

MORPHIC
GLOBAL
OPPORTUNITIES
FUND

Monthly Report
October 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	3 Years (p.a.)	5 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	-5.44%	-3.81%	0.45%	5.61%	10.78%	15.02%
Index ¹	-5.56%	-1.78%	5.99%	7.98%	12.48%	16.41%

Portfolio review

The Fund fell 5.4% in October, outperforming global markets which fell 7.6% in USD terms, experiencing the largest monthly fall in more than six years.

The October sell-off was broad with all regions falling at least 7.0%. As is often the case in a sell-off, the US fell the least (-7.0%) while Asia-Pac ex-Japan (-10.3%) and Emerging Markets (-8.8%) fell the most. Europe (-7.7%) and Japan (-8.5%) slightly underperformed the global aggregate.

The largest detractor for the month was our long-held position in Japanese property developer Open House which was stopped out towards the end of the month. Open House fell after one broker increased his profit estimates for the current financial year, but cut them severely for the following year. We are sceptical about this, but the market reaction meant our stop loss risk rules forced us to close out the position, and corresponding short positions in property developers Iida and Daito Trust.

On the positive side, the Fund's largest contributor was the position in Rural Electrification. Rural Electrification rose as the market recognised that recent liquidity concerns about Indian private sector consumer facing non-bank financial companies were irrelevant to it. Rural Electrification's business model consists of borrowing long term to lend state government bodies to build transmission and distribution infrastructure in the poorest parts of the country.

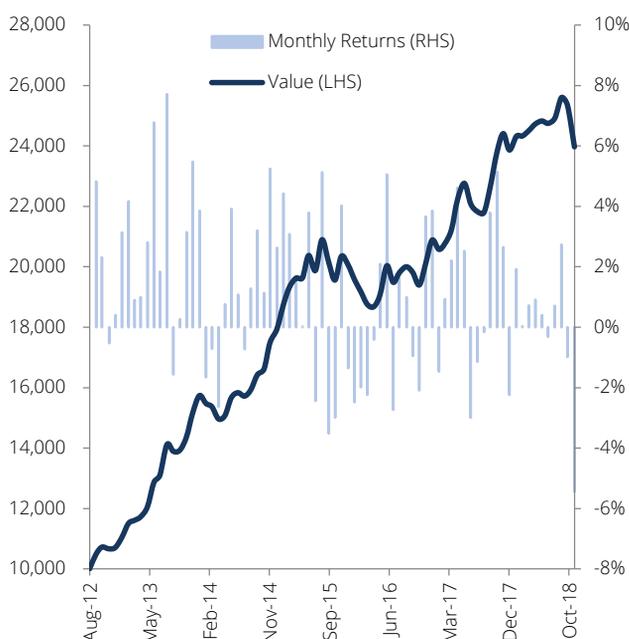
Outlook

Our optimism for October proved to be misplaced, though portfolio risk management enabled the Fund to enter early November rebound fully invested. With the US mid-term elections having concluded, the market has resumed its "risk-on" stance this month.

Of note in last month's sell-down was the fact that Emerging Markets did not significantly underperform the US market. Taken with the stubborn refusal of foreign exchange markets to go along with equities, in combination with credit spreads, it thus far seems to be an equity specific event. We feel the seasonality of markets discussed last month could reassert itself into year-end as oversold markets rebound. Yet caution is in order as lead indicators of growth and earnings are slowing.

Given the inability of the USD to rally in the risk-off phase, some of the USD hedges have been removed. The Fund remains largely invested on the belief that markets rebound from here now that the uncertainty of the mid-term elections has passed. We believe the lead is likely to come from non-US markets.

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	\$ 1.5962
Funds Under Management – Fund (AUD)	\$ 80m
Funds Under Management – Strategy (AUD)	\$ 139m

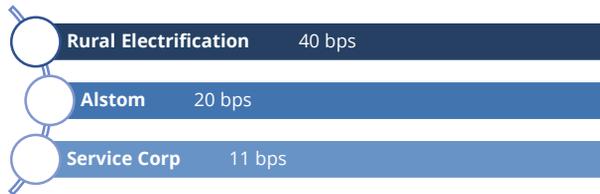
Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	3.8%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.0%
Bank Leumi	Israeli Quality Banks	Middle East	2.4%
Service Corp	US Deathcare	North America	2.3%
China Water Affairs	Chinese Water Utilities	Asia Pacific	2.2%
Rural Electrification	Indian Infrastructure	Central Asia	2.2%
Haseko	Japanese Homebuilders	Asia Pacific	1.9%
Power Grid	Indian Infrastructure	Central Asia	1.4%
Axos Financial	US Quality Banks	North America	1.2%
Tsuruha Holdings	Japanese Drugstores	Asia Pacific	1.1%

Risk Measures	
Net Exposure ⁶	100%
Gross Exposure ⁷	110%
VAR ⁸	1.20%
Upside Capture ⁹	96%
Downside Capture ⁹	82%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.73%
Average Loss in Down Months	-1.83%
Annual Volatility	9.42%
Index Volatility	9.52%

Hedge Positions	Risk Limit Utilisation (%) ¹⁰
Long JPY, CNH and AUD volatility	0.3%

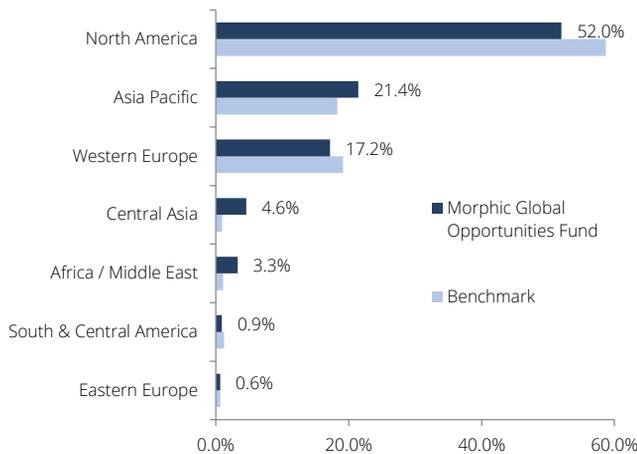
Top three alpha contributors¹¹ (bps)



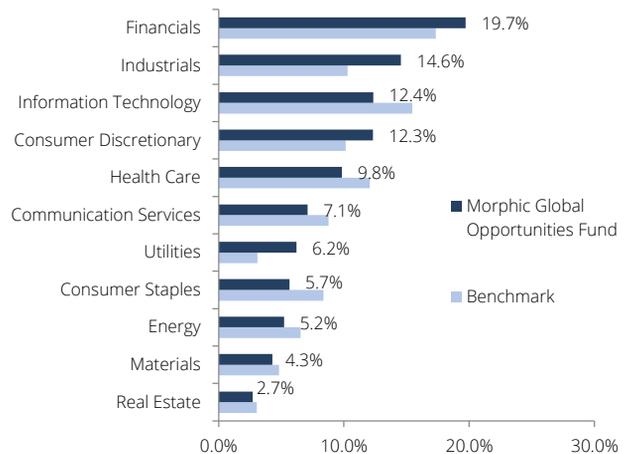
Top three alpha detractors¹¹ (bps)



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.