

MORPHIC  
GLOBAL  
OPPORTUNITIES  
FUND

Monthly Report  
May 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	-4.21%	0.16%	7.33%	6.98%	9.38%	14.04%
Index <sup>1</sup>	-4.44%	1.11%	10.84%	10.71%	11.61%	15.78%

\* Past Performance is not an indication of future performance.

Ethical Investing in Focus

The whole Morphic Team would like to thank the many people who attended our Funds' presentations across Australia in May (and early June). We were very pleased to see the genuine interest in Responsible Investing and the momentum happening in the industry. The video, as well as the slides, are now available [on our website](#). During our roadshow, we were also pleased to announce that Ellerston Capital Ltd (Ellerston) has acquired a [controlling interest](#) in Morphic Asset Management (Morphic). On completion Morphic will become a subsidiary of Ellerston. Morphic's founders, Jack Lowenstein and Chad Slater will continue running the Morphic Funds, with access to Ellerston's wider analyst pool and infrastructure.

Portfolio review

The Fund fell 4.2% in May, outperforming global markets which fell 4.4% in AUD terms. Renewed trade war concerns was the main cause of global equities falling 6.2% in USD terms.

All regions and global sectors posted a negative return during the month. In Europe (-6.3%), Sweden (-9.8%) and Italy (-9.6%) fell the most during the month. In Asia Pacific ex-Japan (-7.4%), the best performing countries were India (+0.1%) and Australia (+0.0%) following successful re-election of incumbent parties in national elections but the region was weighed down by China (-13.5%) and Korea (-9.3%).

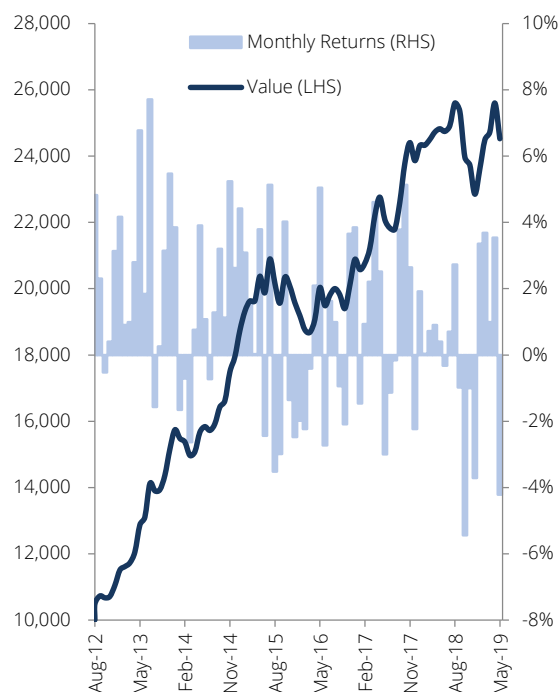
The Fund's largest contributor was the position in rail equipment (and new [Sydney Metro train](#)) manufacturer Alstom. Alstom performed well in May, the catalyst being the good results announced for the financial year ended 31 March. Whilst the results were largely in line with expectations, we remain enthusiastic about the company's future in light of a record order book of five years during which we expect to see further improvement in the operating margins.

On the other hand, the largest detractor for the month was our long position in US Bank Axos Financial. Axos fell amidst market concerns the company may struggle to integrate its recent acquisitions, which may in turn mar its industry leading cost-to-income ratio and return on equity. While not fully sharing this anxiety, we have trimmed our position until we get greater clarity.

Outlook

With the poor May US jobs data released, it seems highly likely the US Federal Reserve will be cutting interest rates within the next few months. Indeed, interest rate markets currently forecast two to three cuts by year-end. There are two dominating schools of thought: the first being the view in rates markets, that the world is heading into recession in 2020. Sell everything, buy bonds. The other view is this is more like 1998, which saw some "pre-emptive cuts" but no recession and equities traded substantially higher. Reflective of this great uncertainty, we have reduced the net exposure, whilst not yet carrying a lot more cash. The Fund also counts more short stocks, which will add value if markets fall. The Fund will adjust according to the incoming data.

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	\$ 1.6332
Funds Under Management – Fund (AUD)	\$ 75m
Funds Under Management – Morphic (AUD) <sup>6</sup>	\$ 165m

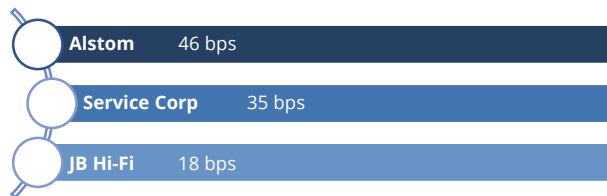
## Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	4.9%
China Everbright Intl	Waste-to-Energy	Asia Pacific	3.4%
Service Corp	US Deathcare	North America	3.2%
Qantas	Australian Airline	Asia Pacific	(2.7%)
Huadian Power Intl	Power Utility	Asia Pacific	(2.5%)
Power Grid	Indian National Electricity Grid	Central Asia	2.1%
Bank Leumi	Israeli Bank	Middle East	1.9%
China Water Affairs	Water Utility	Asia Pacific	1.9%
Platinum Asset Management	Financial Services	Asia Pacific	(1.7%)
JB Hi-Fi	General Retailers	Asia Pacific	1.5%

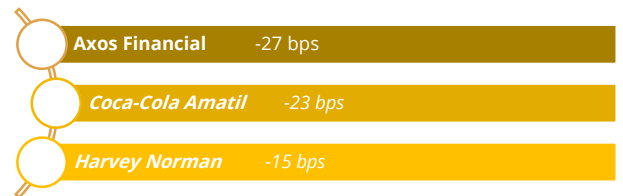
Risk Measures	
Net Exposure <sup>7</sup>	94%
Gross Exposure <sup>8</sup>	140%
VAR <sup>9</sup>	1.46%
Upside Capture <sup>10</sup>	94%
Downside Capture <sup>10</sup>	85%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.74%
Average Loss in Down Months	-1.95%
Annual Volatility	9.59%
Index Volatility	9.86%

Hedge Positions	Risk Limit Utilisation (%) <sup>11</sup>
None	

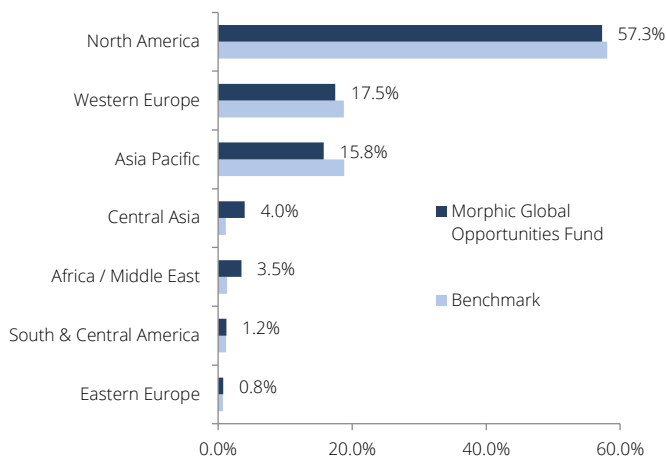
## Top three alpha contributors<sup>12</sup> (bps)



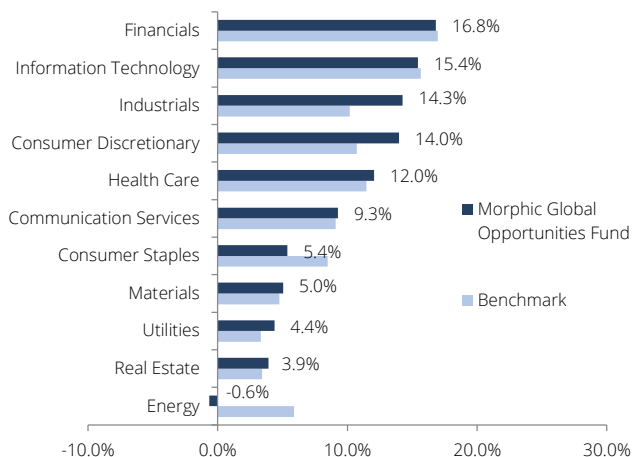
## Top three alpha detractors<sup>12</sup> (bps)



## 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, APIS 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.