

MORPHIC
GLOBAL
OPPORTUNITIES
FUND

Monthly Report
January 2019

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	3.36%	-1.47%	3.36%	7.17%	8.82%	14.14%
Index ¹	4.18%	-1.08%	4.18%	10.50%	10.63%	15.53%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

The World Economic Forum Annual Meeting took place this month in Davos and one of the big challenges world leaders discussed was climate change. Big corporates like Procter & Gamble and Unilever joined forces with waste management company TerraCycle to launch [Loop](#), a project that will allow people to reuse containers for popular household products. The best speech on the topic came from the 16-year-old [activist Greta Thunberg](#) who warned everyone that "[Our house is on fire](#)".

Portfolio review

The Fund rose 3.4% (in AUD) in January, trailing global markets for the month (4.2% in AUD) which rallied 7.8% in USD terms.

Heavily oversold in December, markets in January rose on the back of hope for a looser monetary policy coupled with positive expectations for the China-US trade war negotiations. All regions posted strong returns with Emerging Markets being the best performer during the month (+8.7%).

The largest detractor for the month was our position in rail equipment manufacturer Alstom on fears that the merger with Siemens Mobility might be blocked by the European competition authorities. Alstom has continued to exceed expectations in terms of sales growth and margin expansion, with a record 5-year order book. Whilst we expect the share price to be volatile in the short term, we believe Alstom remains attractively valued with or without the merger.

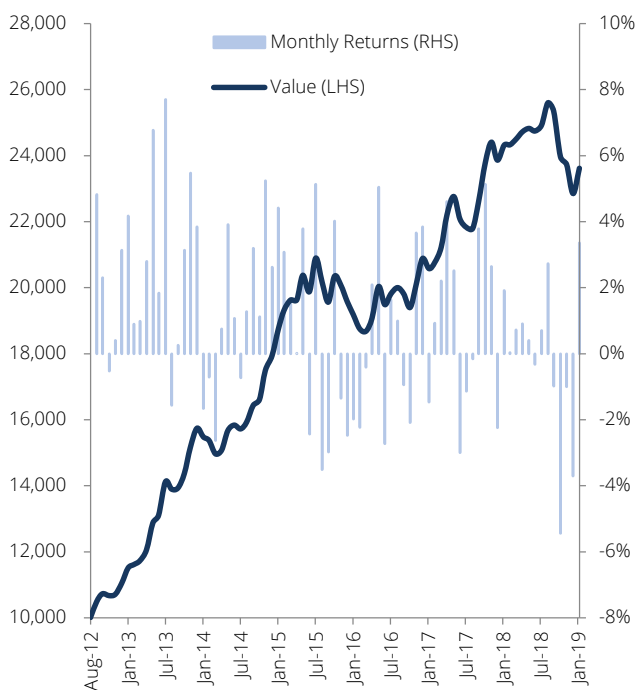
On the positive side, the Fund's largest contributor was the position in freight forwarder Panalpina. In November, the company announced that the non-independent Chairman would step down in 2019. The largest shareholder (45%) had previously used this position to block any discussion of takeover, and we judged that the company's valuation did not reflect the new probability of this. Pairing the holding with short positions in other peers rewarded us when DSV recently announced a takeover approach at a significant premium to the market valuation.

Outlook

[Our half year report](#) expressed cautious optimism in early January that markets had over-reacted in December and should rally. After the largest rally in January in 30 years, we believe markets are likely to enter a more difficult directionless range as some data in the background such as earning revisions and growth expectations have slowed over the last four months.

Historically, a Federal Reserve that goes on hold and stops hiking is positive for equities, but the reason they are on hold is a double-edged sword: if worsening data get too bad, there is a risk of recession and equities don't rise in that situation. We remain of the view this is not the case but temper our bullish stance with some cash being raised at the margin in the Fund.

Performance of AUD \$10,000



Key Facts^{2,3}

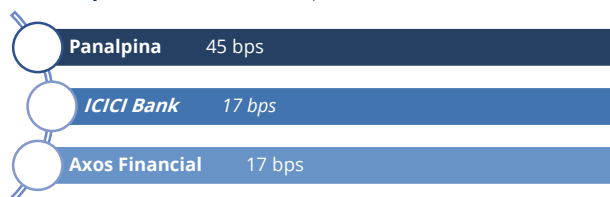
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.35%
Performance Fee ⁵	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.5727
Funds Under Management – Fund (AUD)	\$ 75m
Funds Under Management – Morphic (AUD) ⁶	\$ 161m

Top 10 Active Positions

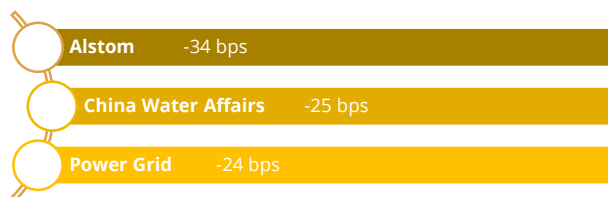
Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	4.1%
Service Corp	US Deathcare	North America	3.0%
China Water Affairs	Water Utility	Asia Pacific	3.0%
Toyota Motor	Automotive Manufacturer	Asia Pacific	2.8%
Mazda Motor	Automotive Manufacturer	Asia Pacific	(2.8%)
China Everbright Intl	Waste-to-Energy	Asia Pacific	2.6%
Bank Leumi	Israeli Bank	Middle East	2.6%
Panalpina	Freight Forwarder	Europe	2.6%
Power Grid	Indian National Electricity Grid	Central Asia	2.0%
ICICI Bank	Indian Bank	Central Asia	(1.9%)

Risk Measures	
Net Exposure ⁷	99%
Gross Exposure ⁸	170%
VAR ⁹	1.40%
Upside Capture ¹⁰	96%
Downside Capture ¹⁰	84%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.74%
Average Loss in Down Months	-1.87%
Annual Volatility	9.51%
Index Volatility	9.66%

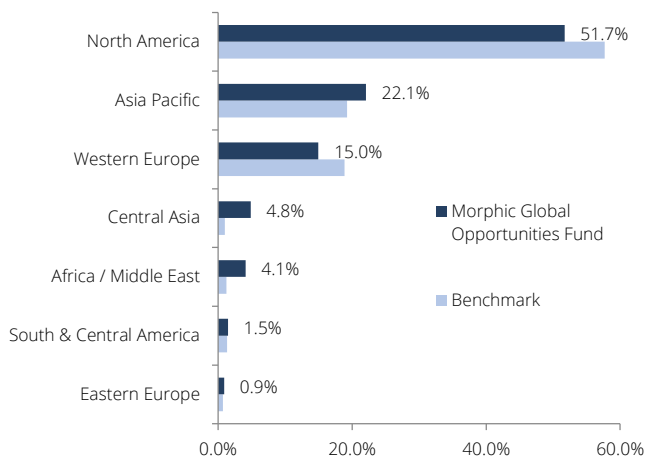
Top three alpha contributors¹² (bps)



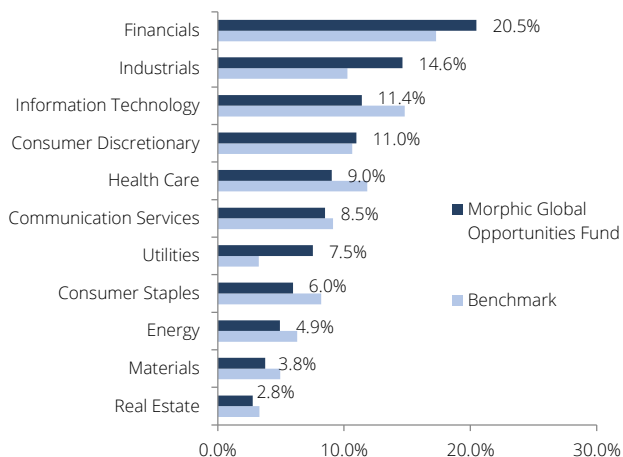
Top three alpha detractors¹² (bps)



Equity Exposure Summary By region



Equity Exposure Summary By sector



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The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Morphic Global Opportunities Fund adheres to the strict disclosure practices required under the Responsible Investment Certification Program for the category of Product Provider. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Morphic Global Opportunities Fund's methodology, performance and stock holdings can be found at www.responsibleinvestment.org, together with details about other responsible investment products certified by RIAA. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

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 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.