMENT

Reduced Volatility  
ACADEMIC RISK MANAGEMENT

Higher Returns  
THE ULTIMATE OBJECTIVE

Diversification  
TRUE BENEFITS

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