

MORPHIC
GLOBAL
OPPORTUNITIES
FUND

Monthly Report
March 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	0.99%	8.22%	8.22%	9.81%	10.57%	14.56%
Index ¹	1.41%	11.17%	11.17%	13.66%	12.27%	16.26%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

The Fund has been short Coca-Cola Amatil for some time now and we have written before about our views and attempts to make an impact. In March, CEO [Alison Watkins gave a speech](#) to the Committee for Economic Development of Australia (CEDA) where for the first time she acknowledged the company's lobbying against consumer recycling schemes (and we would add lobbying against a sugar tax) had resulted in a general cynicism about their commitment to sustainability.

Whilst their acknowledgment that Coca-Cola's fight against sustainability has done them more damage than good, their refusal to entertain a sugar-free future and continued lack of progress in the developing nations they operate in, coupled with a refusal to take a meeting with us, leaves us still rather cynical about their apparent Damascus conversion. The Fund remains short the stock.

Portfolio review

The Fund rose 1.0% in March, underperforming global markets which went up 1.4% in AUD terms. Global equities returned 1.0% (USD) making Q1 the second strongest quarter on record with a return of 11.6%. During the month, the US (+1.7%) performed best and continues to lead the bounce in equity markets this year. In contrast, Japan (-0.3%) was the worst performing region during the month and lags the global markets by 5.9% this year. The best performing country in March was India (+9.1%), significantly outperforming all large countries.

One of the largest detractors for the month was our long position in Hong Kong-listed Yangtze Optical Fibre and Cable (YOFC), a leading supplier of optical fibre cable globally. The company reported disappointing Q4 results and won only 4.3% of the China Mobile tender for optical fibre cables (versus 17% last year), both detrimental to share price. Offsetting that, their outlook included a large win in Peru. We remain a holder at a smaller weighting, reflecting increased uncertainty.

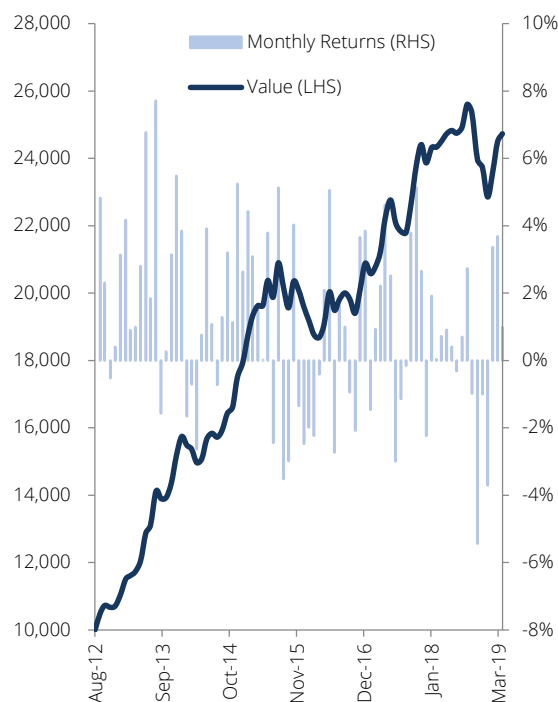
The Fund's largest contributor was the long position in Indian Bank, Yes Bank. Yes Bank's shares climbed as it cleared several hurdles towards its rehabilitation as one of India's top private banks. The company passed an inspection by the Reserve Bank of India for its provisioning for bad debts, which had previously been under scrutiny. It has room to rise further if the new managing director can improve the bank's governance culture without slowing its historic growth. The Fund is long Yes Bank, Shriram Transport Finance and Karnataka Bank against ICICI Bank.

Outlook

A dovish turn by the Federal Reserve in March has seen interest rate expectations collapse – from back in November pricing 2-3 hikes in 2019, they are now pricing cuts by year-end.

In December, [we blogged](#) about what a rate pause has historically meant for equities, bonds and the real economy. Thus far, the rally in stocks and now the fall in yields have been consistent with this playbook. From here, history suggests the data worsens, bonds rally some more and equities enter a sideways to down range.

Performance of AUD \$10,000



Key Facts^{2,3}

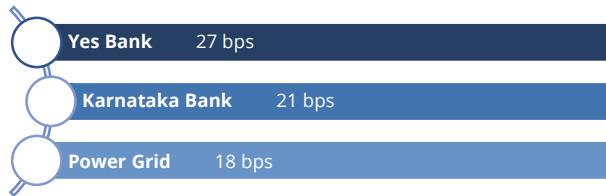
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.35%
Performance Fee ⁵	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.6467
Funds Under Management – Fund (AUD)	\$ 79m
Funds Under Management – Morphic (AUD) ⁶	\$ 168m

Top 10 Active Positions

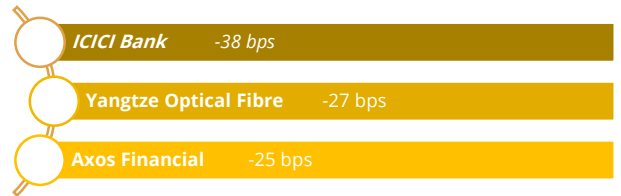
Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	4.3%
Panalpina	Freight Forwarder	Europe	4.2%
China Everbright Intl	Waste-to-Energy	Asia Pacific	3.3%
Iida	Japanese Homebuilders	Asia Pacific	(3.0%)
ICICI Bank	Indian Bank	Central Asia	(3.0%)
Huadian Power Intl	Power Utility	Asia Pacific	(2.9%)
China Water Affairs	Water Utility	Asia Pacific	2.9%
Qantas	Australian Airline	Asia Pacific	(2.8%)
Service Corp	US Deathcare	North America	2.8%
Bank Leumi	Israeli Bank	Middle East	2.5%

Risk Measures	
Net Exposure ⁷	92%
Gross Exposure ⁸	168%
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	2.72%
Average Loss in Down Months	-1.87%
Annual Volatility	9.44%
Index Volatility	9.66%

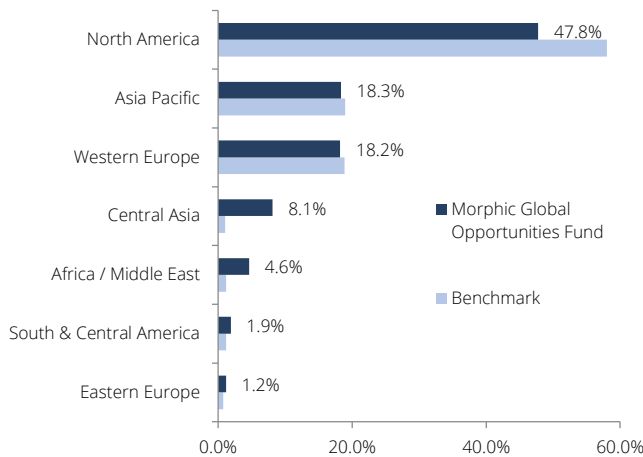
Top three alpha contributors¹² (bps)



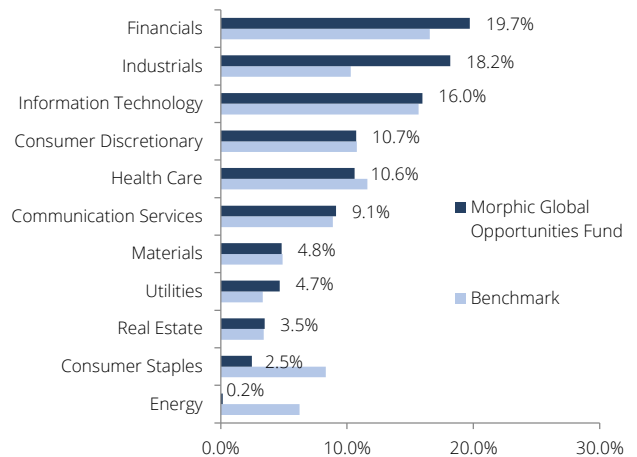
Top three alpha detractors¹² (bps)



Equity Exposure Summary By region



Equity Exposure Summary By sector



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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.