

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
April 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	0.91%	1.67%	3.61%	11.36%	7.99%	15.46%	17.07%
Index ¹	2.59%	1.53%	3.60%	13.11%	9.02%	15.96%	17.50%

Portfolio review

The Fund rose 0.9% in April, trailing global markets for the month (+2.6%). Global markets rose 0.8% in USD terms, with a falling Australian dollar (-1.8%) assisting Australian investors.

April saw a continuation of 2018's theme of higher volatility but ultimately settled with a small increase over the month. Markets remain trapped in a large range, with both bulls and bears seeing enough to confirm their views, yet neither able to drive the market one way or the other.

Europe was the best performing region over the month (+2.2%), with Emerging Markets (-0.6%) the worst. April saw oil prices rise on the back of fears of increasing tensions with Iran, leading to the Energy Sector (+8.2%) being the best performing. Tech hardware (-0.4%) was the worst.

The Fund's largest contributor for the month was the combined returns from our short Prada / long Kering (Gucci) idea. Kering reported excellent operating results, which saw the stock rally strongly over the month. With the imminent spin-off of their Puma stake, the stock is re-rating as a pure-play on luxury goods, with their Gucci brand growing strongly.

The largest detractor over the month was the Fund's long position in Philips Lighting. The company reported earnings which fell short of expectations, as one of their largest customers in the USA failed to take delivery of orders, leaving them with higher inventories and lower sales. The Fund has decided to exit the position as this was a previously unidentified risk, suggesting that there are issues that both us and the market are unaware of that will take time to work through.

Outlook

Last month, we outlined why we remained bullish, highlighting earnings revisions and indicators of economic growth.

It should be noted that earnings revision rates for April have fallen from elevated levels and the post March-end forward indicators of economic growth have softened for several regions of the world. Whilst both are still at elevated levels compared to history, the saw is "markets are made at the margin".

The Fund will be watching for whether there is a continuation of these trends, particularly the recent strength in the USD, which affects the Fund's Asian holdings. At this stage, the view continues to be that this is more like the softening of the 2005-06 period that accompanied good equity returns.

The Fund has unwound its hedges on its USD long positions against the AUD and closed its hedges against rising interest rates. Softening data will see rates struggle to move higher from here. Regional positioning remains unchanged from last month.

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	\$ 1.7105
Funds Under Management – Fund (AUD)	\$ 143m
Funds Under Management – Strategy (AUD)	\$ 201m

Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	3.3%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.1%
Western Alliance	US Quality Banks	North America	2.7%
Service Corp	US Deathcare	North America	2.6%
Macromill	Global Research	Asia Pacific	2.3%
Haseko	Japanese Homebuilders	Asia Pacific	2.2%
Coca-Cola Amatil	Beverages	Asia Pacific	(2.2%)
Open House	Japanese Homebuilders	Asia Pacific	2.1%
Eagle Bancorp	US Quality Banks	North America	2.0%
Bank of Internet	US Quality Banks	North America	1.9%

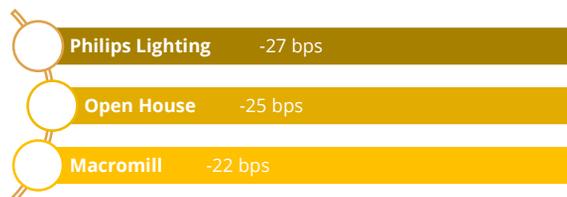
Risk Measures	
Net Exposure ⁶	101%
Gross Exposure ⁷	125%
VAR ⁸	1.06%
Upside Capture ⁹	101%
Downside Capture ⁹	84%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.82%
Average Loss in Down Months	-1.77%
Annual Volatility	9.31%
Index Volatility	9.41%

Hedge Positions	Risk Limit Utilisation (%) ¹⁰
Short AUD against USD	1.6%
Short Bonds	0.1%

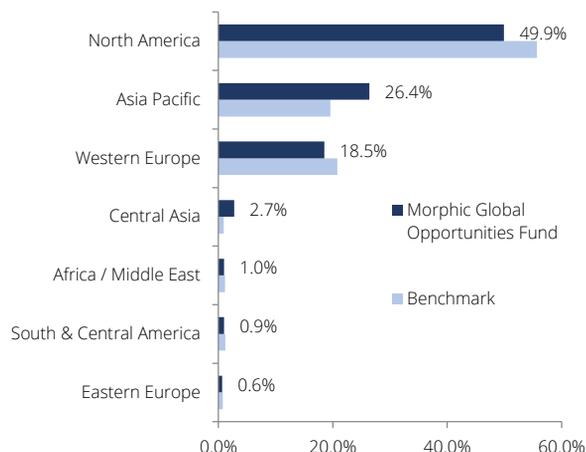
Top three alpha contributors¹¹ (bps)



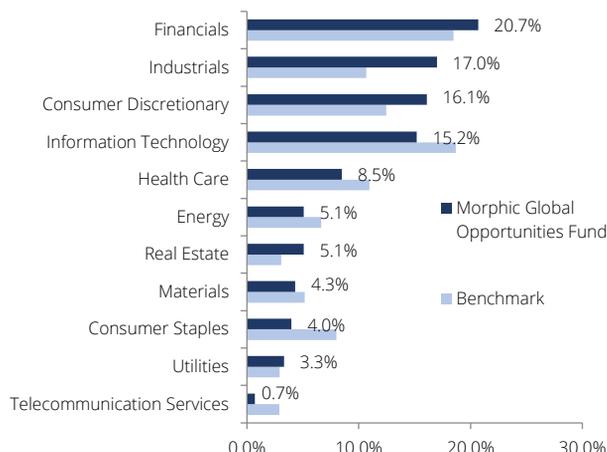
Top three alpha detractors¹¹ (bps)



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, APRI 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.