



Signatory of:

Principles for Responsible Investment

# MORPHIC GLOBAL OPPORTUNITIES FUND

## Monthly Report

January 2018

### 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	1 Year (p.a.)	3 Years (p.a.)	5 Years (p.a.)	ITD p.a.
Morphic Global Opportunities Fund	1.92%	2.27%	1.92%	18.20%	9.08%	16.15%	17.54%
Index <sup>1</sup>	2.04%	3.61%	2.04%	19.51%	10.45%	16.79%	18.02%

### Portfolio review

The Fund rose 1.92% in January, roughly in line with benchmark.

Global markets were up 5.6% in USD terms for the month, but offsetting this the Australian dollar rose strongly, up 3% again last month. This was the third strongest start to a year in over 30 years. Emerging Markets were the strongest region, up 8.3%, continuing their trend from 2017. USA (+5.6%) was in line, with Japan (+4.6%) the slight laggard. Banks (+8.3%) and other cyclical led, with utilities (-0.6%) suffering from rising interest rates. All returns above are in USD terms to allow comparisons.

Our long-held position in Bank of Internet was the largest contributor as it benefitted from both the buying of banks and good stock specific news. The company's results for 2017 showed the business continues to improve, with margins remaining high and charge-offs low. Even after this move, the stock has not re-rated to where it was before a series of short-selling 'hit pieces' published over the last few years, suggesting further upside. We have trimmed but remain holders.

Cosmos, the short leg of our Japanese drugstore pairs trade composed of long Kusuri No Aoki and short Cosmos was the second largest contributor. Cosmos reported results suggesting falling profitability in its key markets and future capital expenditure. After Cosmos fell heavily on the announcement, we closed the position.

Our largest detractor for the month was our short position in Prada. The stock rose strongly on the back of a general rally in Asian stocks combined with the hope that sales and margins improve in line with reported peers. We cut our position and will await to see how trading conditions evolve.

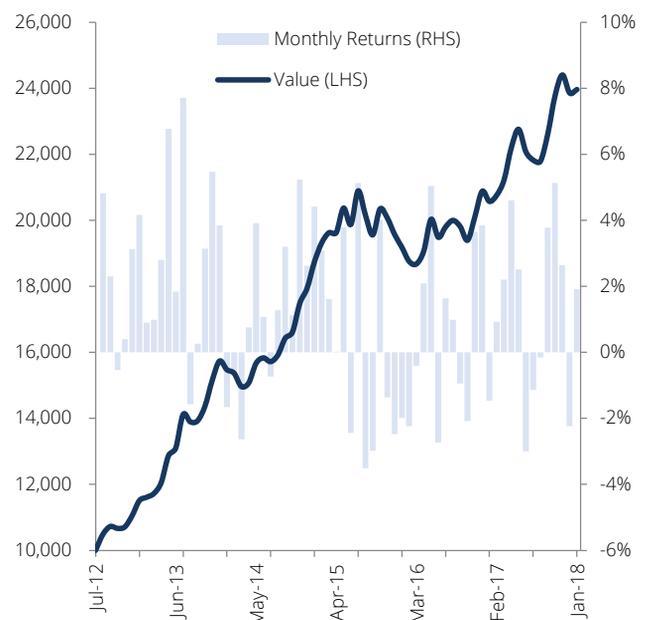
### Outlook

Whilst as a general rule we keep the performance report to what happens in the relevant month, the post-month end moves in markets do warrant some comment. We have written a [blog for investors](#) outlining our views of what is taking place and our thoughts on how we manage through this.

In December, [we wrote](#) that it would be "interesting" to observe how bonds react to improving data. January saw them start to price in the better real world and it seems bonds got their answer – moving to 2.9% or 50bps in a month was too much.

The real world and its "shadows" that are financial markets have a close relationship over long periods of time. In a world of fewer active managers, one cost is lower diversity of buyers. The financial world is more "brittle" than it was before. Whether this is what regulators intended is another matter. We saw this in 2015 and in 2010. We would argue this is the same again. But the real world is robust for now and we remain of the view that markets will adjust to reflect the real world, not the other way around.

### Performance of AUD \$10,000



### Key Facts<sup>2,3</sup>

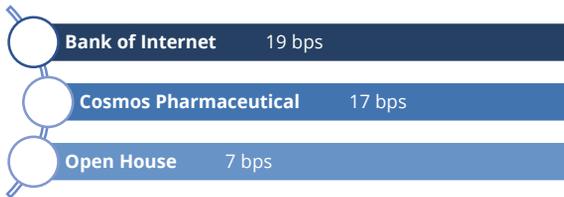
Launch Date	August 2 <sup>nd</sup> , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee <sup>4</sup>	1.35%
Performance Fee <sup>5</sup>	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$1.6824
Funds Under Management – Fund	\$144m
Funds Under Management - Strategy	\$197m

## Top 10 Active Positions

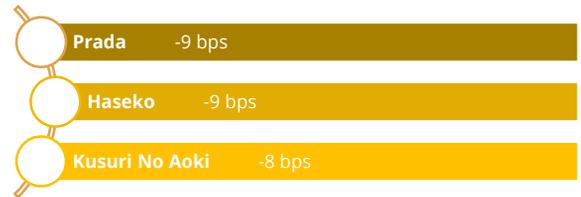
Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.0%
China Everbright Intl	Environmental & Facilities	Asia Pacific	2.9%
Wells Fargo	US Quality Banks	North America	(2.8%)
Macromill	Global Research	Asia Pacific	2.7%
Service Corp	US Deathcare	North America	2.6%
Hazama Ando	Engineering & Construction	Asia Pacific	2.5%
Western Alliance	US Quality Banks	North America	2.5%
Panalpina	Global Freighters	Europe	(2.4%)
Ateam	Japanese E-Commerce	Asia Pacific	2.0%
Bank of the Ozarks	US Quality Banks	North America	1.9%

Risk Measures	
Net Exposure <sup>6</sup>	101%
Gross Exposure <sup>7</sup>	125%
VAR <sup>9</sup>	0.87%
Upside Capture <sup>9</sup>	102%
Downside Capture <sup>9</sup>	88%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.97%
Average Loss in Down Months	-1.77%
Annual Volatility	9.57%
Index Volatility	9.61%

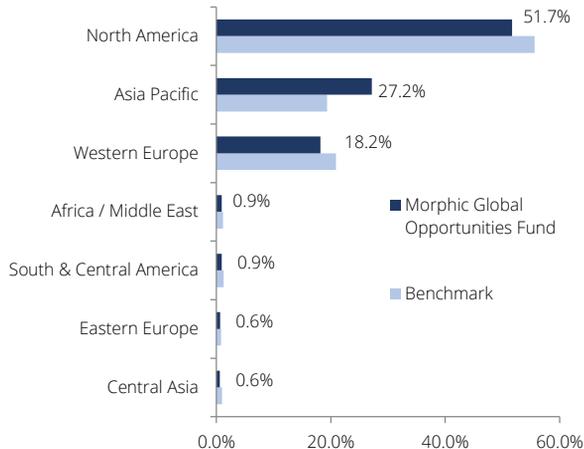
## Top three alpha contributors<sup>11</sup> (bps)



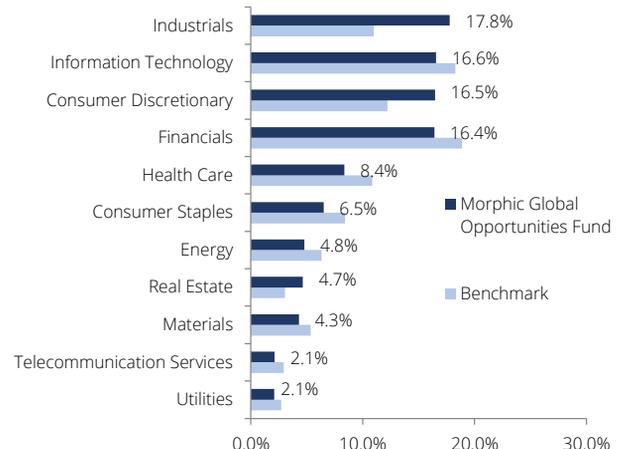
## Top three alpha detractors<sup>11</sup> (bps)



## 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, 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 Includes Equities and Commodities - longs and shorts are netted; 7 Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; 8 VAR is Value at Risk based upon the 95th percentile with a 1 day holding period using a 1 year look back; 9 Based on gross returns since Fund's inception; 10 As a percentage of the Fund's Value at Risk (VaR) Limit; 11 Attribution: relative returns against the Index excluding the effect of hedges.