

MORPHIC  
GLOBAL  
OPPORTUNITIES  
FUND

Monthly Report  
November 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	-1.00%	-7.30%	-0.55%	5.74%	9.38%	14.63%
Index <sup>1</sup>	-1.52%	-6.64%	4.38%	8.28%	11.03%	15.90%

Portfolio review

The Fund fell 1%, outperforming global shares over the month by 0.5% in AUD terms. The fall was despite markets rebounding by 1.3% in USD, as the rise in the AUD offset the increase in markets.

The bounce was led by the more cyclically sensitive markets. Asia was up 4.3% in US dollars and Emerging Markets more generally were up 4.1%. Europe (-1.1%) and Japan (+0.4%) were the laggards. In contrast to cyclical regions, the leading sectors were more defensive – Healthcare (5.3%) and Real Estate (+4.8%).

[China Water Affairs Group](#) (CWAG) was the Fund's best contributor over the month, reversing the sharp sell-off in September and October. Company earnings reported at the end of the month suggest business growth remains on track at over 20% a year. CWAG continues to look for ways to monetise legacy non-core assets. It also plans an IPO for its sewerage treatment business to free up capital to focus on water distribution. On nine times next year's earnings, we think the stock is still cheap and it remains in our top five active positions.

The largest detractor for the month was our position in Japanese condominium builder, Haseko. The company continues to post record profits, but our ownership period has been a frustrating experience, due to the company's refusal to share these benefits with shareholders through adequate dividends and share buybacks. We have made a number of unsuccessful [attempts to engage with the management](#) on capital management plans. The falls over the month took the position to our stop loss, where we exited. We will continue to engage with other shareholders on ways to unlock value in the business.

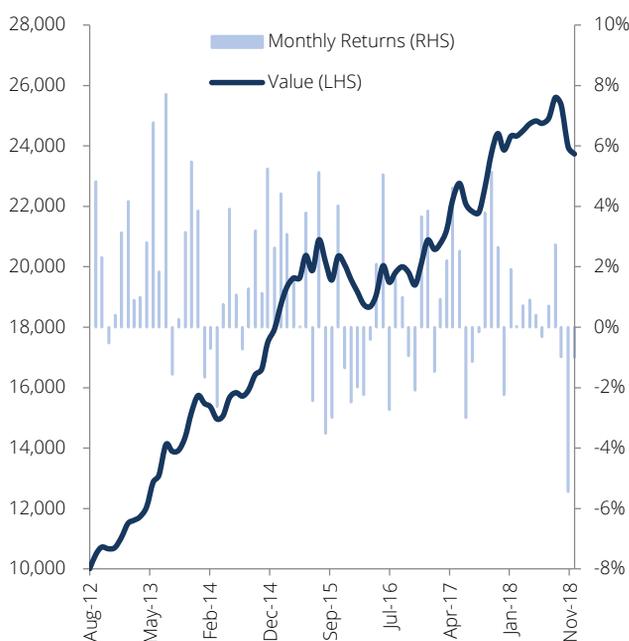
Outlook

After the shock of October, markets found a floor in a volatile November. Investors may recall the proximate cause for the sell-off in October was higher interest rates and fears the Federal Reserve would raise the interest rate by three or more times in 2018. Both higher rates and expectations of three interest rate hikes have been unwound now. When coupled with the large fall in oil prices, it is difficult to see imminent inflation threats in 2019.

Against this, economic data outside the USA has softened and some lead indicators in the USA, such as unemployment claims are creeping higher. With the Trump-Xi summit seeing the "Trade war" put on hold for the next three months at least, the question for 2019, is whether the Federal Reserve engineers a controlled slowdown in the economy like 1995, or whether it has already over-tightened, more like 2007.

Historical records say [pauses in Fed hiking cycles](#) are often good for equities and risk assets – but concerns over whether there have already been too many hikes will be the key focus as we move into 2019.

Performance of AUD \$10,000



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

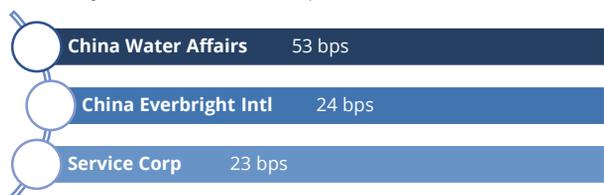
Launch Date	August 2 <sup>nd</sup> , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee <sup>4</sup>	1.35%
Performance Fee <sup>5</sup>	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.5803
Funds Under Management – Fund (AUD)	\$ 77m
Funds Under Management – Morphic (AUD) <sup>6</sup>	\$ 155m

## Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.4%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.3%
China Water Affairs	Chinese Water Utilities	Asia Pacific	3.1%
Service Corp	US Deathcare	North America	2.6%
Bank Leumi	Israeli Quality Banks	Middle East	2.5%
Orix Corporation	Japanese Financial Services	Asia Pacific	2.0%
Axos Financial	US Quality Banks	North America	1.6%
Power Grid	Indian Infrastructure	Central Asia	1.5%
Panalpina	Global Freighters Europe	Europe	1.1%
Kuehne + Nagel	Global Freighters Europe	Europe	(1.0%)

Risk Measures	
Net Exposure <sup>7</sup>	101%
Gross Exposure <sup>8</sup>	132%
VAR <sup>9</sup>	1.28%
Upside Capture <sup>10</sup>	96%
Downside Capture <sup>10</sup>	83%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.73%
Average Loss in Down Months	-1.80%
Annual Volatility	9.39%
Index Volatility	9.52%

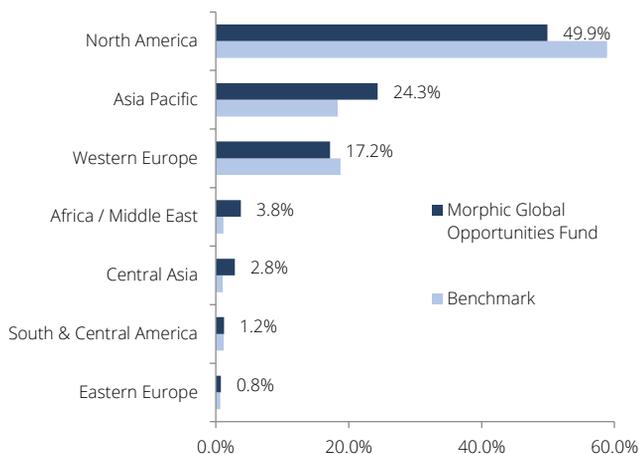
## Top three alpha contributors<sup>12</sup> (bps)



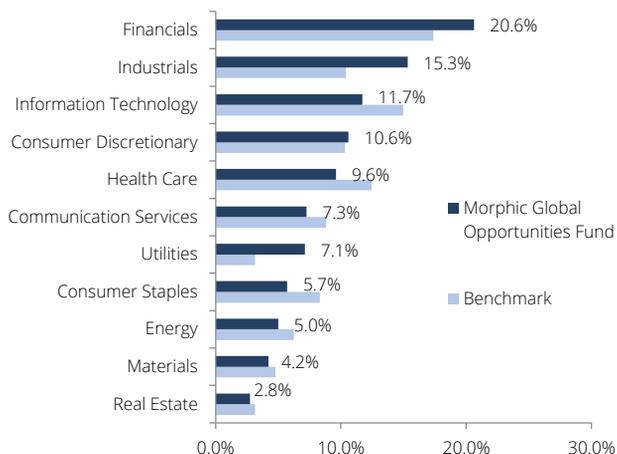
## Top three alpha detractors<sup>12</sup> (bps)



## 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 Total funds under management of Morphic Asset Management; 7 Includes Equities and Commodities - longs and shorts are netted; 8 Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; 9 VAR is Value at Risk based upon the 95th percentile with a 1 day holding period using a 1 year look back; 10 Based on gross returns since Fund's inception; 11 As a percentage of the Fund's Value at Risk (VaR) Limit; 12 Attribution; relative returns against the Index excluding the effect of hedges.