

**MORPHIC  
GLOBAL  
OPPORTUNITIES  
FUND**

**Monthly Report**  
*June 2019*

**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	3 Years (p.a.)	5 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	3.91%	3.06%	11.53%	9.36%	9.99%	14.50%
Index <sup>1</sup>	5.20%	4.88%	16.60%	13.86%	12.65%	16.43%

\* Past Performance is not an indication of future performance.

**Ethical Investing in Focus**

June marked the start of the Atlantic hurricane season in the Northern hemisphere with 15 major weather events predicted (between 1980 and 2015, the average was five events a year!). To put it in context, the three consecutive, major hurricanes in 2017, Harvey, Irma and Maria were among the ten most costly insured natural catastrophes globally, with total economic costs surpassing \$270 billion. In Europe, you will be warned of the European heatwave with temperatures reaching a record of 45.9C in France, making 2019 on track to be among the hottest years ever. United Nations' World Meteorological Organization states that this is consistent with climate change and the World Economic Forum named extreme weather events as "the risk of greatest concern" earlier this year, with the [impact](#) to be experienced globally.

**Portfolio review**

The Fund rose 3.9% in June, underperforming global markets which rose 5.2% in AUD terms. Global equities rallied 6.4% in USD terms, making it the best June on record.

In June, as May's selloff was reversed all regions of the world posted positive returns. The Tech sector continues to lead global sector performance, while defensive sectors have lagged. During the month, the US (+6.9%) and Europe (+6.5%) outperformed global markets, while Japan (+3.6%) lagged the most. Asia Pac ex-Japan (+5.9%) and Emerging Markets (+5.7%) marginally underperformed.

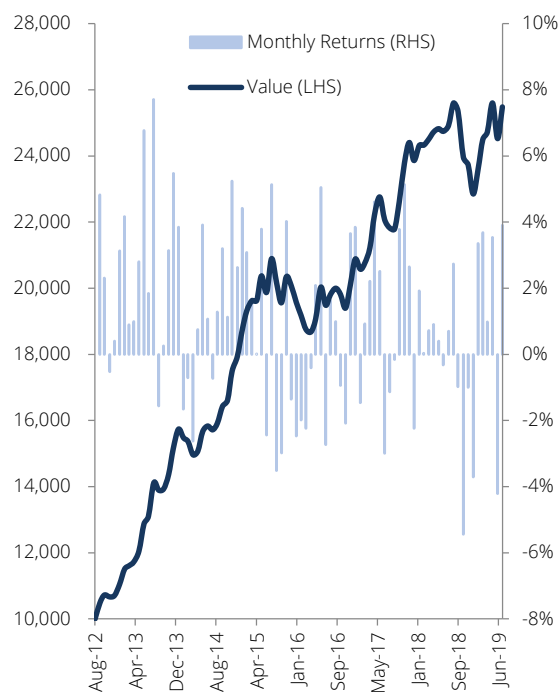
The Fund's largest contributor was the short position in Australian airline Qantas which lagged global markets, as earnings forecasts were cut on weaker Australian demand and domestic passenger traffic. We remain short ahead of the August result as we believe the FY20 outlook will be below expectations as they struggle to increase ticket prices within a weaker Australian economy.

The Fund's position in China Everbright was the largest detractor for the month. However, the stock is paired with a short position in Huadian Power which also fell and was one of the larger positive contributors. As such, the combined effect was more muted. There was no stock/sector specific news of note, with the underperformance mostly attributable to the defensive nature of the stocks underperforming in strong up months.

**Outlook**

With a Federal Reserve cutting rates soon and Trade War tensions put on hold, history says markets stay at elevated levels until the data deteriorates to such an extent that earnings are revised down, and GDP decelerates to a recession level. Whether investors favour Emerging Markets over Developed is less clear, as the path of the US Dollar determines that to some degree. Morphic will publish soon a Half Year Report that delves deeper into our views on the coming six months. Reflective of this uncertainty, the Fund has some upside call options and hedges in US Interest rate futures in place, which should add value if the data doesn't collapse. Both hedges work in a "muddle through" outcome.

**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 (CUM)	\$ 1.6970
Funds Under Management – Fund (AUD)	\$ 77m
Funds Under Management – Morphic (AUD) <sup>6</sup>	\$ 166m

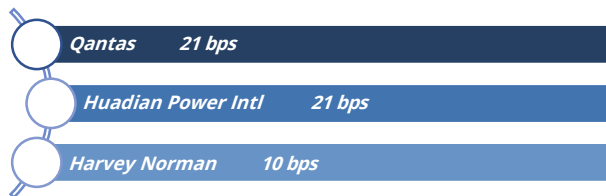
## Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	3.8%
Service Corp	US Deathcare	North America	3.3%
China Everbright Intl	Waste-to-Energy	Asia Pacific	3.2%
Qantas	Australian Airline	Asia Pacific	(2.6%)
Huadian Power Intl	Power Utility	Asia Pacific	(2.3%)
Power Grid	Indian National Electricity Grid	Central Asia	2.2%
Bank Leumi	Israeli Bank	Middle East	2.0%
China Water Affairs	Water Utility	Asia Pacific	1.8%
Platinum Asset Management	Financial Services	Asia Pacific	(1.8%)
Harvey Norman	General Retailers	Asia Pacific	(1.7%)

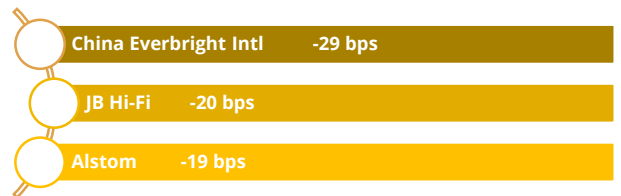
Risk Measures	
Net Exposure <sup>7</sup>	101%
Gross Exposure <sup>8</sup>	136%
VAR <sup>9</sup>	1.57%
Upside Capture <sup>10</sup>	94%
Downside Capture <sup>10</sup>	85%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.76%
Average Loss in Down Months	-1.95%
Annual Volatility	9.59%
Index Volatility	9.91%

Hedge Positions	Risk Limit Utilisation (%) <sup>11</sup>
None	

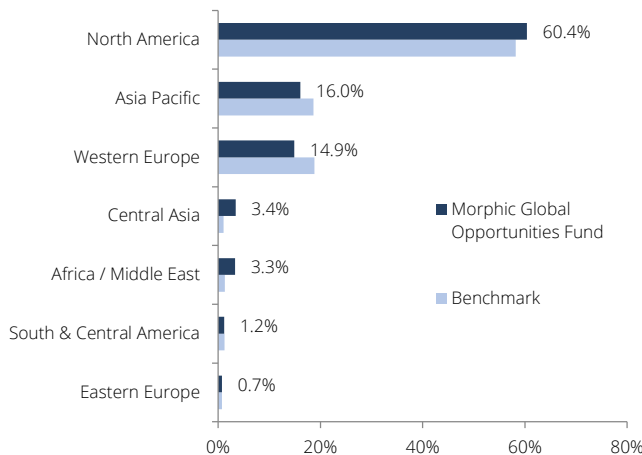
## Top three alpha contributors<sup>12</sup> (bps)



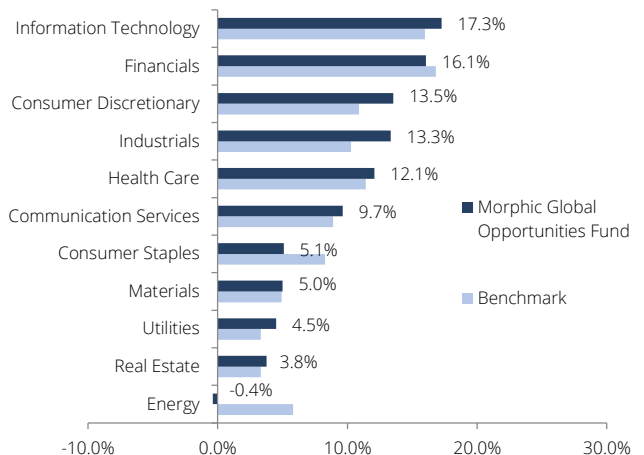
## Top three alpha detractors<sup>12</sup> (bps)



## 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 Total funds under management of Morphic Asset Management; 7 Includes Equities and Commodities - longs and shorts are netted; 8 Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; 9 VAR is Value at Risk based upon the 95th percentile with a 1 day holding period using a 1 year look back; 10 Based on gross returns since Fund's inception; 11 As a percentage of the Fund's Value at Risk (VaR) Limit; 12 Attribution; relative returns against the Index excluding the effect of hedges.