

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
December 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	3 Years (p.a.)	5 Years (p.a.)	ITD (p.a.)
Morphic Global Opportunities Fund	-3.71%	-9.86%	-4.24%	5.29%	7.74%	13.75%
Index ¹	-3.58%	-10.33%	0.64%	7.77%	9.38%	15.02%

Ethical Investing in Focus

The momentum behind Ethical Investing continued throughout 2018 both here in Australia and globally. As more asset owners demand such an approach from their asset managers, taking account of ESG risks in addition to traditional financial aspects of investments will continue to have an ever greater influence on company share prices. An example of this has been the decision of various large investors (including AMP Capital) to divest of all tobacco stocks. [We expect to see even bigger movements](#) around other negative activities such as coal, oil and gas exploration and production.

Portfolio review

The Fund fell 3.7%, falling in line with global shares which fell by 3.6% in AUD terms. The fall was less than the drop in USD terms (-7.2%) as a falling AUD cushioned the impact for Australian investors.

Somewhat unusually, the USA fell the most (-9.2% in USD) with Asia down 3.0% and Europe down 4.7%. In contrast to cyclical regions outperforming, the worst sectors were cyclical, with Energy (-9.2%) and Tech Hardware (-9.0%). Unsurprisingly, Utilities dropped the least (-2.2%).

Axos Financial (formerly Bank of Internet), was the largest detractor over the month as Financial sector stocks came under pressure in a falling market about fears of bad debts and lower lending. The other detractor of note was Macromill in Japan, falling for similar fears about lower advertising and marketing spend that would accompany a global slowdown. A stronger yen (which lowers translated earnings) exacerbates this.

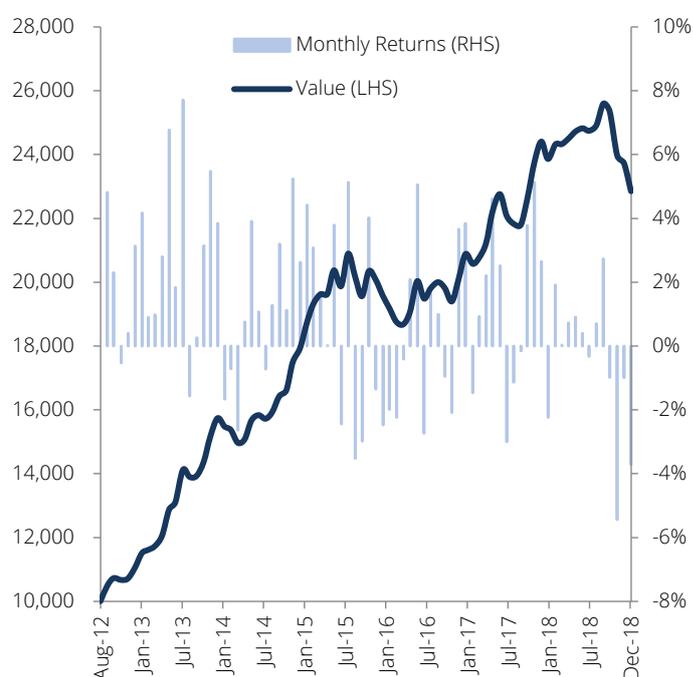
Consistent with broad trends of the month, all the largest positive contributors were in Asia and what can be characterised as "utility like" stocks. China Everbright, China Water Affairs and Power Grid Corporation of India were all amongst the largest positive contributors for the month.

Outlook

A bullish outlook after the falls of the year for the Fund into year-end by remaining fully invested proved to be incorrect as markets suffered the worst December in decades. Normally the seasonality is the opposite – markets tend to rally. Our Half Yearly report due out later this month delves deeper into our reflections on why the Fund was positioned this way and what was misread.

With the caveat that our predictions of markets reactions to news has not been in sync, the Fund continues to be positioned for a rebound from here. Sentiment indicators are extremely negative, as are sell-side revisions. This combination has historically seen positive returns over the coming 12 months. Some small hedges against this are in place with a long USD position. A longer outlook section is included in the upcoming Half Yearly report.

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	\$ 1.5216
Funds Under Management – Fund (AUD)	\$ 74m
Funds Under Management – Morphic (AUD) ⁶	\$ 157m

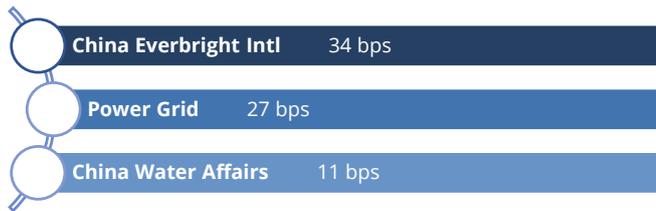
Top 10 Active Positions

Stocks (Shorts)	Sector	Region	Position Weighting
Alstom	Global Rail	Europe	4.4%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.7%
China Water Affairs	Chinese Water Utilities	Asia Pacific	3.2%
Service Corp	US Deathcare	North America	3.0%
Bank Leumi	Israeli Banks	Middle East	2.5%
Power Grid	Indian Infrastructure	Central Asia	2.2%
ICICI Bank	Indian Banks	Central Asia	(2.1%)
Panalpina	Global Freighters Europe	Europe	2.0%
Orix Corporation	Japanese Financial Services	Asia Pacific	1.9%
Axos Financial	US Quality Banks	North America	1.4%

Risk Measures	
Net Exposure ⁷	101%
Gross Exposure ⁸	149%
VAR ⁹	1.38%
Upside Capture ¹⁰	96%
Downside Capture ¹⁰	84%
Best Month	7.71%
Worst Month	-5.44%
Average Gain in Up Months	2.73%
Average Loss in Down Months	-1.87%
Annual Volatility	9.53%
Index Volatility	9.65%

Hedge Positions	Risk Limit Utilisation (%) ¹¹
US 5/30 Steepener	0.8%
Long USD vs EUR and AUD	0.5%

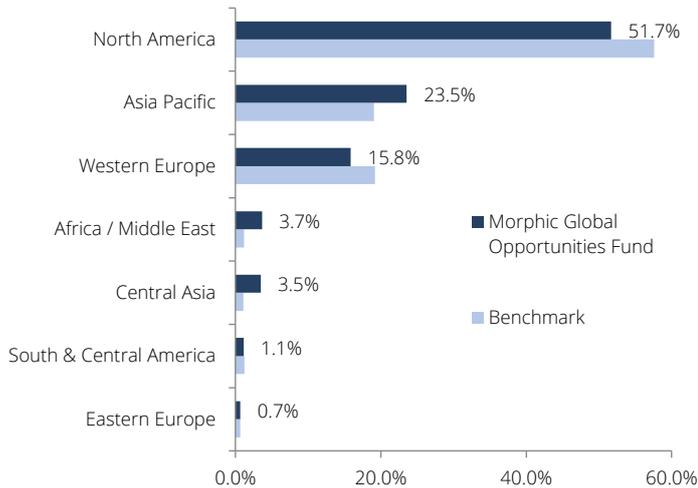
Top three alpha contributors¹² (bps)



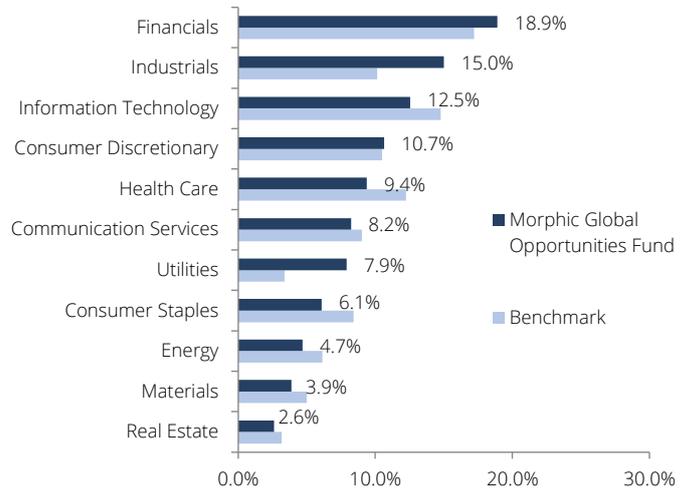
Top three alpha detractors¹² (bps)



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.