

MORPHIC
GLOBAL
OPPORTUNITIES
FUND

Monthly Report
February 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	3.68%	3.19%	7.16%	9.30%	9.77%	14.59%
Index ¹	5.23%	5.70%	9.62%	13.03%	11.27%	16.23%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Recent weeks have seen two successful investor engagements with large mining companies. [Climate Action 100+](#), of which Morpic is a founding signatory, has been coordinating collective engagement with the world's largest carbon-emitting listed companies. Glencore and Rio Tinto announced improved commitments to their climate-related responsibilities including greater focus on the commodities required to meet the needs of a lower carbon world, renewed emissions targets and improved reporting. Whilst the companies can clearly be more proactive, we recognise these changes in the right direction and the effectiveness of such investor engagement.

Portfolio review

The Fund rose 3.7% in February, underperforming global markets for the month (5.2%). The rally in global equities continued as they returned 2.5% in USD terms, with a fall in the AUD providing a tailwind to Australian investors.

During the month, the US (+3.1%) and Europe (+3.1%) outperformed. Asia Pacific ex-Japan (+2.1%) and Emerging Markets (+0.1%) underperformed global equities, with Japan (-0.1%) the worst performer.

The largest detractor for the month was our long position in freight forwarder Panalpina, giving back some of last month's gains as markets become increasingly worried about the company's defence against the bid. The second and third largest shareholders have publicly backed the bid, however, the charitable foundation which holds the Founders stake (46%), is trying to leverage the company's corporate governance structure in order to support the Management's desire to remain independent. Morpic has engaged with the Board of Directors, urging them to act in the interest of all shareholders and consider all risks.

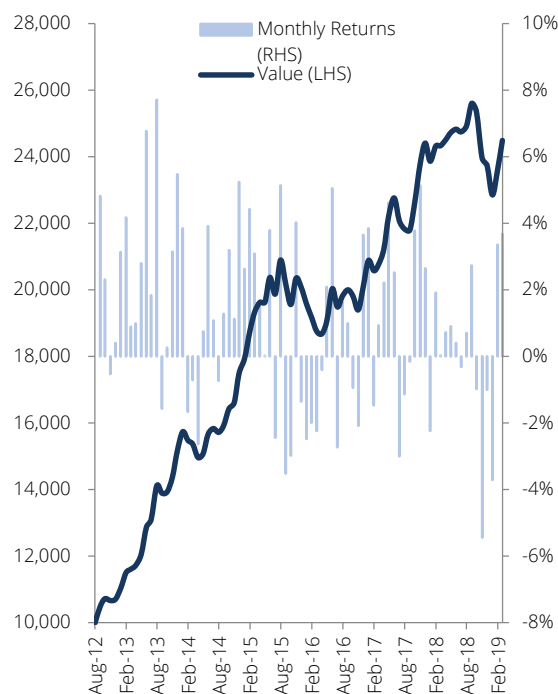
The Fund's largest contributor was the position in rail equipment manufacturer Alstom, partially recovering last month's losses. Despite the EU Competition Commissioner blocking Alstom's merger with peer Siemens Mobility, the underlying operating performance of the company has continued to be excellent. We remain holders as we still believe Alstom is attractively valued without the merger and it is now clearly being recognised by other investors who may have waited on the sidelines until the bid uncertainty was resolved.

Outlook

Our concerns last month about a further rally proved to be unfounded as markets rallied to return to the levels of mid-last year. As such, any insurance carried last month hurt performance. With many market valuation metrics back to where they were before the sell-off, Morpic would note that real world data is still only showing glimpses of improvement. We continue to see markets in a consolidation phase, being currently neither bullish nor overly bearish.

The portfolio is overweight Asia, as well as the USD via a short on the Australian dollar. The Fund carries some hedges in interest rates that would likely also benefit in a falling equity market scenario.

Performance of AUD \$10,000



Key Facts^{2, 3}

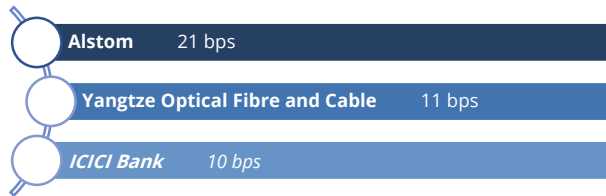
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.35%
Performance Fee ⁵	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.6306
Funds Under Management – Fund (AUD)	\$ 79m
Funds Under Management – Morpic (AUD) ⁶	\$ 167m

Top 10 Active Positions

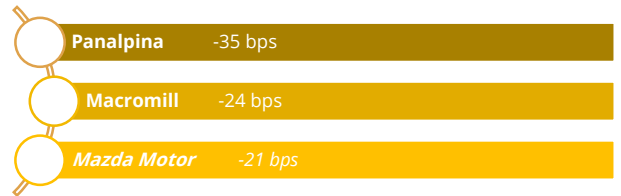
Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	4.4%
Panalpina	Freight Forwarder	Europe	3.2%
China Water Affairs	Water Utility	Asia Pacific	2.9%
Service Corp	US Deathcare	North America	2.8%
Bank Leumi	Israeli Bank	Middle East	2.6%
ICICI Bank	Indian Bank	Central Asia	(2.5%)
China Everbright Intl	Waste-to-Energy	Asia Pacific	2.5%
Axos Financial	US Bank	North America	2.2%
Japan Airlines	Asian Airline	Asia Pacific	2.0%
DSV	Freight Forwarder	Europe	(1.9%)

Risk Measures	
Net Exposure ⁷	102%
Gross Exposure ⁸	189%
VAR ⁹	1.39%
Upside Capture ¹⁰	95%
Downside Capture ¹⁰	84%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.76%
Average Loss in Down Months	-1.87%
Annual Volatility	9.50%
Index Volatility	9.72%

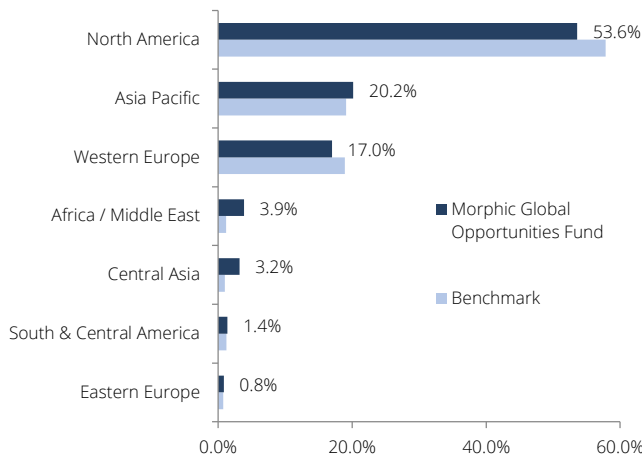
Top three alpha contributors¹² (bps)



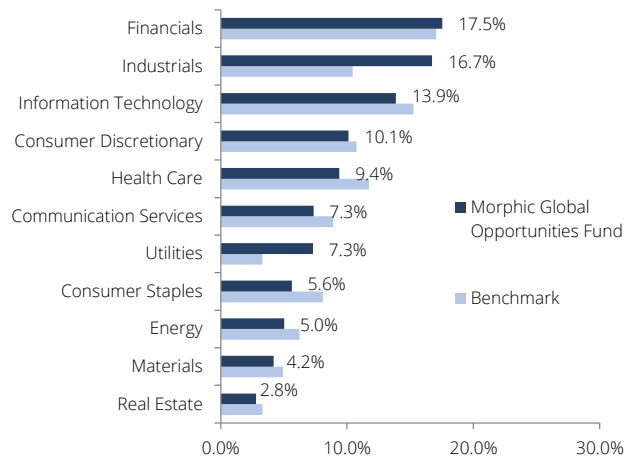
Top three alpha detractors¹² (bps)



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.