



Signatory of:



MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
February 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	0.03%	-0.33%	1.95%	17.15%	7.99%	15.95%	17.28%
Index ¹	-0.45%	0.18%	1.58%	17.21%	8.50%	16.25%	17.65%

Portfolio review

The Fund rose 0.03% in February outperforming a falling market. Global markets were down 4.4% in USD terms for the month, but a falling Australian dollar (-4%) offset the Index' fall (-0.5% in AUD).

It was a wild ride in February with markets down 7.6% at one stage, on fears of rising interest rates, which then led to technical selling after some volatility funds experienced heavy losses. Despite the fall, global markets remain +1% for the year. Europe fell the heaviest over the month (-6.1%), along with Asia (-4.9%). Japan was the best performer (-1.5%). Energy was the worst sector globally (-8.6%) and tech hardware (+1.8%) was the only sector with a positive return for the month.

The Fund was able to outperform against this volatile backdrop. Investors Cloud in Japan was our top performer over the month. The Fund added to its position during the market sell-off and reduced it later in the month after the stock rallied over 40%. We were able to meet with the founder on his recent roadshow trip to Australia and we remain very impressed with the business he has built. Nonetheless, at over 30x P/E, up from 16x when we bought it, the market is "baking in" most of the good news.

Macromill in Japan was the second largest contributor over the month. The market has digested the sell down from Bain with remarkable ease thus far. However, valuation is becoming a concern and the position has now been scaled down.

Our largest detractor was our position in Japanese construction company Hazama Ando. After the company reported soft quarterly results and a weak order book, the stock sold off heavily. We have reduced the size but await a one-on-one in Tokyo to decide whether this is transitory or of longer term concern.

Outlook

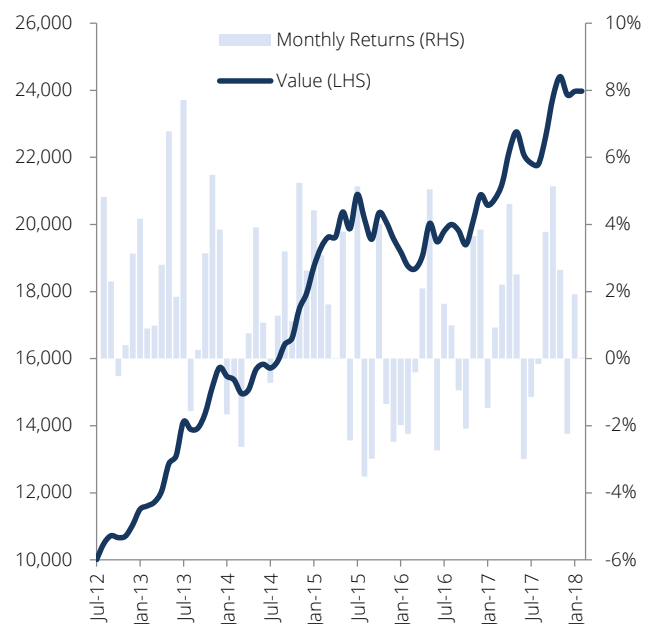
After a [highly volatile start](#), markets did stabilise and rose over the month from the lows. Our view is that markets trade in a wide band as the competing forces of higher interest rates are globally pushing against a tailwind of rising earnings forecasts.

The median 2018 EPS growth for Asia is currently 17%, suggesting earnings are rising at 1.4% *per month*. If P/E stays constant, a simple calculation suggests markets will rise by 17% this year. Although in the past, this sort of EPS growth and valuation saw Asian markets rise by 24%.

We remain of the view that the tailwind of higher earnings will push markets to new highs later this year. A disorderly bond market is still a risk, although bond investors don't seem worried about it as bond volatility remains low.

Some hedges are in place, with the Fund long the Yen, as the Yen tends to do well in "risk-off" environments. Reflecting the more constructive stance, the Fund remains fully invested.

Performance of AUD \$10,000



Key Facts^{2,3}

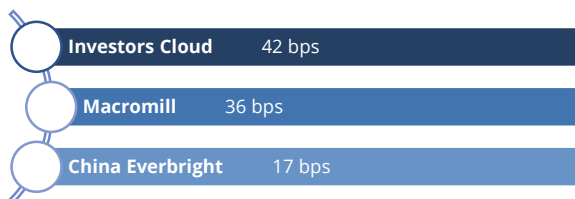
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.35%
Performance Fee ⁵	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$1.6830
Funds Under Management - Fund	\$145m
Funds Under Management - Strategy	\$198m

Top 10 Active Positions

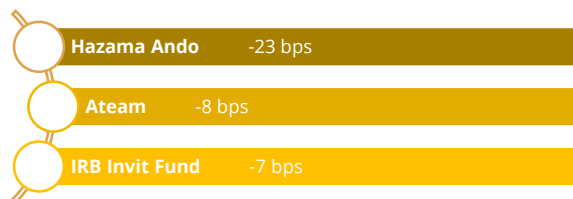
Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.0%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.0%
Service Corp	US Deathcare	North America	2.5%
<i>Panalpina</i>	Global Freighters	Europe	(2.3%)
Macromill	Global Research	Asia Pacific	2.1%
Open House	Japanese Homebuilders	Asia Pacific	1.9%
IRB Invit Fund	Indian Infrastructure	Central Asia	1.8%
DSV	Global Freighters	Europe	1.8%
Bank of Internet	US Quality Banks	North America	1.6%
Haseko	Japanese Homebuilders	Asia Pacific	1.4%

Risk Measures	
Net Exposure ⁶	104%
Gross Exposure ⁷	136%
VAR ⁹	1.02%
Upside Capture ⁹	102%
Downside Capture ⁹	87%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.91%
Average Loss in Down Months	-1.77%
Annual Volatility	9.44%
Index Volatility	9.50%

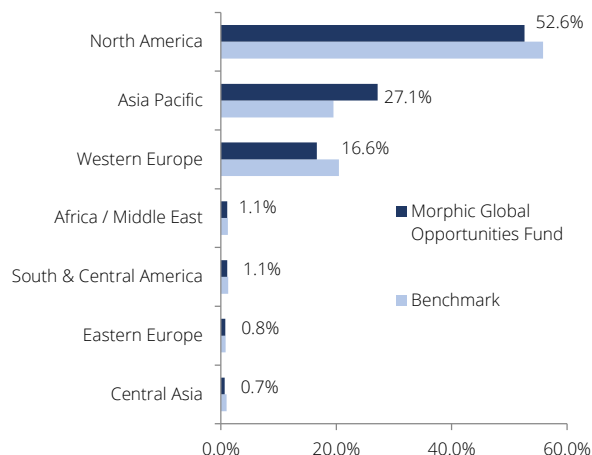
Top three alpha contributors¹¹ (bps)



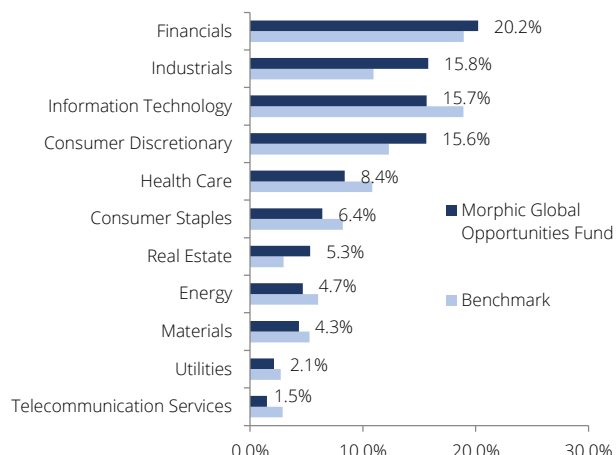
Top three alpha detractors¹¹ (bps)



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.