

MORPHIC
GLOBAL
OPPORTUNITIES
FUND

Monthly Report
September 2018

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	-0.98%	2.44%	6.23%	12.07%	9.02%	12.72%	16.29%
Index ¹	0.39%	6.48%	12.23%	19.04%	12.27%	14.39%	17.74%

Portfolio review

The Fund fell 1.0% in September, trailing global markets for the month (0.4%). Global markets were up 0.3% in USD terms, with a small fall in the Australian dollar providing the difference.

Global equities had a mixed month, with fears of Emerging Markets contagion offsetting the positives from stronger US macro data. Japan (+2.3%) outperformed while the US (+0.3%) and Europe (+0.3%) performed in line with global markets. Emerging markets were the laggard. Year to date, the US (+9.1%) remains the best performing region, while Emerging Markets (-9.5%) are down the most.

The largest detractor for the month was our position in Indian Bank which was stopped out towards the end of the month. A continuous weakening rupee and the government's announcement proposing to merge three public sector banks in an attempt to consolidate the banking sector in India came as a negative surprise to the market. All previous commentary from the government had said that consolidation would be determined by the banks themselves, not imposed. Indian financials were weak in general as the Reserve Bank of India has started a crackdown on governance issues related to private sector banks.

On the positive side, the Fund's largest contributor was the position in China Everbright International following our participation in the company's rights issue. The share price tumbled in the first half of August following the announcement of this rights issue where the company raised HK\$10bn. The company can easily fund any future growth prospects going forward, and this removes any funding risk for the foreseeable future. We re-entered the stock following the announcement and have been able to capitalise on the subsequent share price rise seen during September.

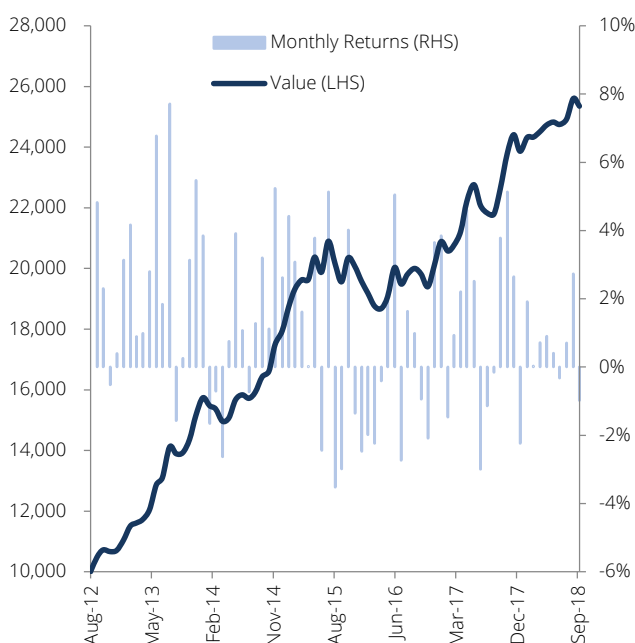
Outlook

The good news for markets is that seasonally, markets move into the time of year that is traditionally associated with the highest returns for equity investors. The bad news is that increasing US interest rates are showing little signs of abating as the US Federal Reserve sees a tight labour market and good growth. As such, we expect continued downward pressure on Emerging Markets' currencies – i.e. upwards pressure on the US dollar – to carry on.

The divergence between a strong oil price, higher commodities, higher expected growth, yet weaker Emerging Markets (which normally do better into this backdrop) does not exactly follow what we thought would be a 1998/99 US-led growth playbook, as commodities were falling back then.

For now, hedges that increase the Fund's exposure to the US Dollar strength remain in place, whilst retaining a long bias to equity markets. The US market closing at all-time highs, not lows, suggests that calls for an overall bear market remain premature.

Performance of AUD \$10,000



Key Facts^{2,3}

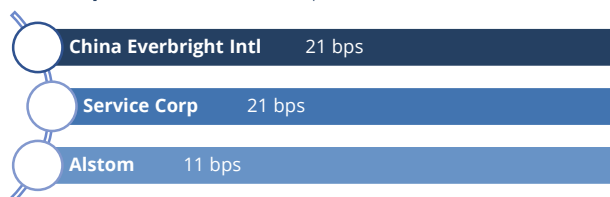
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.35%
Performance Fee ⁵	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.6880
Funds Under Management – Fund (AUD)	\$ 88m
Funds Under Management – Strategy (AUD)	\$ 149m

Top 10 Active Positions

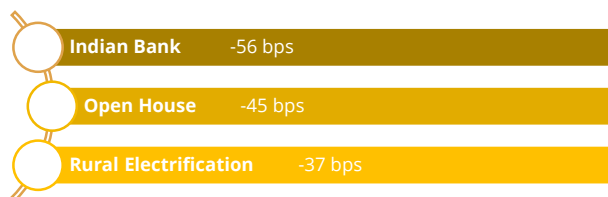
Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	3.5%
Service Corp	US Deathcare	North America	3.2%
Open House	Japanese Homebuilders	Asia Pacific	3.0%
China Everbright Intl	Environmental & Facilities	Asia Pacific	2.9%
China Water Affairs	Chinese Water Utilities	Asia Pacific	2.7%
Bank Leumi	Israeli Quality Banks	Middle East	2.2%
<i>lida</i>	<i>Japanese Homebuilders</i>	<i>Asia Pacific</i>	<i>(2.0%)</i>
Haseko	Japanese Homebuilders	Asia Pacific	1.7%
Rural Electrification	Indian Infrastructure	Central Asia	1.7%
Power Grid	Indian Infrastructure	Central Asia	1.3%

Risk Measures	
Net Exposure ⁶	103%
Gross Exposure ⁷	124%
VAR ⁸	1.09%
Upside Capture ⁹	96%
Downside Capture ⁹	82%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.73%
Average Loss in Down Months	-1.68%
Annual Volatility	9.08%
Index Volatility	9.17%

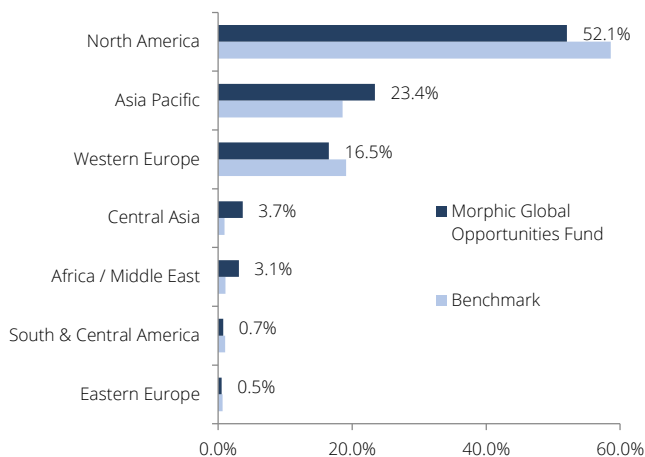
Top three alpha contributors¹¹ (bps)



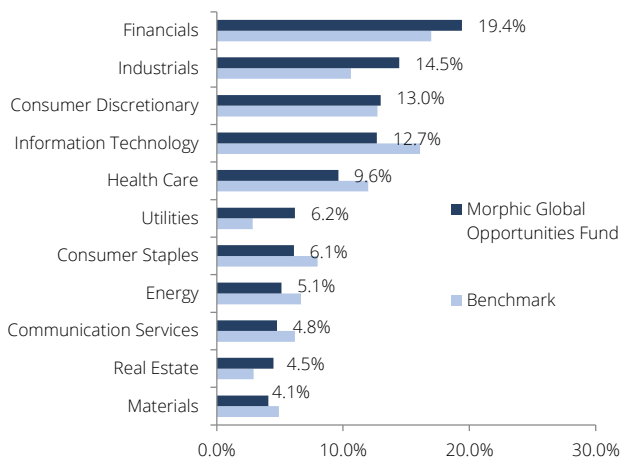
Top three alpha detractors¹¹ (bps)



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, 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 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.