

# TRIUM MORPHIC ESG L/S GLOBAL FUND

## Monthly Report

October 2018

### Fund Objective

The Trium Morphic ESG L/S Global Fund ("the Fund") is an **absolute return** Fund which seeks to provide investors long term capital appreciation and superior risk adjusted returns by investing in ethically screened global equities.

The Fund seeks to achieve its objective through investing in the Trium Morphic ESG L/S Fund ("the Underlying Fund").

### Investment returns

Trium Morphic ESG L/S Global Fund (in AUD)<sup>1</sup>

### Since Inception\*

-0.25%

\* Fund inception: 19 October 2018. Past Performance is not an indication of future performance.

### ESG Action in Focus

Integrating Environmental, social and governance (ESG) factors into long-term stock selections is a well analysed and discussed technique, to provide vital insights into future performance and valuation of companies. However, there is less discussion of whether using ESG signals can be applied to shorting strategies. Morphic believes ESG analysis can be useful for shorting purposes as a signal of market sentiment regarding emerging risks to companies. Chad Slater shares his thoughts on ESG signals in shorting for the [Sustainability Report](#).

### Underlying Fund Review

Our optimism last month about the outlook for October proved to be misplaced, though active portfolio risk management enabled the Underlying Fund to avoid the worst of the market sell-off with the Fund falling just 0.25%.

The Underlying Fund fell 0.7% (in USD) between the Fund's inception and the end of the month, against a backdrop of heavy falls in equity markets, with global markets down 7.6% over the whole month, experiencing the largest monthly fall in more than six years. Active management of the net and gross exposure of the Underlying Fund over the month - with the net exposure falling to less than 10% market exposure at one point - kept losses contained in a difficult month for equity and hedge funds. The Underlying Fund returned to a higher net exposure towards month end to enable participation in any relief rally that may ensue.

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 its corresponding short positions in property developers Iida and Daito Trust.

On the positive side, the Underlying Fund's largest contributor was the position in Rural Electrification. The stock 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.

### Key Facts<sup>2, 3</sup>

Launch Date	19 October 2018
Minimum Initial Investment	AUD 100,000
Pricing and Liquidity	Daily
Management Fee (Underlying Fund's Management Fee) <sup>4</sup>	0% (1%)
Performance Fee (Underlying Fund's Performance Fee) <sup>5</sup>	0% (15%)
Entry and Exit Fees	Zero
Unit Price (in AUD)	\$ 0.9975
Funds Under Management – Fund (in AUD) (Underlying Fund's FUM, in AUD)	\$ 150k (\$ 8m)
Funds Under Management – Morphic (in AUD) <sup>6</sup>	\$ 139m

### Outlook

With the US mid-term elections over, the market has resumed its "risk-on" stance this month. We expect markets to 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.

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. Reflecting this, whilst net exposure is off its lows, it is below the Underlying Fund's long run median of 30-40% net exposure. Gross exposure is likewise lower than average as pairwise correlations have increased of late, lowering the efficacy of pairs investing.

Given the inability of the USD to rally in the risk-off phase, some of the USD hedges have been removed.

# Underlying Fund Portfolio Characteristics

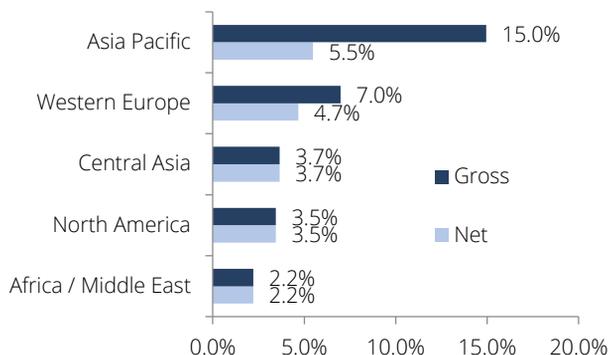
## Top 3 Long Positions

Company	Country	Position Weighting
Alstom	France	4.7%
China Everbright Intl	Hong Kong	3.8%
Service Corp	United States	3.6%

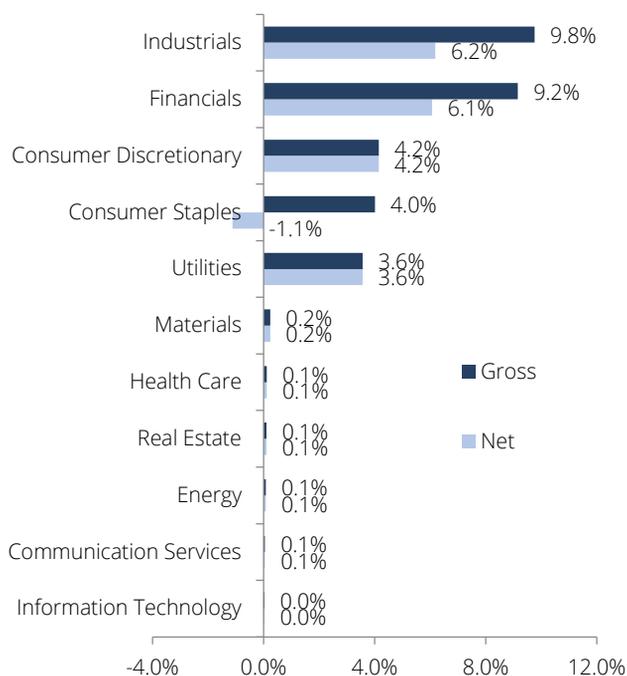
## Top 3 Short Positions

Company	Country	Position Weighting
Coca-Cola Amatil	Australia	(1.3%)
Sugi Holdings	Japan	(1.3%)
Qantas Airways	Australia	(1.1%)

## Equity Exposure Summary By region



## Equity Exposure Summary By sector



## Risk Measures

Net Exposure <sup>7</sup>	19.5%
Gross Exposure <sup>8</sup>	31.3%
Long Exposure	25.4%
Short Exposure	-5.9%
VAR <sup>9</sup>	2.35%

The Trium Morphic ESG L/S Global Fund is an open-ended Unit Trust and seeks to achieve its objective through investing in the Trium Morphic ESG L/S Fund ("the Underlying Fund"). The Underlying Fund is an Undertakings for Collective Investment in Transferable Securities (UCITS) fund on the Trium UCITS platform with the same investment objectives as the Unit Trust. You can download the Underlying Fund's latest monthly factsheet [here](#).

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<sup>1</sup> Performance is after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable); <sup>2</sup> ISIN AU60PER64163, APIR PER6416AU; <sup>3</sup> All fees shown are inclusive of GST; <sup>4</sup> The Underlying Fund's expense recoveries are capped at maximum 1.0% p.a.; <sup>5</sup> The Underlying Fund pays a performance fee of 15% p.a. in respect of the Underlying Fund's outperformance of its benchmark. Performance Fees are only payable when the Underlying Fund achieves positive absolute performance and is subject to a high water mark; <sup>6</sup> Total funds under management of Morphic Asset Management; <sup>7</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>8</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>9</sup> VAR is Value at Risk based upon the 95th percentile with a 1 day holding period using a 1 year look back.