

TRIUM MORPHIC ESG L/S GLOBAL FUND

Monthly Report

March 2019

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	1 Month	3 Months	Since Inception*
Trium Morphic ESG L/S Global Fund (in AUD) ¹	-0.32%	-1.48%	-2.09%

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

ESG Action in Focus

Morphic 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), has resulted in a general cynicism about their commitment to sustainability. Watkins stated, "It's about improving from where we are". Nik Gowing, the founder and co-director of [Thinking the Unthinkable Project](#) and a former BBC presenter, contemplates "Employees say...we're coming under pressure working for this company" as a point about companies not understanding the sentiment shift against them.

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 Underlying Fund remains short the stock.

Underlying Fund Review

The Fund fell 0.3% (AUD) in March, with the Underlying Fund down 0.3% in USD terms. The net exposure was reduced over the month to 9.1%, whilst the gross exposure was increased via both index shorts and increased stock level shorts.

One of the largest detractors for the month was our long position in Hong Kong-listed Yangtze Optical Fibre and Cable (YOFC). YOFC is one of the leading suppliers of optical fibre cable globally. The company reported disappointing Q4 results and announced they only won 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. The Underlying Fund remains a holder at a smaller weighting, reflecting increased uncertainty.

One of the contributors was the holding in Power Grid of India. The stock has rallied, along with other Indian positions, ahead of the upcoming elections on optimism that Prime Minister Modi returns to power with a continued mandate for reform. The Indian elections will be crucial for the path of India over the coming five years as to whether reforms can be built on to accelerate GDP growth for the young and growing Indian population.

Key Facts^{2, 3}

Launch Date	19 October 2018
Minimum Initial Investment	AUD 100,000
Pricing and Liquidity	Daily
Management Fee (Underlying Fund's Management Fee) ⁴	0% (1%)
Performance Fee (Underlying Fund's Performance Fee) ⁵	0% (15%)
Entry and Exit Fees	Zero
Unit Price (in AUD)	\$ 0.9791
Funds Under Management – Fund (in AUD) (Underlying Fund's FUM, in AUD)	\$ 3m (\$ 31m)
Funds Under Management – Morphic (in AUD) ⁶	\$ 168m

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.

As such, the risk/reward from reducing the net exposure of the Underlying Fund at this point is skewed in favour of a lower net exposure: both the probability of loss and the magnitude of that loss are low, resulting in a low expected loss calculation, versus potentially large gains if markets fall.

Against this, the Asian gross exposure has been increased further, as the US dollar loses the support of higher expected interest rates, which should be good for Asia.

Underlying Fund Portfolio Characteristics

Top 3 Long Positions

Company	Country	Position Weighting
Panalpina	Switzerland	7.1%
Alstom	France	6.3%
China Everbright Intl Ltd	Hong Kong	6.1%

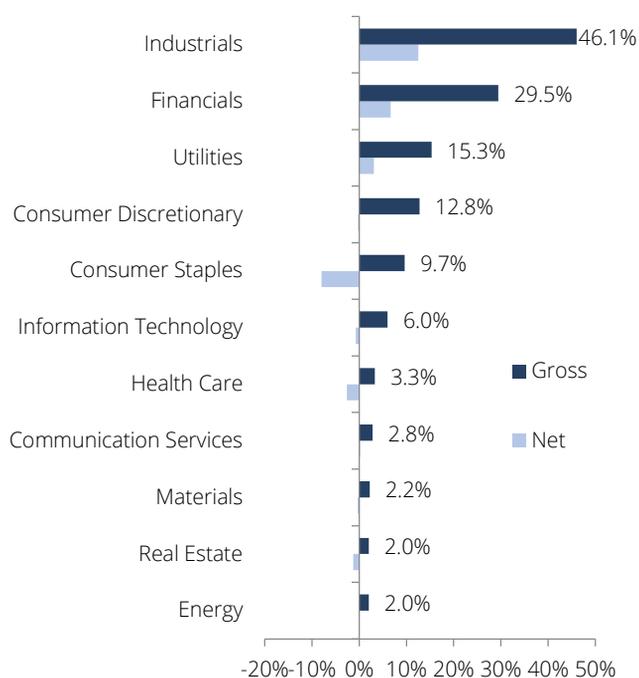
Top 3 Short Positions

Company	Country	Position Weighting
Huadian Power Intl	Hong Kong	(5.4%)
Qantas Airways Ltd	Australia	(4.7%)
ICICI Bank	India	(4.6%)

Equity Exposure Summary By region



Equity Exposure Summary By sector



Risk Measures

Net Exposure ⁷	9.1%
Gross Exposure ⁸	131.7%
Long Exposure	70.4%
Short Exposure	-61.3%
VAR ⁹	4.37%

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](#).

Contact details

Irene Kardasis

Business Development Manager, Morphic Asset Management

Phone: +61 2 9194 6707

Email: ikardasis@morphicasset.com

Sue Petrie

Sales Director, Trium Capital

Phone: +44 20 3819 5904

Email: sue.petrie@trium-capital.com

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¹ Performance is after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable); ² ISIN AU60PER64163, APIR PER6416AU; ³ All fees shown are inclusive of GST; ⁴ The Underlying Fund's expense recoveries are capped at maximum 1.0% p.a.; ⁵ 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; 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.