

Signatory of:

A large circular graphic in the center of the page, featuring a satellite-style image of Earth's surface with blue oceans and brown/gold landmasses. The circle is set against a dark blue background.

# MORPHIC ASSET MANAGEMENT

Global Responsible Investors

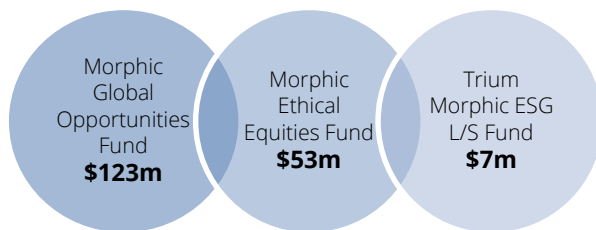
July 2018

# Morphic Asset Management

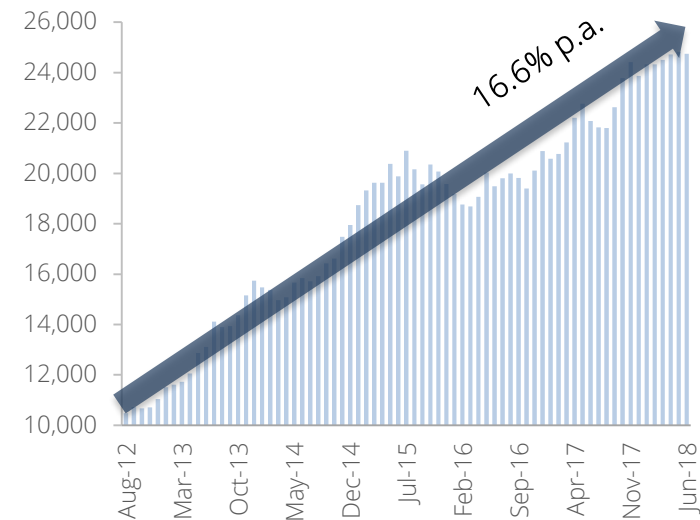
Signatory of:



- Founded in 2012 by portfolio managers with long history of ethical investing
- Market leaders in modern responsible investing
- Achieving above average returns taking less risk, through a long/short strategy
- Investment team is a major investor in the Funds
- Total FUM of \$182m:



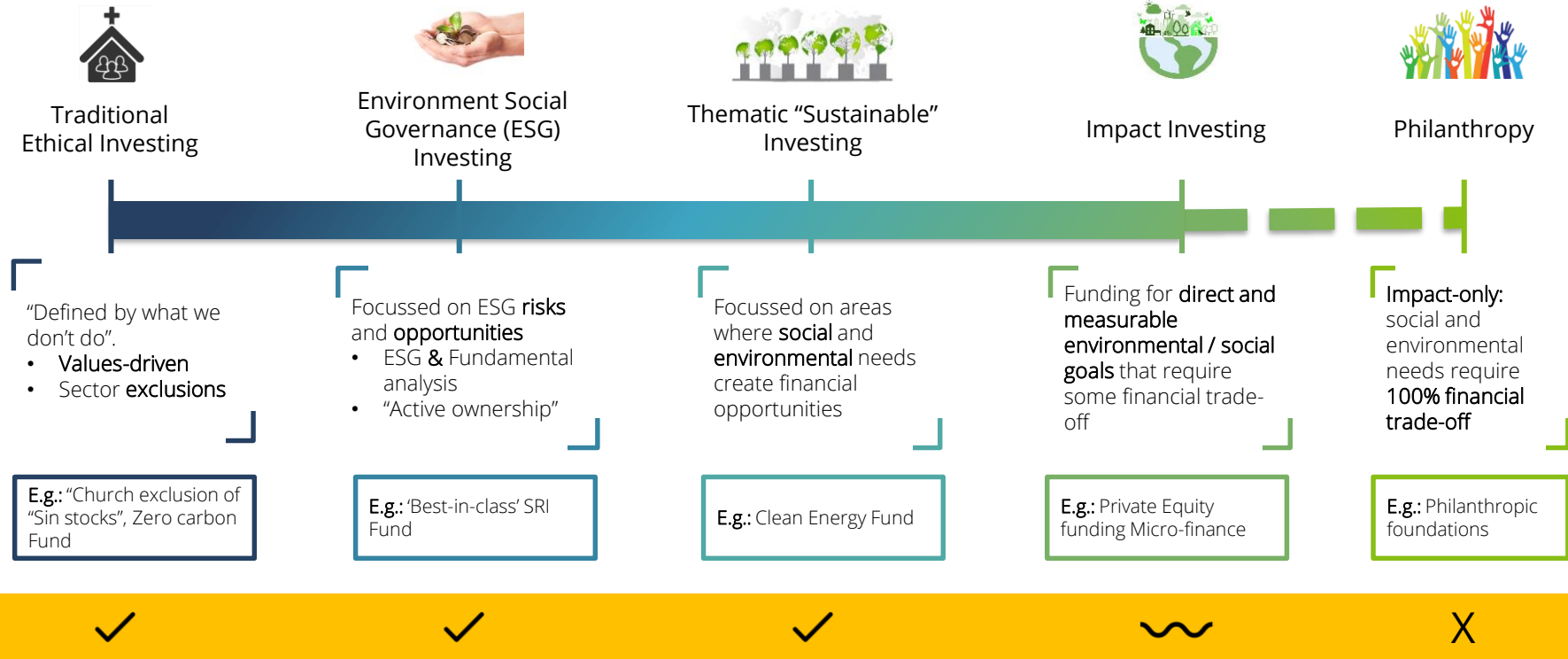
## Morphic Global Opportunities Fund Performance of \$10,000\* AUD, Aug 2012 – Jun 2018



\*Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 2 August 2012.

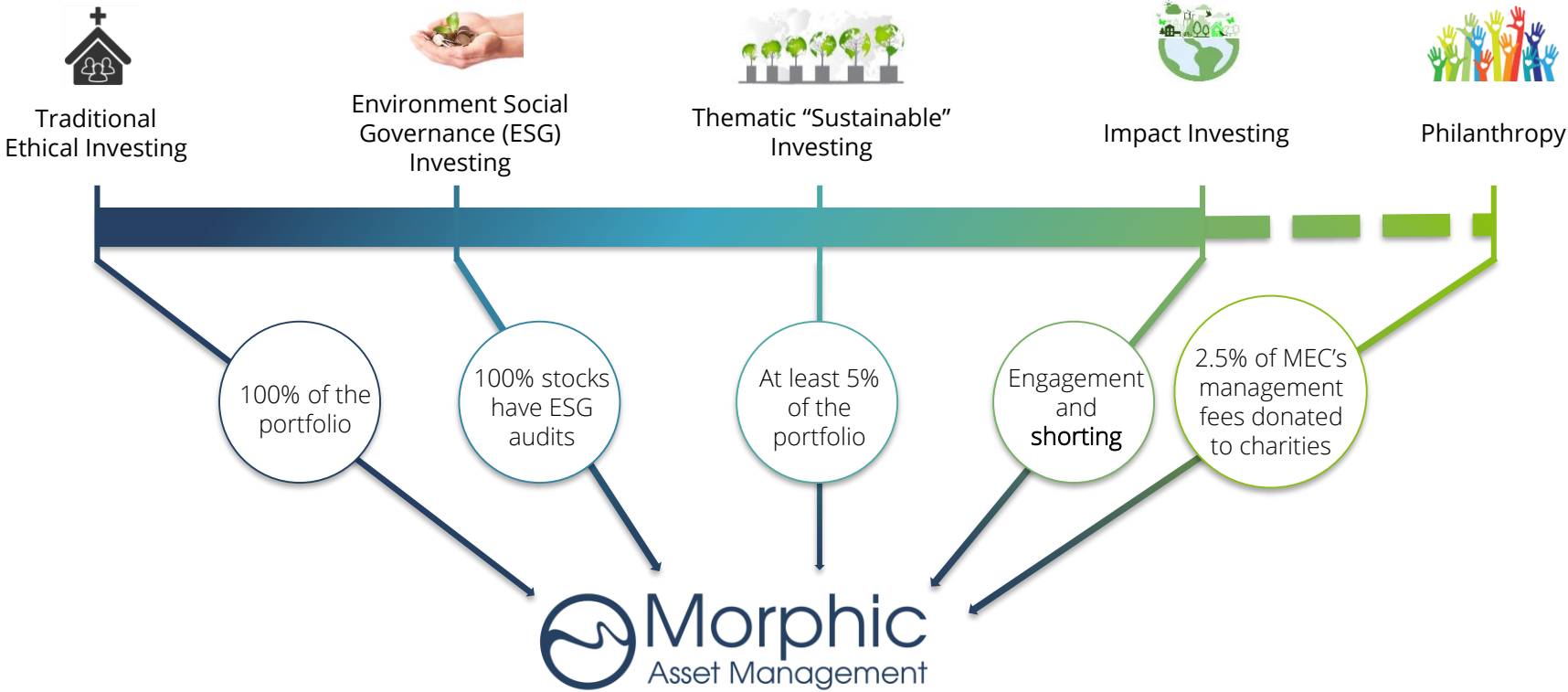


# Responsible Investing styles




Source: Bridge Ventures, 2012

# Morphic's Responsible Investing style



# The explosion of interest for Responsible Investing

- Growth of Responsible Investing AUM between 2014 and 2016<sup>1</sup>:
    - Australia/NZ: **+248%**
    - Global: **+25%**
- 
- Total AUM in  
Australia & NZ  
(2016): **\$AU 24 billion**
- **84%** of Millennials cite investing with a focus on ESG impact as a central goal<sup>2</sup>
  - UBS review of academic studies concluded SRI does enhance returns and doesn't come at a cost<sup>3</sup>

<sup>1</sup> Global Sustainable Investment Review, GSIA, 2016

<sup>2</sup> Morgan Stanley

<sup>3</sup> T. Verheyden (Arabesque Asset Management & Vrije Universiteit Brussel); Z. Nagy (MSCI Inc.), M. Statman (Santa Clara University)

# Our approach to Responsible Investing



## EXCLUDE

Morphic excludes investments in companies fundamentally misaligned with sustainable practices



## ANALYSE & EVALUATE

Morphic integrates consideration of material ESG issues within research and financial analysis



## ENGAGE

Morphic engages with companies to encourage achievement of best-practice in all ESG-related business practices

# Our approach to Responsible Investing

“Negative Screen” excludes buying shares in:



Armaments



Tobacco  
& alcohol



Intensive animal  
farming & aquaculture



Oil & gas



Coal & Uranium  
Mining



Gambling



Rain forest & old  
growth logging

We seek out “positive” investments that support:



Water quality



Air quality



Conservation



Renewable energy

Can **short screened out** stocks and sectors



Ethical compliance check first, before investment research





# PORTFOLIO POSITIONING

# Portfolio positioning

As at 30 June 2018 by country, sector and stock

Stocks ( <i>Shorts</i> )	Theme	Region	Weighting
Alstom	Global Rail	Europe	5.0%
Open House	Japanese Homebuilders	Asia Pacific	3.2%
Haseko	Japanese Homebuilders	Asia Pacific	3.1%
Western Alliance	US Quality Banks	North America	3.0%
Mitsubishi UFJ Lease & Finance	Japanese Leasing Companies	Asia Pacific	2.6%
Service Corp	US Deathcare	North America	2.6%
<i>Tokyo Century</i>	<i>Japanese Leasing Companies</i>	<i>Asia Pacific</i>	<i>(2.7%)</i>
<i>Coca-Cola Amatil</i>	<i>Beverages</i>	<i>Asia Pacific</i>	<i>(2.5%)</i>
Eagle Bancorp	US Quality Banks	North America	2.4%
<i>Iida</i>	<i>Japanese Homebuilders</i>	<i>Asia Pacific</i>	<i>(2.2%)</i>

Positions weighting are as at June 2018 in the Morpic Global Opportunities Fund (MGOF).

# The Big Train that will: Alstom (France)



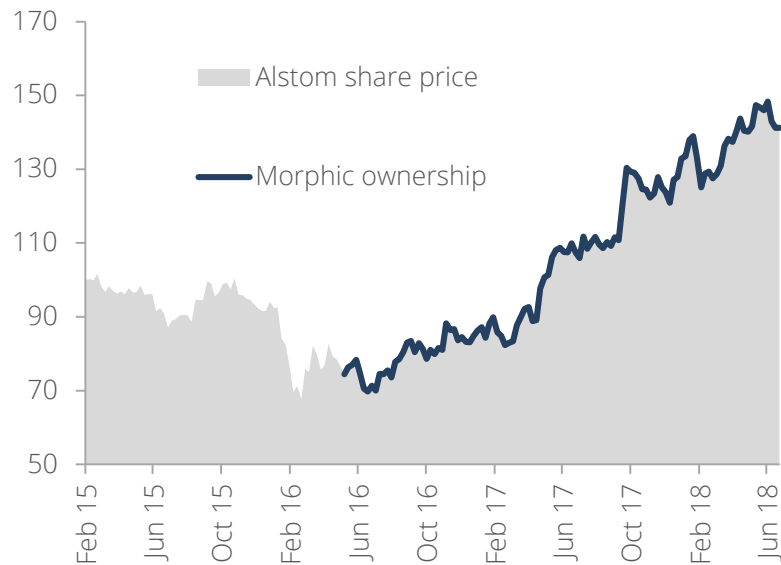
## Alstom (ALO)

- World leader in train technology.
- Cheaply priced for its growth prospects.
- Pioneer of hydrogen fuel-powered, zero-emission regional train.
- Member of Dow Jones Sustainability Indices.
- About to gain market power through merger with Siemens Mobility.



## Alstom share price performance

USD, normalised, February 2015 – June 2018



Source: Bloomberg, Team Analysis

# Stopping the leaks: China Water Affairs (Hong Kong)



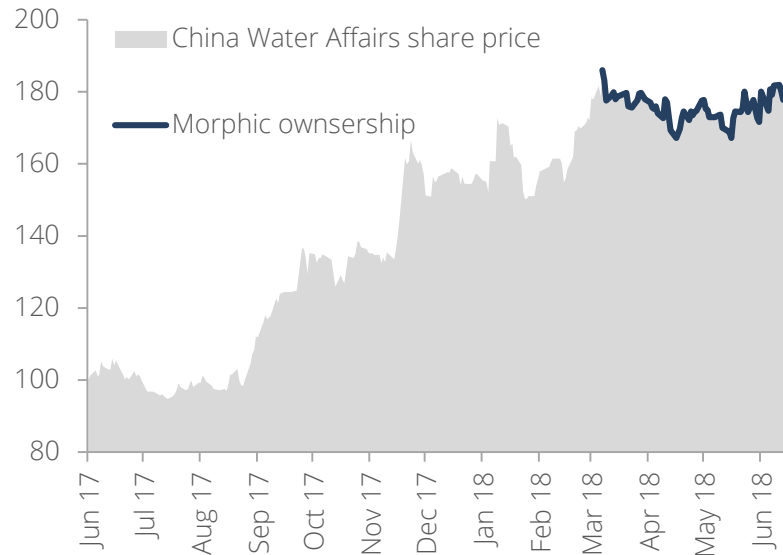
## China Water Affairs (855 HK)

- Fast-growing pipe-water company.
- Cheap and very fast growth.
- Growth drivers from urbanisation, price rises, reducing leakage.
- Market leader in private municipal water supply.
- Focus on reducing wastage in a water-scarce country.



## China Water Affairs share price performance

USD, normalised, June 2017 – June 2018



Source: Bloomberg, Team Analysis

# Shorting the Unsustainable: Coca-Cola Amatil (Australia)



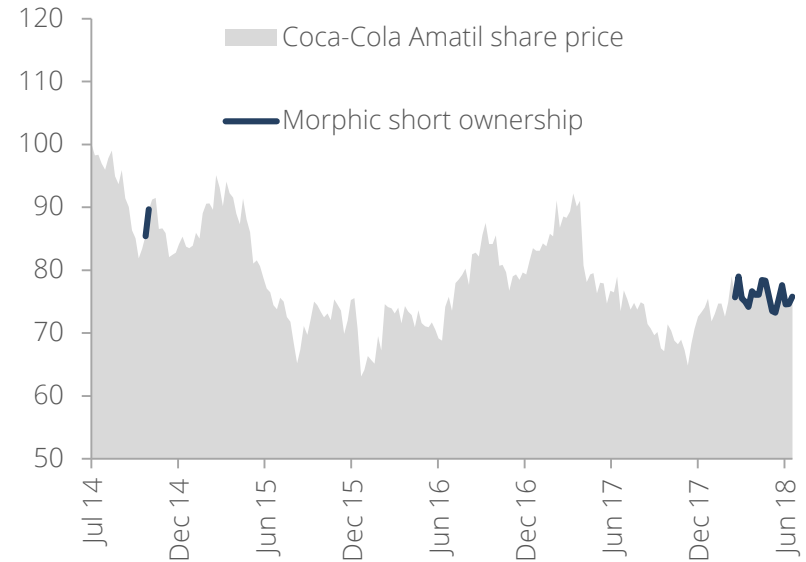
## Coca-Cola Amatil (CCL)

- Major bottler of sugary drinks in the Asia-Pac region
- Overpriced for declining industry.
- Facing rising costs from pressure to avoid plastic waste.
- Still not recognising obligations to cut sugar at its fastest growing & highest margin markets Indonesia and South Pacific.



## Coca-Cola Amatil share price performance

USD, normalised, July 2014 – June 2018



Source: Bloomberg, Team Analysis

# Japan Property Developers: It's all in the name



## Open House (3288 JP)

- Shareholder friendly: Dividends, buybacks, relatively progressive & young board.
- Growing rapidly with high returns on capital.

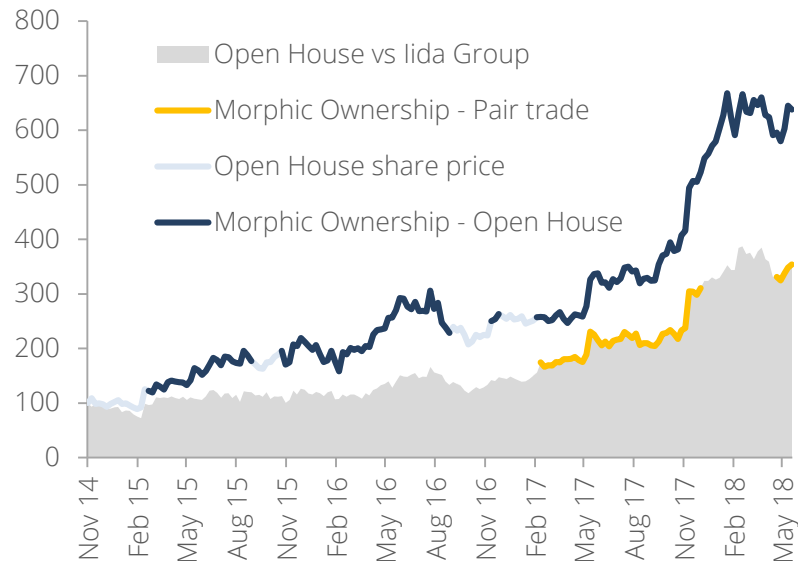


## Iida (3291 JP)

- Merger of six listed family companies.
- Founder's son in law is CEO, lacks influence.
- Other siblings running subsidiaries with divergent strategies.
- Slow growth and declining margins.

## Open House versus Iida Group share price

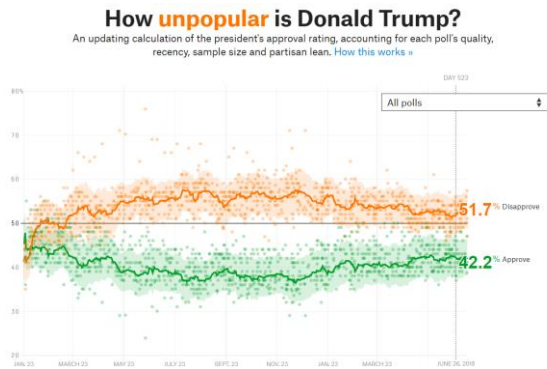
USD, normalised, November 2014 – June 2018



Source: Bloomberg, Team Analysis

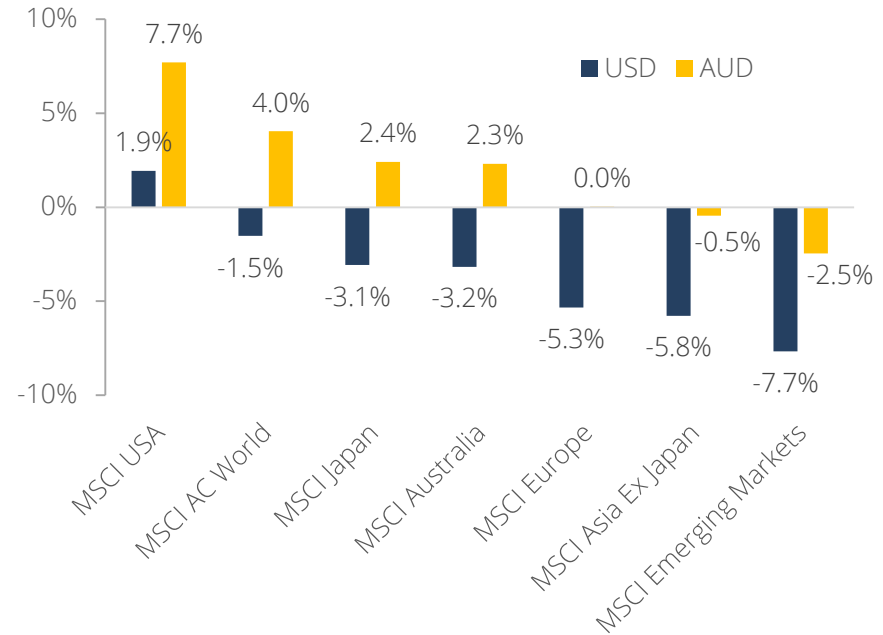
# Outlook – Anti-predictions for H2 2018

- US 10-year bond yields will NOT break above 3.50%
- US Equity Markets (MSCI USA) will NOT finish lower
- US Investment Grade Credit will NOT go below its 2018 lows
- Trump’s ratings will NOT collapse
- Australian shares will NOT outperform global shares



Source: <https://projects.fivethirtyeight.com>

Equity markets returns USD & AUD, Jan 2018 – Jun 2018

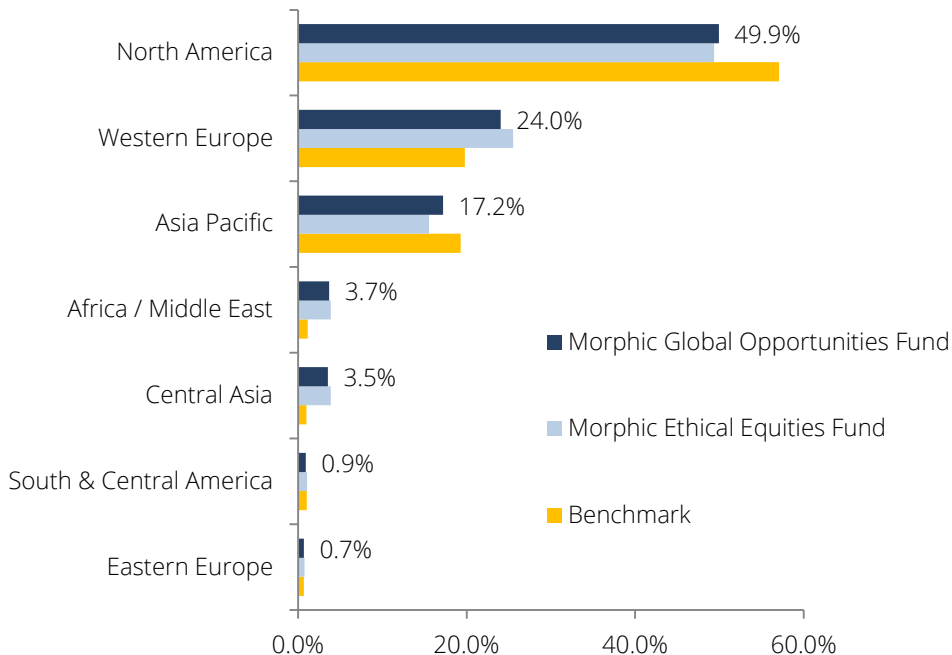


Source: Bloomberg, Team Analysis

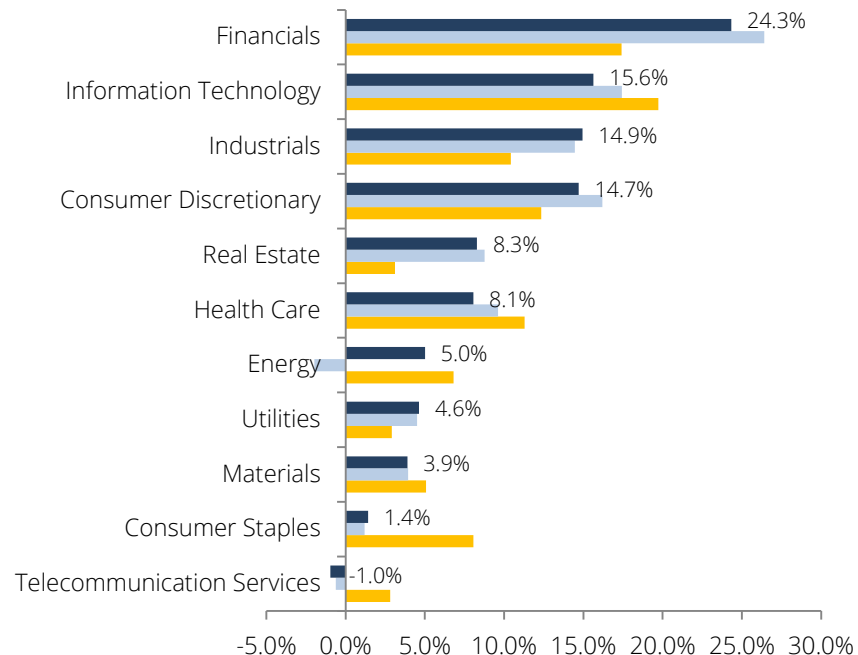
# Portfolio positioning

As at 30 June 2018 by country, sector and stock

## By Region



## By Sector





An aerial photograph of a rural landscape. The top half of the image shows a large, vibrant green field, possibly a cornfield, with some yellow patches. A road runs horizontally across the middle of the field. To the right of the road, there is a dark, rectangular pond. The bottom half of the image shows a dark, wooded area with a few small buildings. A large, semi-transparent grey circle is overlaid on the right side of the image, containing the text 'FUNDS UPDATES'.

# **FUNDS UPDATES**

# Morphic Global Opportunities Fund: high returns with lower risk



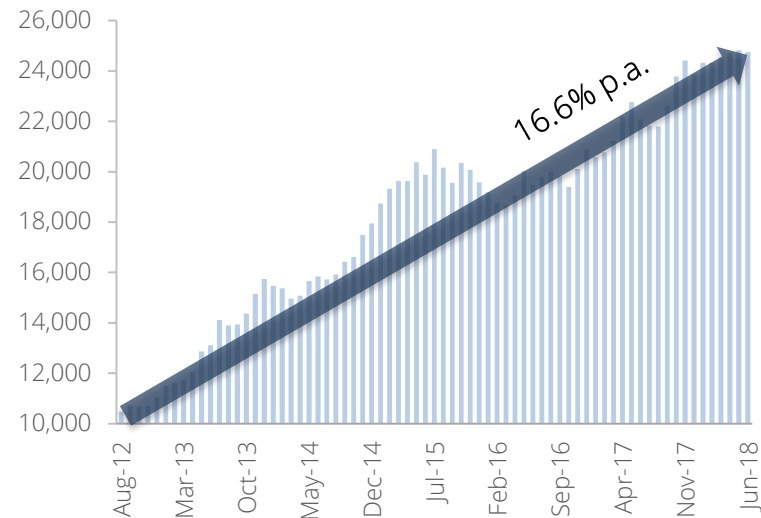
CERTIFIED BY RIAA

- Objectives
  - Outperform the Index in Australian dollars over rolling three year
  - Preserve capital in falling markets through hedging
- Strategy
  - Long/Short global equities & Small and Mid Cap bias
  - Can hold cash (up to 50%) to protect capital
- Style
  - Value and Momentum factors

## MGOF Performance As at June 2018

1 Month	3 Months	CYTD	1 Year	3 Years p.a.	5 Years p.a.	ITD p.a.
-0.32%	0.99%	3.70%	12.08%	7.57%	13.56%	<b>16.57%</b>

## Morphic Global Opportunities Fund Performance of \$10,000\* AUD, Aug 2012 – Jun 2018



\*Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 2 August 2012.

## Platform availability



Powerwrap.

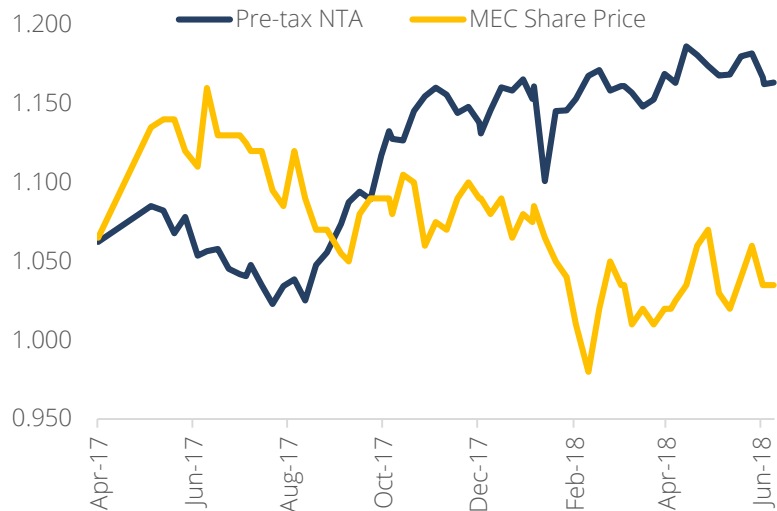


# Morphic Ethical Equities Fund (ASX: MEC) Update



## MEC Share Price vs NTA\*

AUD, weekly, April 2017 – June 2018



## MEC Performance\*\*

As at June 2018

1 Month	3 Months	6 Months	1 Year	ITD (p.a.)
-0.39%	0.37%	3.42%	11.54%	9.21%

## Key Facts As at June 2018

Pre-tax NTA	1.1624
Share price	1.035
Options Expire	30 November 2018
Dividend declared	\$0.01
Dividend pay date	22 August 2018

## Platform availability



\*Net Tangible Asset Value before tax. Past performance is not indicative of future performance.

\*\*Performance is net of investment management fees, before company admin costs and taxes

# OUR INVESTMENTS MAKE A DIFFERENCE



IN 2017

1.2  
BILLION M<sup>3</sup>



VOLUME OF NATURAL PURIFIED  
WATER AND SEWAGE TREATMENT



IN 2018

1<sup>ST</sup> 

APPOINTED  
TO BOD  
SINCE 1946



IN 2017

80% 

LANDFILL WASTE  
REDUCTION  
THANKS TO PUMP  
DISPENSERS

LIGHTING ENERGY  
COSTS REDUCTION

97% 



# Morphic contributions

## Donations

+\$20K TO



BUSH HERITAGE AUSTRALIA

+\$500K TO



Healthy swimming beyondblue



Black Dog Institute

SANE AUSTRALIA



THE UNIVERSITY OF SYDNEY  
Brain and Mind Centre



## Fundraising



## Giveaway





**ANY QUESTIONS?**



# APPENDIX

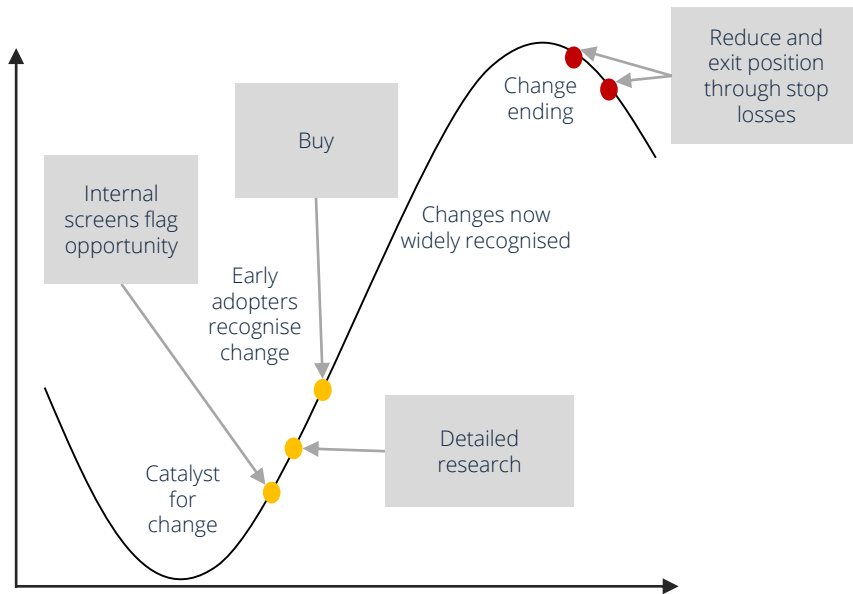
A landscape photograph of a wind farm at sunset. The sky is filled with dramatic, orange and blue clouds. Several wind turbines are visible, with one in the foreground being the most prominent. A large, semi-transparent white circle is overlaid on the right side of the image, containing the text 'INVESTMENT APPROACH'.

**INVESTMENT APPROACH**



# Philosophy: Markets misprice change

## Illustration of a typical Morpic investment by stage of the change cycle



1 Source: "Can ESG add alpha?" Nagy et al., (2015); 2 Statman & Gushkov (2016); 3 Hoepner, Oikonomou et. al (2016).

## ESG: What matters?

High ESG  $\neq$  Max alpha<sup>1</sup>

&

Improving is better than "best"<sup>2</sup>

&

Failing is a signal<sup>3</sup>



**"Change creates opportunity"** is central to Morpic's **momentum**-focused investment philosophy.

# Investment Process: Fundamental research & risk management



## 1. Identify change

- Why invest now?
- Has the market already responded?
- Is this cyclical or structural?
- Self-reinforcing cycle?



## 2. Analyse

- Ethical Screening & Internal ESG Audit
- Can we look at the investment from another data set?
- Relative valuation
- DCF & Reverse DCF
- Meetings with Management



## 3. Decide

- Group review
- Identify “wrong” price
- Do we need more information?
- What is our loss appetite?



## 4. Structure

- Discuss with risk manager
- How can we structure this investment better?
- Is the sizing right?
- Contribution to portfolio risk

**On-going monitoring**

# Identifying Investments: Leveraging diverse views



## 1. Identify investments

- What do we look for in new ideas?
- Morpic Library
- Sector & Region focus



**Market cap:**  
>\$400mn  
>\$1bn for shorts

**Liquidity:**  
>\$3mn ADTV



Morphic Library  
83 years of collective experience

600+ stocks we researched or owned previously

Apply/Review via differing screening models monthly

Ranking flags reinvestment (subject to further analysis)

# Research & Analysis



## 2. Analyse

- Ethical Screening & Internal ESG Audit
  - Can we look at the investment from another data set?
  - Financial Modelling
  - Meetings with Management
- Negative Screening
  - Analysis of ESG issues within research and financial analysis
  - Engagement



- Relative Valuation
  - DCF models
  - Reverse DCF
- Conference calls
  - One-on-one meetings

# Investment Decision



## 3. Decide

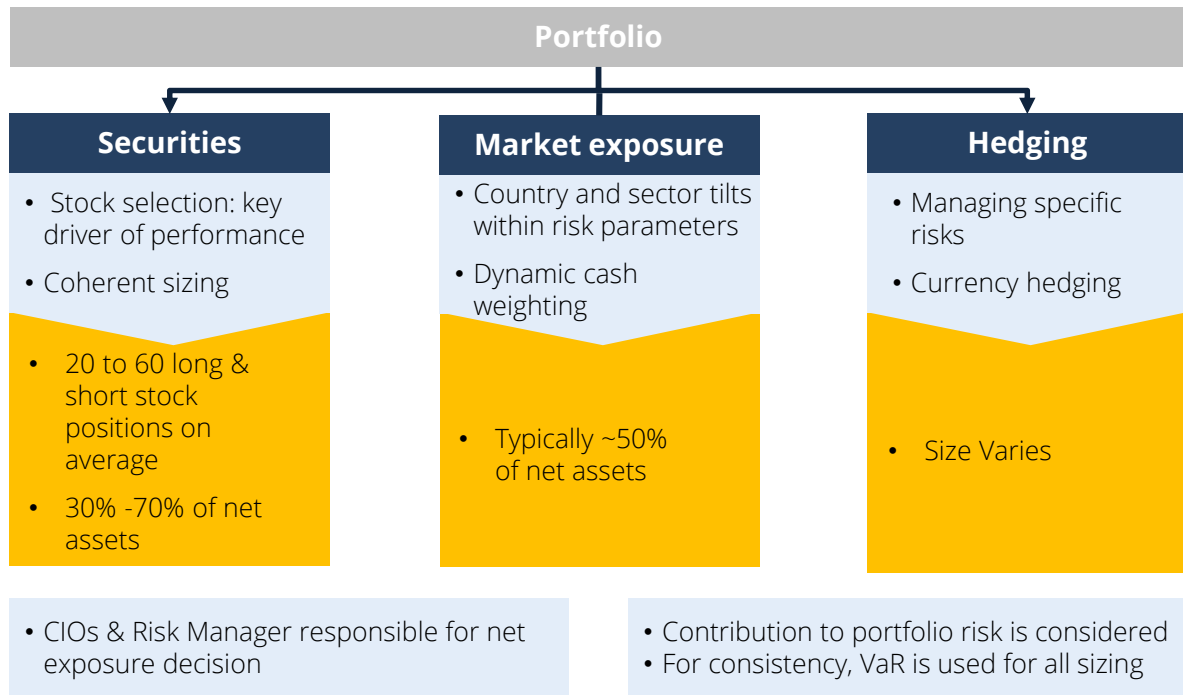
- Group review
  - Identify “wrong” price
  - Do we need more information?
  - What is our loss appetite?
- Approvals following presentation at team meetings
  - All proposals subject to veto by either PM
  - Sizing based on loss tolerance and VaR
  - Stop losses on individual positions, pairs and portfolio
  - Exits determined by valuation, news flow and stop-losses

# Modern Portfolio Construction



## 4. Structure

- Discuss with risk manager
- How can we structure this investment better?
- Is the sizing right?
- Contribution to portfolio risk



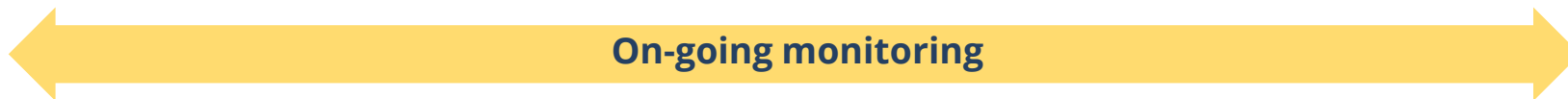
# Ongoing Monitoring: Portfolio governance

## Checklist for analysts

1. Daily news flow update
2. Preview and de-brief after company results/conference calls
  - Prepare "Estimates vs Actual" template
  - Update company models
  - Provide CIOs with updated "indicative value" where appropriate
3. Monitor industry publications, key statistics
4. Monitor results from companies in the value chain and direct competitors
5. Test and restate drivers/assumptions where appropriate
6. Update state of the industry body of knowledge

## Structured meeting schedule

Forum	Issues
Daily debrief	<ul style="list-style-type: none"><li>▪ Analysts update with "night action"</li><li>▪ General (company &amp; macro) news flow</li><li>▪ Preview / update after company results</li></ul>
Weekly meeting (Stocks)	<ul style="list-style-type: none"><li>▪ Position (re-sizing)</li><li>▪ Presentation of ideas for inclusion</li></ul>
Weekly meeting (Risk, Macro & Portfolio Construction)	<ul style="list-style-type: none"><li>▪ Asset Allocation</li><li>▪ Risk dashboard</li><li>▪ Macro discussion and hedging strategy</li></ul>

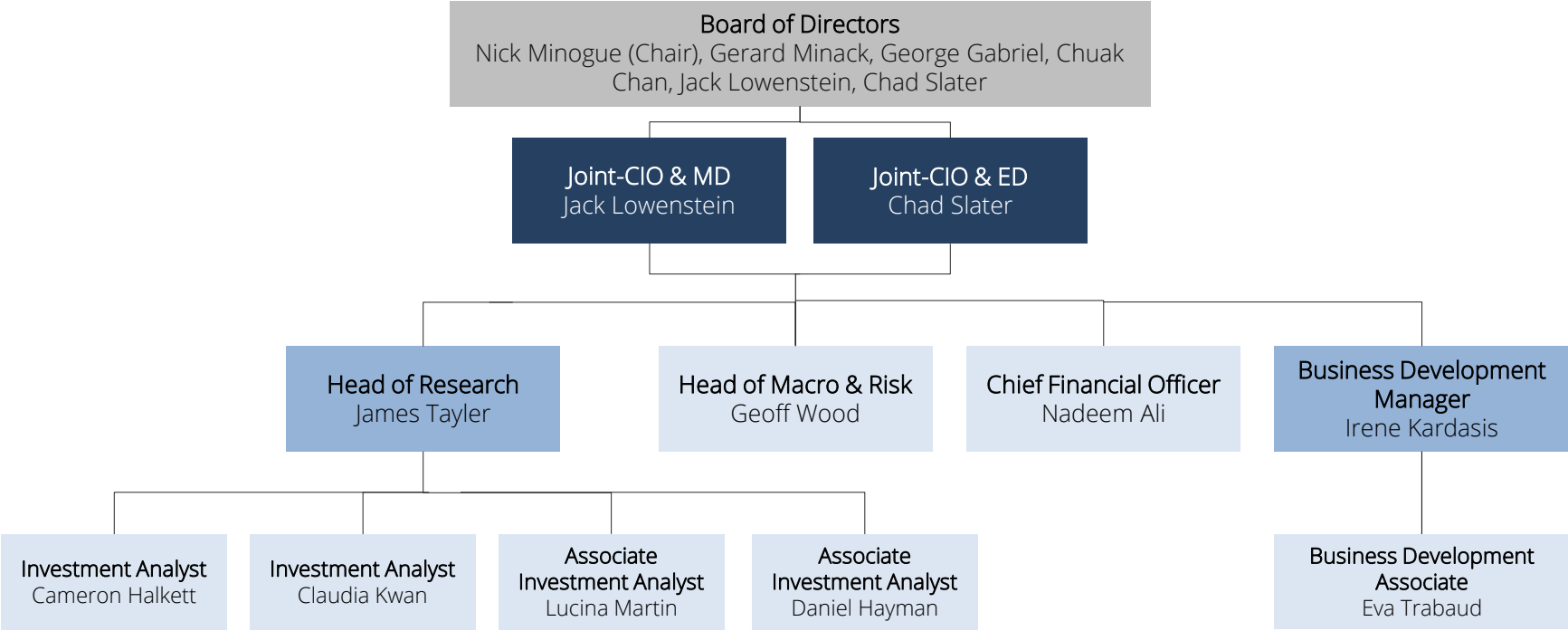


A photograph of several small green seedlings growing in a dark brown, textured soil tray. The seedlings are in various stages of growth, with some having two leaves and others just starting to emerge. A semi-transparent grey circular overlay is positioned on the right side of the image, containing the text 'INVESTMENT TEAM' in white, bold, uppercase letters. The background is a dark, blurred green.

**INVESTMENT TEAM**



# Proven investment team with strong corporate structure



# Experienced Senior investment team



**Jack Lowenstein**  
Managing Director  
Joint Chief  
Investment Officer

- **27 years experience in financial markets.**
- Jack co-founded Morphic Asset Management in 2012. He was previously Deputy Chief Investment Officer at Sydney based global equity manager Hunter Hall with responsibility for risk management and portfolio construction.
- He played a key role in building Hunter Hall from just \$13m under management when he joined, to a peak of just under \$3 billion. In ten years as a Portfolio Manager with Hunter Hall, he generated substantial out-performance.



**Geoff Wood**  
Head of Macro  
& Risk

- **16 years experience in financial markets.**
- Geoff joined Morphic at the inception in 2012. He previously worked in risk management at Global Trading Strategies, a global macro hedge fund that managed in excess of US\$1 billion through the global financial crisis, 2009 to 2011.
- Prior to that, he worked in risk management at Barclays Capital in London, managing the risks arising from the hedge fund clients of the bank's Prime Brokerage business.



**Chad Slater**  
Executive Director  
Joint Chief  
Investment Officer

- **17 years experience in financial markets.**
- Chad co-founded Morphic Asset Management in 2012. He was previously a Portfolio Manager and Head of Currency and Macroeconomics at Hunter Hall for five years.
- Prior to this, Chad was an Investment analyst at BT Financial Group including a secondment to Putnam Investments in Boston. He began his career as an Economist at Australian Federal Treasury.



**James Tayler**  
Head of Research

- **23 years experience in financial markets.**
- James joined Morphic in 2016. He was previously Head of Investment Research at Knight Vinke, a leading activist investor focused on European companies, based in Zurich and London.
- Prior to this, James was Head of Investment Research for a single family office in Switzerland following more than 10 years at Swiss Reinsurance Company.

# Significant alignment of interests with investors

- All senior team members are shareholders in the Firm
- Senior team members have a significant proportion of NAV in the Fund
- Short term incentives are driven by individual and Fund performance
- One third of bonuses invested into the Fund with three year lock-up to ensure long term alignment

# Morphic Asset Management

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New South Wales  
Australia

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