



MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
June 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	-0.32%	0.99%	3.70%	12.08%	7.57%	13.56%	16.57%
Index ¹	1.85%	4.37%	5.40%	14.95%	9.62%	14.20%	17.31%

Portfolio review

The Fund fell -0.3% in June, trailing global markets for the month (1.9%). Global markets fell -0.7% in USD terms, with a decent fall in the Australian dollar providing a cushion for Australian investors.

If May was characterised by a lack of direction, June was about “divergence”. President Trump’s trade rhetoric and increasing “tit for tat” replies from China and Europe dominated headlines and markets. US markets were up 0.5%, but in contrast Emerging Markets (-4.6%), Asia Ex Japan (-4.1%) and Japan (-2.6%) all suffered sizeable losses for the month.

The largest detractor for the month was our position in China Everbright. Stock specific news was minimal, but like many of our holdings in Asia, the stock was caught up in the China selloff (-10%), and dropped 16% over the month. The stock was stopped out to prevent further losses. The Manager is of the view that this is not stock specific and will actively consider re-entering after the stop loss “cooling off” period.

On the positive side, a large contributor was China Water Affairs. The company reported earnings post the end of the month, which were well ahead of consensus expectations, with the stock outperforming into those results. The company increased the dividend and announced an additional special dividend. The Manager has done several calls with management now, along with one-on-one meetings in Beijing and Tokyo, and we still believe this stock is under-appreciated by the market, trading on 10x P/E with good growth prospects.

Outlook

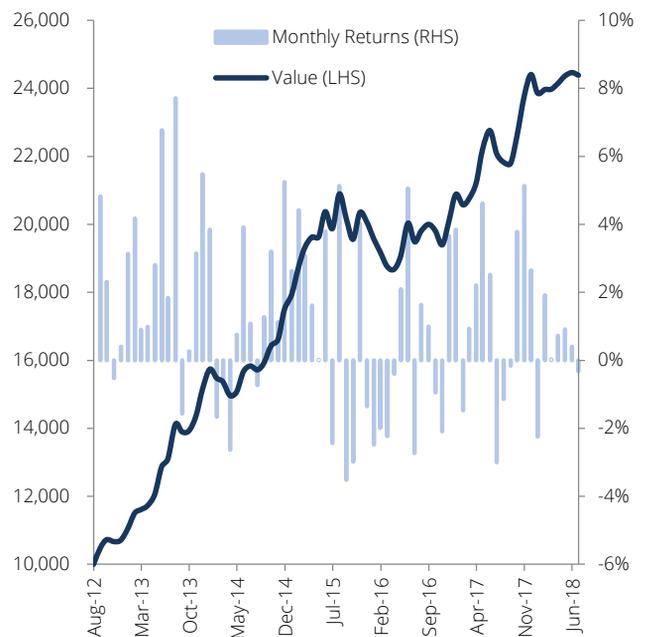
There is a fine line between conviction and stubbornness, and one must always try to adapt views to reality. The Fund had consistently positioned in 2018 for the view that looking through “Trump tirades” was the optimal course of action. Market price action, particularly in our area of focus, Asia, over the last three months has not supported this view.

Reflective of adapting to this reality, cash levels were raised, with the net exposure decreased towards the end of the month. It appears Chinese credit growth is slowing in the background and global growth indicators continue to slow outside the USA – and this is before any tariffs come in.

For now though, we don’t see the bear market beginning just yet. A flattening yield curve and widening credit spreads from low levels tends to be normal late cycle behaviour in which equities perform well.

Long USD and JPY exposure was increased over the month. More discussion on our outlook is to follow in the Half Yearly report to investors, which will be published later this 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 (CUM)	\$ 1.7119
Funds Under Management – Fund (AUD)	\$ 123m
Funds Under Management – Strategy (AUD)	\$ 182m

Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	5.1%
Open House	Japanese Homebuilders	Asia Pacific	3.1%
Haseko	Japanese Homebuilders	Asia Pacific	3.0%
Western Alliance	US Quality Banks	North America	3.0%
Mitsubishi UFJ Lease & Finance	Japanese Leasing Companies	Asia Pacific	2.7%
Service Corp	US Deathcare	North America	2.7%
Tokyo Century	Japanese Leasing Companies	Asia Pacific	(2.6%)
Coca-Cola Amatil	Beverages	Asia Pacific	(2.6%)
Eagle Bancorp	US Quality Banks	North America	2.4%
Iida	Japanese Homebuilders	Asia Pacific	(2.2%)

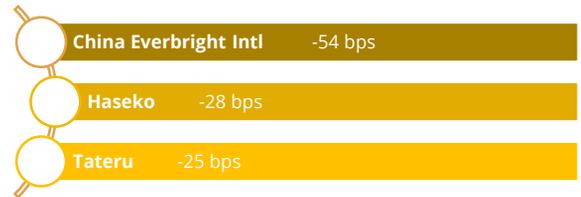
Risk Measures	
Net Exposure ⁶	82%
Gross Exposure ⁷	143%
VAR ⁸	1.10%
Upside Capture ⁹	99%
Downside Capture ⁹	82%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.77%
Average Loss in Down Months	-1.71%
Annual Volatility	9.21%
Index Volatility	9.30%

Hedge Positions	Risk Limit Utilisation (%) ¹⁰
Long Bonds	1.4%
Short AUD vs USD, EUR and JPY	1.0%

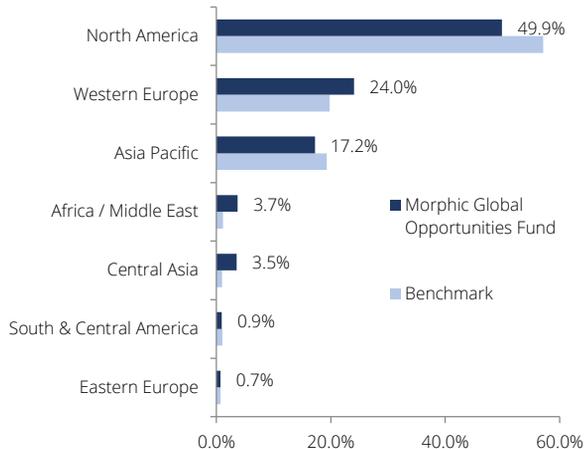
Top three alpha contributors¹¹ (bps)



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.