

MORPHIC GLOBAL OPPORTUNITIES FUND

Monthly Report
July 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	0.70%	0.79%	4.43%	14.16%	6.04%	12.04%	16.45%
Index ¹	2.39%	4.17%	7.92%	19.17%	8.50%	13.23%	17.51%

Portfolio review

The Fund rose 0.7% in July, trailing global markets for the month (2.4%). Global markets rallied +2.9% in USD terms, with a small rise in the Australian dollar providing the difference.

Headlines on the trade war between the U.S. and China continued to drive markets. Equities initially rallied on news that both countries were holding trade talks, though gave up some of the earlier gains after news that they made little progress in resolving trade disputes. The US (+3.5%) was the best performing region, followed by Europe (+3.3%) with Emerging Markets lagging (+1.7%) and China (-3.1%) suffering the largest losses for the month.

The largest detractor for the month was our long-held position in Open House. Depressed sentiment on the Japanese housing sector saw all stocks in the housing sector fall with the stock dropping 7%. We remain holders and the Fund has added to the position post month-end, after the company announced it will acquire Hawk One, a smaller Japanese home developer. This appears to be a thoughtful acquisition in the Nagoya region that is EPS accretive, yet it has not garnered much attention from the broking community.

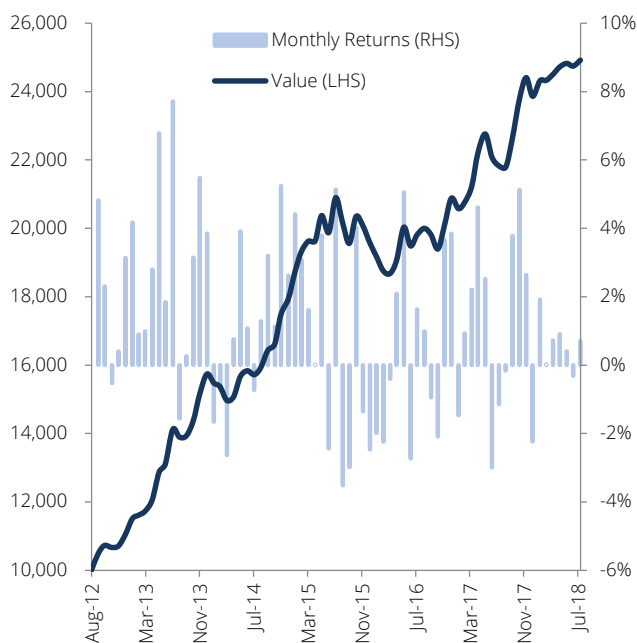
On the positive side, the Fund's largest contributor was China Water Affairs for the second consecutive month. The water facility company reported in July and the better-than-expected growth in profitability, a higher than forecasted dividend and a favourable market outlook pushed the stock higher. We continue to engage with the company on how they can grow investors' awareness of their ESG positives. We believe the stock remains under-appreciated by the market, considering the good growth prospects.

Outlook

The recent [half yearly report](#) outlined our broad outlook for the rest of 2018. Equity markets continue to climb the "wall of worry", with the USA markets either near or through their all-time highs. We are of the view that headwinds (both political and economic) to Asia will continue to be an issue over the coming half, though with valuation being below the long run average and positioning now light, there should begin to show levels of support. As such we will look to hedge out, where possible, a degree of Asia Ex-Japan country risk for now. On the other hand, US long exposure is largely unhedged.

Other hedges remain minimal for now, accessing the full exposure to a strengthening USD. One risk that is being watched is the response by China to tariffs. There would appear to be an emerging push by the Chinese government to increase infrastructure spending to offset any fall in exports. This will have implications for currencies such as the AUD as well as sector selection in the region.

Performance of AUD \$10,000



Key Facts^{2,3}

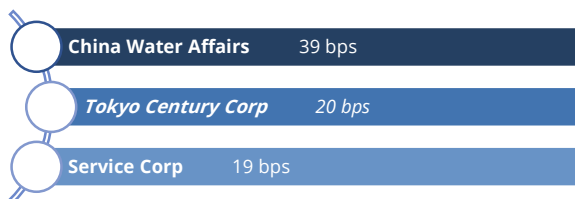
Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ⁴	1.35%
Performance Fee ⁵	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.6594
Funds Under Management – Fund (AUD)	\$ 116m
Funds Under Management – Strategy (AUD)	\$ 176m

Top 10 Active Positions

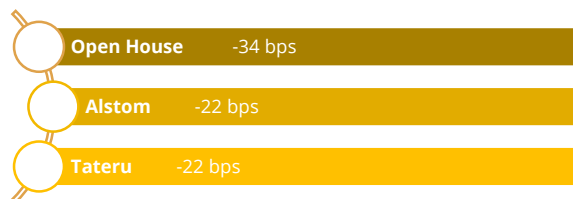
Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	5.2%
Service Corp	US Deathcare	North America	3.1%
<i>lida</i>	<i>Japanese Homebuilders</i>	<i>Asia Pacific</i>	<i>(2.4%)</i>
Open House	Japanese Homebuilders	Asia Pacific	2.3%
Indian Bank	Indian Quality Banks	Central Asia	2.2%
<i>Coca-Cola Amatil</i>	<i>Beverages</i>	<i>Asia Pacific</i>	<i>(2.1%)</i>
Mitsubishi UFJ Lease & Finance	Japanese Leasing Companies	Asia Pacific	2.1%
<i>Tokyo Century</i>	<i>Japanese Leasing Companies</i>	<i>Asia Pacific</i>	<i>(2.1%)</i>
China Water Affairs	Chinese Water Utilities	Asia Pacific	2.0%
IndusInd Bank	Indian Quality Banks	Central Asia	1.6%

Risk Measures	
Net Exposure ⁶	100%
Gross Exposure ⁷	143%
VAR ⁸	1.16%
Upside Capture ⁹	98%
Downside Capture ⁹	82%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.73%
Average Loss in Down Months	-1.71%
Annual Volatility	9.14%
Index Volatility	9.24%

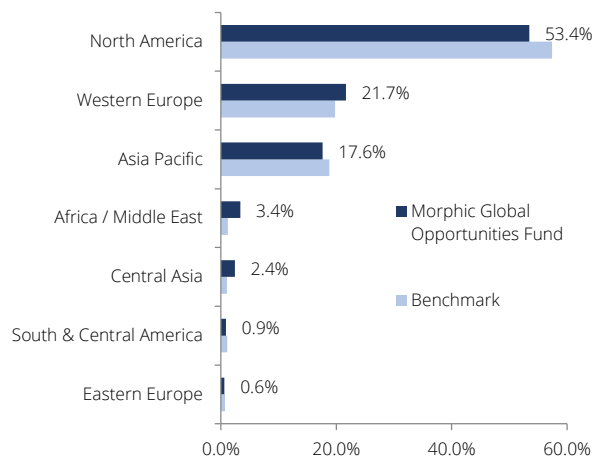
Top three alpha contributors¹¹ (bps)



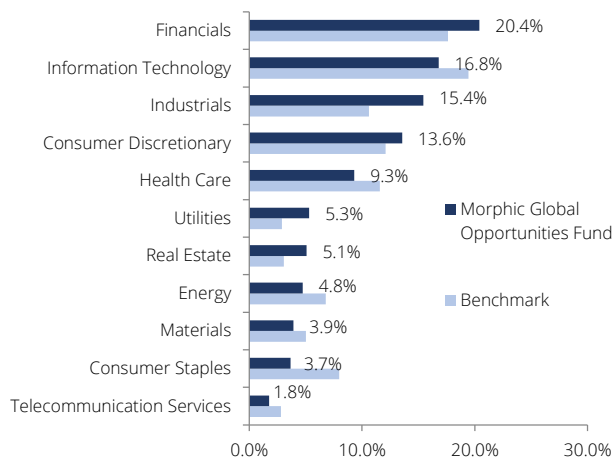
Top three alpha detractors¹¹ (bps)



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.