

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
August 2019



Signatory of:



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	0.07%	5.89%	13.66%	9.10%	10.28%	14.43%
Index ¹	-0.13%	7.28%	18.91%	13.23%	12.67%	16.33%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

As a PRI signatory, we are committed to the six principles covering the incorporation of Environmental, Social and Governance (ESG) issues in our investment process. We actively promote and collaborate with other responsible investors and aspire to the highest levels of transparency.

We are proud that the integration of ESG issues in both our investment strategy and governance structures, and our stewardship activities as an active investor have been validated by the recently published [PRI 2019 Assessment Report](#). For all modules, including the key modules - Strategy & Governance, Listed Equity - Incorporation & Listed Equity - Active Ownership - we achieved the highest score of A+. A description of the PRI Assessment and its methodology can be found [here](#).

Portfolio review

The Fund rose 0.1% in August, outperforming global markets which fell 0.1% in AUD terms. Global equities fell 2.6% in USD terms, as new tariffs were introduced in the US-China trade war, the US yield curve inverted, and the PMIs fell.

During the month, the US (-2.0%) and Japan (-1.0%) fell the least while Emerging Markets (-5.1%) performed worst. Defensive sectors rallied in August, while tariffs hurt Tech; the flattening yield curve hurt Financials; and the weaker macro data hurt Energy and Materials.

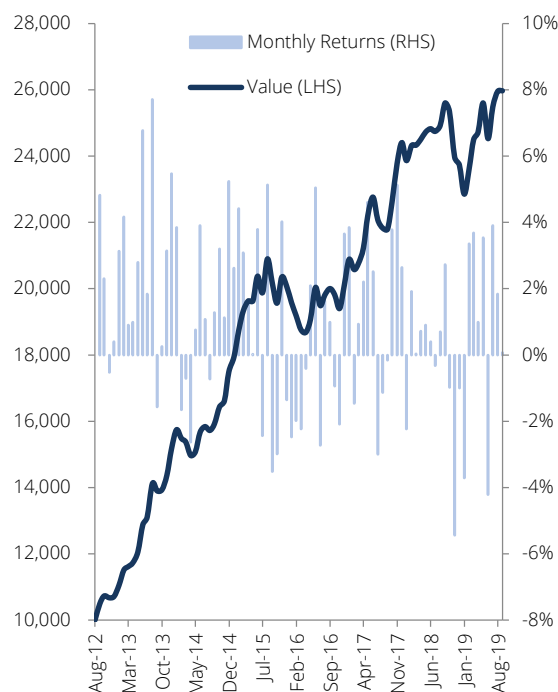
The Fund's largest contributor was the long position in Entertainment One (eOne), a media and entertainment company specialising in film and television content across all media (TV hits include Peppa Pig & PJ Masks). In late August, eOne received a takeover offer from US-listed toy and entertainment company Hasbro. News of the bid sent eOne's shares soaring by almost a third.

China Water Affairs Group was one of the largest detractors over the month, despite the absence of any adverse news on the company or the industry. However, like most utilities, China Water Affairs does have relatively high gearing as part of its business model, and this may have raised concerns given the general weakening of the Chinese economy and tightening local credit conditions. In addition, some China utilities, including waste-to-energy operator China Everbright Intl which we also own, similarly had a poor month as they are experiencing delays in getting paid by various government entities, which is souring investors.

Outlook

Markets are entering a period of peak uncertainty where both the seasonal effect (markets tend to fall this time of year) and the data flow worsen. Market pricing is implying that the poor data is a lagged effect and improved liquidity from lower interest rates will see the real economy start to improve, or in the consumers' case, not worsen. This is perhaps too optimistic in our view. We think that prior inflection points require a catalyst (oil, the Fed in 2016; Draghi in 2012) and as such without one, our positioning remains somewhat cautious with cash levels rising to circa 10% and 4% of the Fund in Gold Futures. This will be actively managed if news flow support a more optimistic stance.

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	\$ 1.7164
Funds Under Management - Fund (AUD)	\$ 76m
Funds Under Management - Morphic (AUD) ⁶	\$ 167m

Top 10 Active Positions

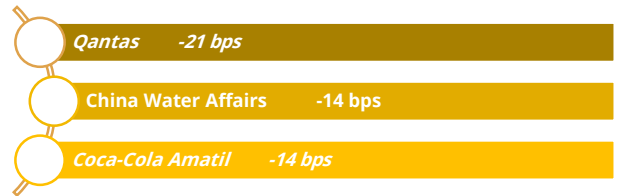
Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	3.7%
Service Corp	US Deathcare	North America	3.5%
Coca-Cola Amatil	Beverages	Asia Pacific	(2.9%)
Bank Leumi	Israeli Bank	Middle East	2.2%
Kion Group	Industrial Equipment	Europe	(1.8%)
Jungheinrich	Industrial Equipment	Europe	1.8%
Kuehne + Nagel	Global Freighters	Europe	(1.7%)
Qantas	Australian Airline	Asia Pacific	(1.5%)
Prada	Luxury Retailers	Europe	(1.3%)
Kurita Water	Water Utility	Asia Pacific	1.1%

Risk Measures	
Net Exposure ⁷	95%
Gross Exposure ⁸	125%
VAR ⁹	1.60%
Upside Capture ¹⁰	94%
Downside Capture ¹⁰	84%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.70%
Average Loss in Down Months	-1.95%
Annual Volatility	9.49%
Index Volatility	9.82%

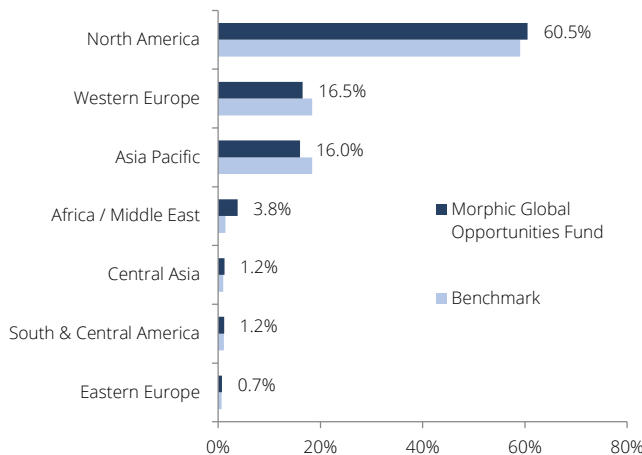
Top three alpha contributors¹² (bps)



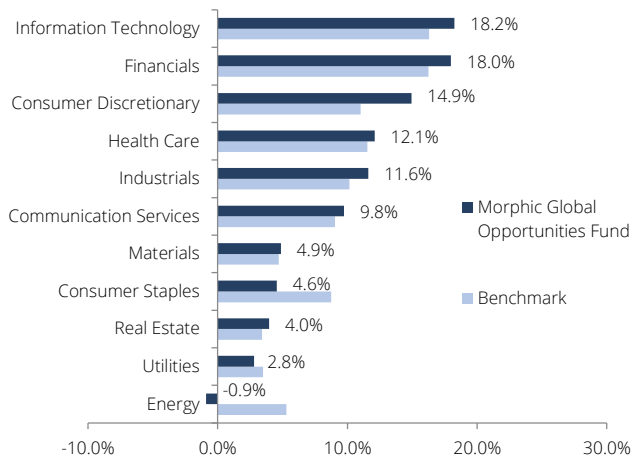
Top three alpha detractors¹² (bps)



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, 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.