

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
August 2018



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.)	5 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	2.73%	3.13%	7.29%	17.47%	8.28%	13.00%	16.72%
Index ¹	3.60%	8.04%	11.80%	22.19%	11.11%	14.34%	17.93%

Portfolio review

The Fund rose 2.7% in August, trailing global markets for the month (3.6%). Global markets were up 0.6% in USD terms, with a significant fall in the Australian dollar providing the difference.

Despite continuing uncertainty surrounding trade wars, a strong US earnings season supported a rally in the US (+3.1%), and Tech stocks bounced globally. In contrast, cyclical regions (Emerging Markets and Asia Pac ex-Japan) and old world cyclical sectors (Energy and Materials) underperformed the global index as investors showed a preference for earnings stable assets. Europe (-3.1%) was the worst performing region in August, followed by Emerging Markets (-2.9%) which was impacted by currency weakness as Turkey (-29.0%), Brazil (-12.0%) and South Africa (-10.1%), all contributed negatively.

The largest detractor for the month was our position in Indian Bank. Q1 results disappointed investors at the beginning of the month and the share price slid from the top to the bottom of its near-term trading range. The Rupee has been weak all year and weakened a further 3.5% in August. Ordinarily gentle increases in interest rates would be welcomed by Banks and their investors but with the currency weakness comes the perception that rising interest rates may have to be more aggressive to prevent further weakness, and that the consequences for the economic and thus credit cycle may be unpleasant.

The Fund's largest contributor was the long-held position in North America's largest provider of funeral and cemetery services, Service Corporation. Year-to-date the share price had suffered the headwind of a 25% de-rating in PER terms even though EPS continued to grow by circa 15%. Q2 results, reported at the end of August, were more profitable than expected and this was a catalyst for a strong rebound in the share price.

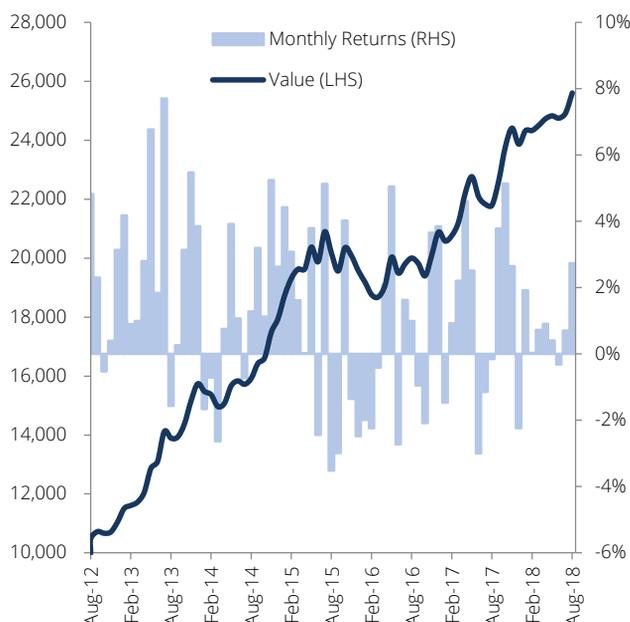
Outlook

Concerns about Emerging Markets remain at the forefront of investors' minds – be it about tariffs or a rising US dollar – as it has been for over six months now. Investors have taken the view that this is a US-centric expansion, with winners (US large cap tech) and losers (everyone else), as opposed to a more generic risk-off environment.

Given the Fund has a focus on Asian as well as small and mid-cap stocks, this continues to present a headwind. Risk has been reduced in the Fund through less stocks and smaller sizing, combined with hedging out some regional and currency risk for some positions in India and Hong Kong.

Yet relative to US stocks, Asian stocks are as cheap as they have been in 15 years on many valuation metrics. We remain of the view that medium term, the value opportunities remain in this region.

Performance of AUD \$10,000



Key Facts^{2,3}

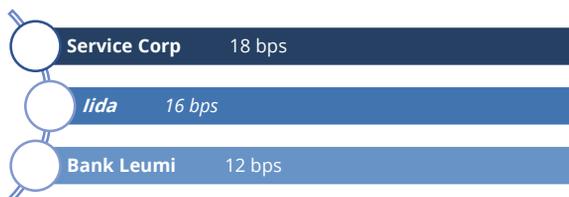
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.35%
Performance Fee ⁵	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.7048
Funds Under Management – Fund (AUD)	\$ 120m
Funds Under Management – Strategy (AUD)	\$ 181m

Top 10 Active Positions

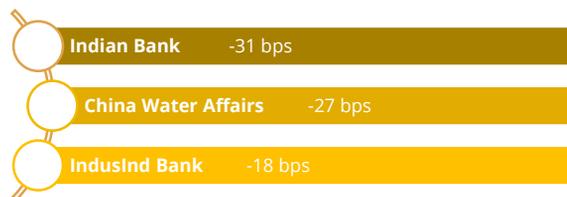
Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	5.1%
Service Corp	US Deathcare	North America	3.3%
Open House	Japanese Homebuilders	Asia Pacific	2.7%
Indian Bank	Indian Quality Banks	Central Asia	2.0%
China Water Affairs	Chinese Water Utilities	Asia Pacific	1.8%
Bank Leumi	Israeli Quality Banks	Middle East	1.7%
Kering	Luxury Retailers	Europe	1.5%
<i>lida</i>	<i>Japanese Homebuilders</i>	<i>Asia Pacific</i>	<i>(1.5%)</i>
China Everbright Intl	Environmental & Facilities	Asia Pacific	1.4%
Rural Electrification	Indian Infrastructure	Central Asia	1.3%

Risk Measures	
Net Exposure ⁶	103%
Gross Exposure ⁷	126%
VAR ⁸	1.17%
Upside Capture ⁹	97%
Downside Capture ⁹	82%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.73%
Average Loss in Down Months	-1.71%
Annual Volatility	9.10%
Index Volatility	9.22%

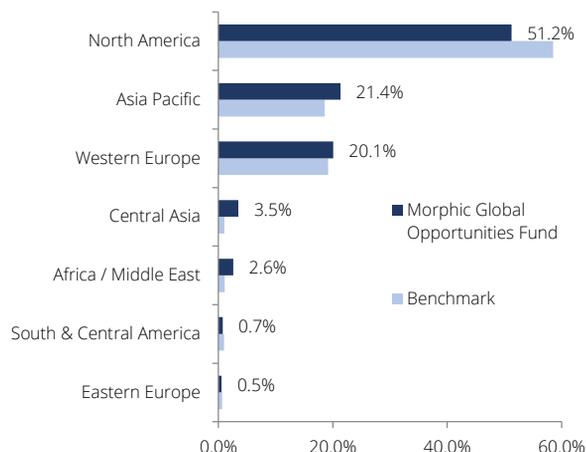
Top three alpha contributors¹¹ (bps)



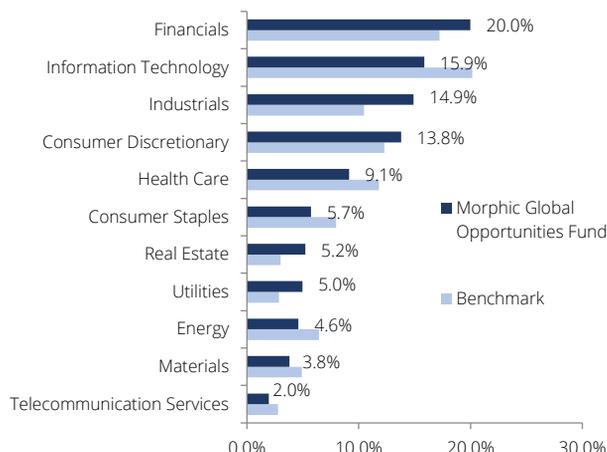
Top three alpha detractors¹¹ (bps)



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, APRI 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 Based on gross returns since Fund's inception; 10 As a percentage of the Fund's Value at Risk (VaR) Limit; 11 Attribution: relative returns against the Index excluding the effect of hedges.