



# MORPHIC GLOBAL OPPORTUNITIES FUND

**Monthly Report**  
May 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	3 Years (p.a.)	5 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	0.41%	2.05%	4.03%	9.06%	6.81%	14.05%	<b>16.88%</b>
Index <sup>1</sup>	-0.11%	1.87%	3.48%	10.03%	7.94%	14.16%	<b>17.20%</b>

### Portfolio review

The Fund rose 0.4% in May, ahead of global markets (-0.1%). Global markets fell -0.2% in USD terms, with a small fall in the Australian dollar proving the difference.

May saw markets rise only to then fall back, unable to break definitively in either direction. The politics of Italy dominated the headlines as investors feared the new coalition in Italy would reignite the Euro crisis of 2012.

Unsurprisingly, Europe was the worst performing market over the month (-4.0%). Emerging Markets continued to underperform (-3.8%) and the US market performed the best (2.2%).

The largest contributor for the month was the long-held position in Open House. Open House reported another set of excellent quarterly earnings, beating guidance. More importantly, they issued guidance for the coming year that is substantially ahead of market expectations. We remain holders, but to reduce market risk, we have started shorting Iida Group, which has rallied back since we closed the short in December. We believe Iida remains an inferior business to Open House.

The biggest detractor for the month was our long-held position in Japanese market research company Macromill. Taking into consideration the impact of Yen weakness and a recent acquisition, recently reported quarterly results were unexpectedly weak and management indicated that meeting their full-year guidance will be challenging. Our risk management framework resulted in a reduction of the position.

### Outlook

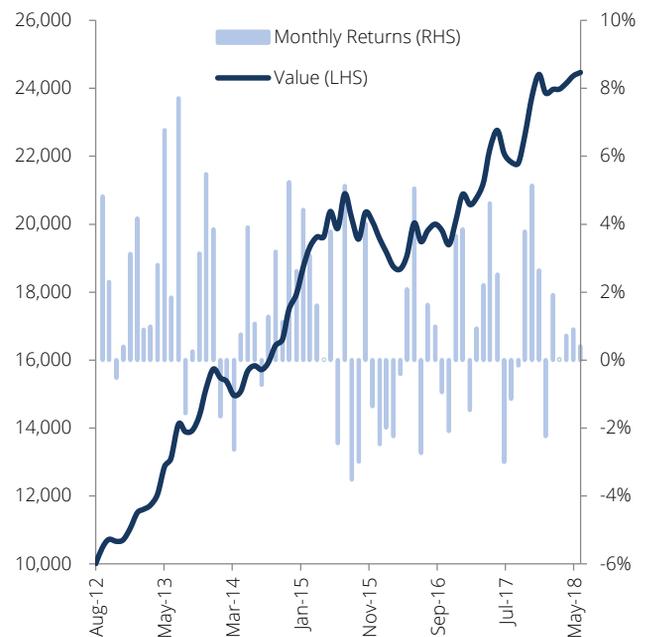
The manifestation of market fears has shifted from Trump and Trade, to Italy and whether the European project is under threat. Italian bond yield spreads have surged, raising the cost of funding the country's debt.

"Markets tend to overestimate the short-term impact and underestimate the long-term impact". The coming months are likely to be less eventful than priced, but the size of Italy means that Greek-style negotiations are unlikely to end the same way.

The other macroeconomic trend of note since February has been the resurgent USD, driven by higher US interest rate expectations. One side effect has been the weaker performance of emerging markets in USD terms. The confluence of Italian uncertainty and a slight change in tone from the US Federal Reserve has seen US interest rate expectations fall which should be supportive of the Fund's regional positioning in Asia from here.

The Fund increased its exposure to Japan and Hong Kong over the course of the month. Reflective of the view that outcomes are balanced here, the Fund has minimal foreign exchange hedging currently in place.

### 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	\$ 1.7174
Funds Under Management – Fund (AUD)	\$ 139m
Funds Under Management – Strategy (AUD)	\$ 198m

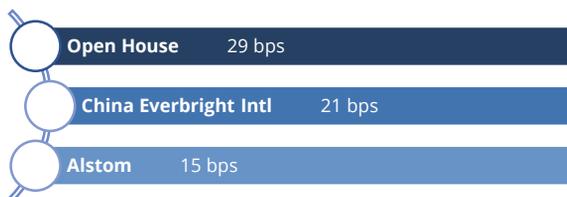
## Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.5%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.3%
Service Corp	US Deathcare	North America	3.2%
Open House	Japanese Homebuilders	Asia Pacific	3.0%
Haseko	Japanese Homebuilders	Asia Pacific	2.9%
Western Alliance	US Quality Banks	North America	2.8%
Coca-Cola Amatil	Beverages	Asia Pacific	(2.2%)
Eagle Bancorp	US Quality Banks	North America	2.1%
New York Community Bancorp	US Quality Banks	North America	(2.0%)
Iida	Japanese Homebuilders	Asia Pacific	(1.9%)

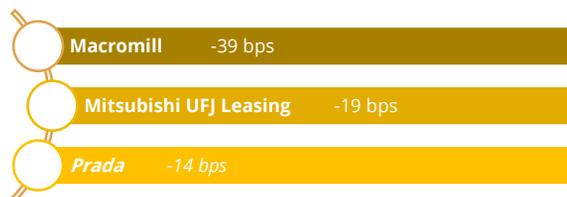
Risk Measures	
Net Exposure <sup>6</sup>	100%
Gross Exposure <sup>7</sup>	138%
VAR <sup>8</sup>	1.12%
Upside Capture <sup>9</sup>	101%
Downside Capture <sup>9</sup>	82%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.77%
Average Loss in Down Months	-1.77%
Annual Volatility	9.25%
Index Volatility	9.36%

Hedge Positions	Risk Limit Utilisation (%) <sup>10</sup>
Long EM Puts	0.3%

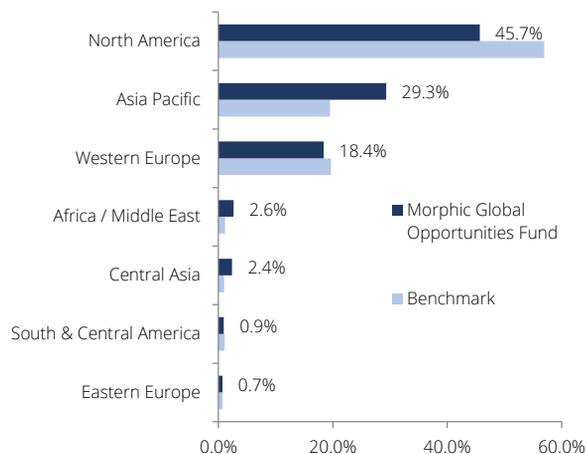
## Top three alpha contributors<sup>11</sup> (bps)



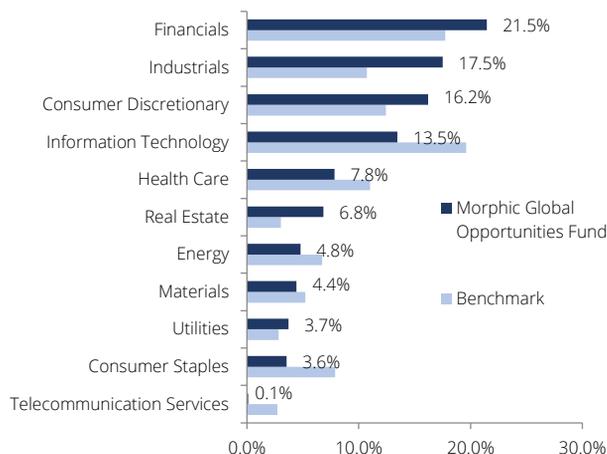
## Top three alpha detractors<sup>11</sup> (bps)



## 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.