

MORPHIC
GLOBAL
OPPORTUNITIES
FUND

Monthly Report
July 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	1.84%	1.36%	13.57%	9.44%	10.55%	14.61%
Index ¹	2.11%	2.65%	19.06%	13.83%	13.05%	16.56%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

In amongst the gloom of record [heatwaves in Greenland](#) in July, that is seeing rates of ice melt originally expected to occur in 2050, there are some slivers of good news. It can be hard to quantify, yet there is a perceptible mood shift taking place in the world. As a recognition of climate issues more broadly, even if [governments try to impede it](#), consumers are voting with their feet, which always gets businesses attention. This month alone, US auto producers, hardly the paragons of climate virtue, are pushing for [more regulations](#) on emissions, against the Trump administration wishes. BHP has openly discussed targeting [Scope 3 emissions](#) – the elephant in the climate room – [infuriating the conservative government](#) of Australia. This is the same government who slashed Renewables targets five years ago and removed carbon pricing, arguing they were unachievable and would cripple the industry. These [targets will be passed anyway next year](#), without a carbon price. So, on bad days, just remember: how you spend your money really does make a difference!

Portfolio review

The Fund rose 1.8% in July, whilst global markets rose 2.1% in AUD terms. Global equities rallied 0.2% in USD terms, consolidating the gains of June.

July saw a large divergence between regions, with the USA rallying (+1.4%) whilst Asia Ex-Japan struggled (-1.6%) against a stronger US dollar and a lack of resolution on trade issues. Tech stocks led the rally (+1.7%), with the cyclical sectors of Materials (-2.8%) and Energy (-2.9%) the laggards.

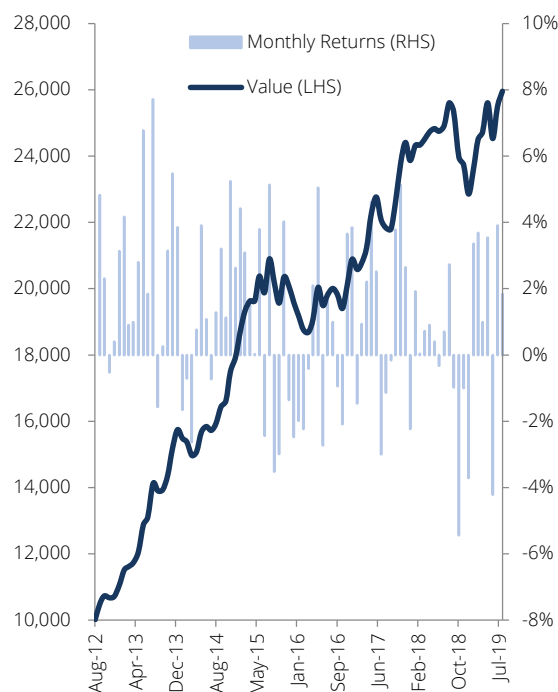
The Fund's long position in French train maker, Alstom, was the largest contributor in July. The stock rallied over the month on its quarterly sales update which confirmed a strong order book, along with the payment of a special dividend to shareholders of approximately 14% returning the cash from the sale of businesses to General Electric.

China Water Affairs Group was the largest detractor over the month as the market sold the stock on the back on its quarterly earnings expectations and concerns about its recent acquisition. The stock has de-rated heavily and the Fund has trimmed the position around these concerns.

Outlook

In what has been described as a "hawkish cut", the Federal Reserve appears to have pleased no-one, including their master Trump. With the added news of more tariffs, it would seem for now the path of least resistance for equity markets is downwards to sideways, after such a breathtaking rally this year. Data disappointment is focused on the exporting and trade-focused sectors, whilst consumer-facing data remains robust, which ultimately accounts for two-thirds of US GDP. Job losses will be needed for them to change their behaviour. We note that for Emerging Markets, earnings revisions have bottomed, and historically these levels are associated with global markets being 13% higher in the next 12 months. One to keep in mind in the coming months.

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 (CUM)	\$ 1.7152
Funds Under Management – Fund (AUD)	\$ 77m
Funds Under Management – Morphic (AUD) ⁶	\$ 167m

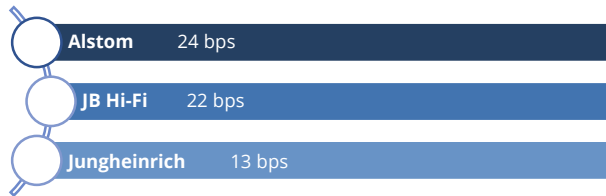
Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	3.7%
Service Corp	US Deathcare	North America	3.4%
Qantas	Australian Airline	Asia Pacific	(3.3%)
China Everbright Intl	Waste-to-Energy	Asia Pacific	3.0%
Huadian Power Intl	Power Utility	Asia Pacific	(2.5%)
Power Grid	Indian National Electricity Grid	Central Asia	2.3%
Coca-Cola Amatil	Beverages	Asia Pacific	(2.3%)
Bank Leumi	Israeli Bank	Middle East	2.0%
JB Hi-Fi	General Retailers	Middle East	2.0%
Harvey Norman	General Retailers	Asia Pacific	(1.9%)

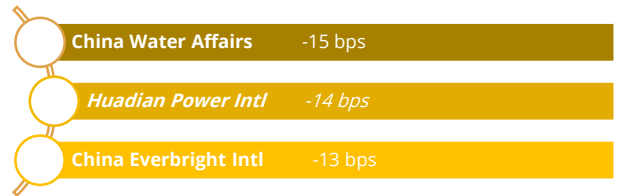
Risk Measures	
Net Exposure ⁷	105%
Gross Exposure ⁸	144%
VAR ⁹	1.66%
Upside Capture ¹⁰	94%
Downside Capture ¹⁰	85%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.74%
Average Loss in Down Months	-1.95%
Annual Volatility	9.54%
Index Volatility	9.86%

Hedge Positions	Risk Limit Utilisation (%) ¹¹
Short US Bonds	0.4%

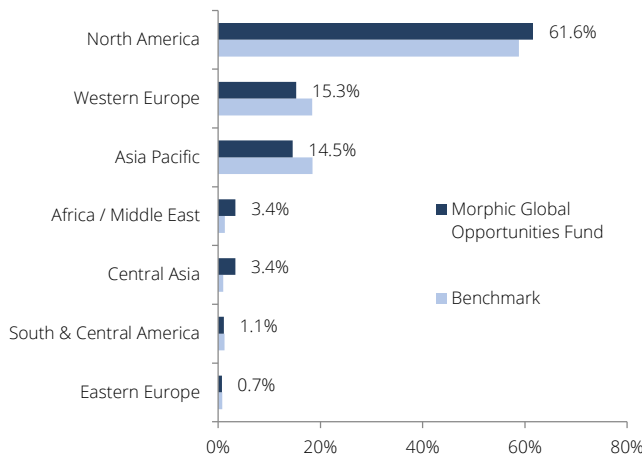
Top three alpha contributors¹² (bps)



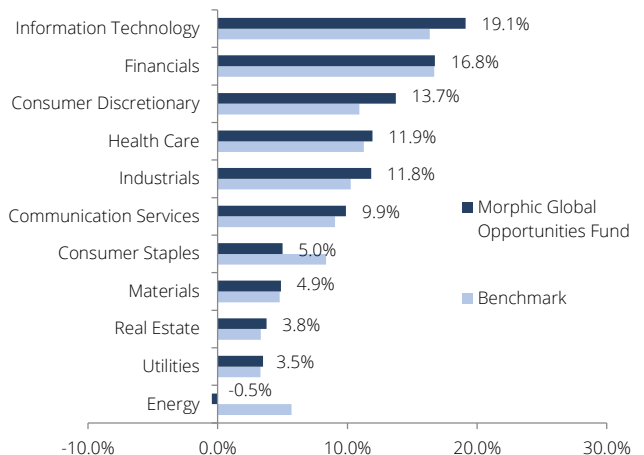
Top three alpha detractors¹² (bps)



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, APIR 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.