

Morphic Global Opportunities Fund – May 2017

Fund Objective

The Fund seeks long term capital growth by investing in global shares. The Fund aims to have exposures in companies, sectors and countries that are cheap, of high quality and where momentum supports the investment thesis. The Fund can also hedge to manage risk.

Performance Report

The Fund rose 2.52% in May, against a backdrop of continued stronger global markets. Since inception (August 2nd 2012), the Fund is up 18.57% annualized and net of all fees.

Market Recap

Following on from the rise of April, global markets pushed on, with new highs in the US market. Mild weakness in the Australian dollar over the month added to returns for Fund investors.

The technology sector and FANG stocks (Facebook, Amazon, Netflix and Google) in particular led the market higher. Growth stocks outperformed value stocks, with many of the post Trump winners having now retraced most if not all of their gains experienced with Trump's election.

Portfolio Review

It was another good month in terms of absolute returns, though the portfolio lagged the broader index slightly over the month. The Fund's larger thematic ideas added value whereas detractors were mainly stock specific. Currency and macroeconomic hedges had minimal impact over the month. Shorts were a positive contributor.

There was a "Changing of the guard" amongst some of the longer standing positions, with a long held market neutral position in Chinese insurers rising substantially over the month. We still believe that Ping An is a superior business to People's Insurance and that should be reflected in the price. The market went some way this month to pricing this.

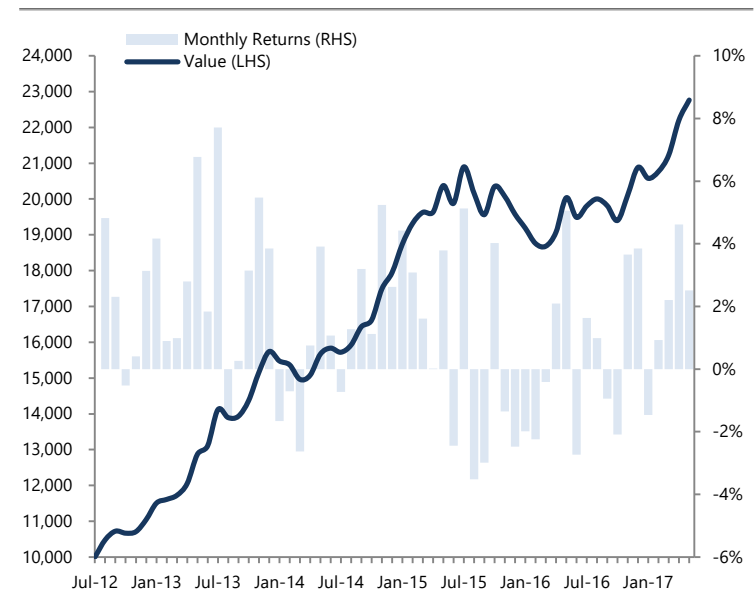
Staying in Asia, our largest contributor amongst single stock names was Open House in Japan. The stock had been sold down on fears of a slowing property market Tokyo. An excellent set of results has assuaged investors that this is not the case, and saw the stock push on to new highs.

Last month we wrote about the issues that had seen [Platinum Asset Management](#) cut fees. Underperformance continued over the course of this month as investors digested the changes required for the business.

Performance (net of all fees and taxes)

	Fund	Index ¹
1 Month	2.52%	2.68%
3 Months	9.61%	8.51%
CYTD	9.01%	7.94%
1 Year (p.a.)	13.61%	14.37%
3 Years (p.a.)	13.26%	13.45%
Since Inception (p.a.)	18.57%	18.74%

Performance of AUD \$10,000



Top 10 Holdings²

Long Stocks (Shorts)	Theme	Region	Weighting
Rural Electrification	Indian Infrastructure	Central Asia	4.0%
Power Grid	Indian Infrastructure	Central Asia	3.6%
Fund Managers Basket*	Fund Managers	Global	-3.6%
Alstom	Global Rail	Europe	3.3%
Ping An Insurance	Hong Kong Insurance Spread	Asia Pacific	3.1%
D.G. Khan Cement	Pakistan Infrastructure	Central Asia	2.9%
HCA	US Healthcare	North America	2.8%
Service Corp	US Deathcare	North America	2.4%
People's Insurance	Hong Kong Insurance Spread	Asia Pacific	-2.4%
Wells Fargo	US Quality Banks	North America	-2.2%

Hedge Positions

Name	Risk Limit Utilisation (%)**
Long French and Italian Bonds vs. Germany	0.9%

¹Includes: Invesco, Och-Ziff, Affiliated Managers, Franklin Resources, Eaton Vance, Legg Mason, Waddell & Reed, Artisan Partners, Blackrock, IGM, Pzena, T Rowe, Federated Investors, Cohen & Steers, Manning & Napier, CI Financial, GAMCO, Janus Henderson Group, Schroders, Aberdeen, Man Group, Rathbone Brothers, GAM & Azimut

²As a percentage of the Fund's Value at Risk (VaR) Limit

After many good months of performance, our Indian positions gave back some of their prior gains this month, with Rural Electrification being the largest detractor this month. Despite reporting an excellent set of results, their largest peer has announced that they will be booking higher provisions for loan losses. A broker has also released a report growing on this, suggesting the business is ex-growth. We don't believe this to be the case [having written extensively](#) on our views on the Indian power sector previously. We remain holders.

HCA, our US hospital provider was the other detractor of note for the month. After initially looking like "Trumpcare" had failed to get through the legislative process – which would have been a positive for HCA - to now being back on the table again. This uncertainty continues to weigh on the stock. In the meantime, management are running the business well. We remain holders.

Outlook

The old saying in markets is "sell in May and go away" and it can often serve investors well, particularly if the Federal Reserve hikes rates in June and guides to more hikes than expected. On the other hand a number of models we look at, using global earnings forecasts point in the other direction: that a backdrop that we are currently experiencing results in markets on average being over 10% higher in a year's time.

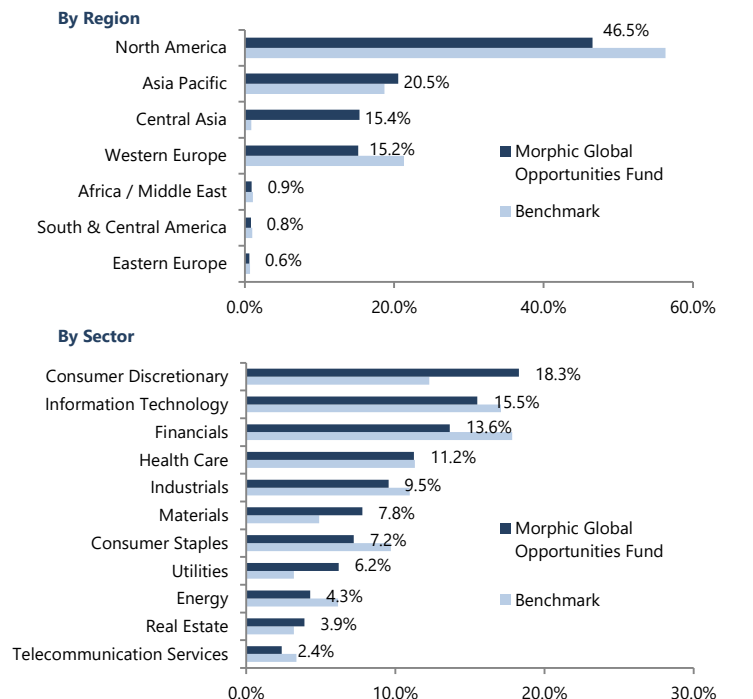
So whilst prognosticating on the market's view with some certainty sells newspapers, the reality of the world is more nuanced. Reflective of this, we would characterize our stance as "cautious without being pessimistic". Our upcoming half year report will outline in much more detail our outlook for year end.

Portfolio positioning remains long emerging markets, with a growing position in specific Japanese stocks. Japan has largely gone unnoticed by global investors now for some time, yet reforms are continuing and valuations are supportive. Underweight the US is the funding source.

Closer to home, and the situation in Australia is starting to look precarious. Falling commodity prices, falling house prices; and falling interest rate differentials suggest that the currency may find it hard going from here. The Fund remains unhedged.

Jack Lowenstein, Chad Slater, Geoff Wood, James Tayler, Nadeem Ali, Irene Kardasis, Cameron Halkett, Lucina Martin, Daniel Hayman

Equity Exposure Summary



Top 5 Contributors³ (bps)

Open House	29
Ping An Insurance	28
Alstom	24
Platinum Asset Mgmt.	22
SES	20

Top 5 Detractors³ (bps)

Rural Electrification	-30
HCA	-14
Bank of Internet	-10
Power Grid	-10
Western Alliance	-9

Risk Measures

Net Exposure ⁴	102%
Gross Exposure ⁵	160%
VAR ⁶	1.03%
Upside Capture ⁷	102%
Downside Capture ⁷	85%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.93%
Average Loss in Down Months	-1.80%
Annual Volatility	9.46%
Index Volatility	9.71%

Key Facts^{8,9}

Launch Date	August 2 nd , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee ¹⁰	1.35%
Performance Fee ¹¹	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.6502
Funds Under Management	\$128m

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¹ The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUUEACWF) in AUD; ² Baskets include a variety of stocks or indices chosen to optimise exposure; ³ Attribution; relative returns against the Index excluding the effect of hedges; ⁴ Includes Equities and Commodities - longs and shorts are netted; ⁵ Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; ⁶ VAR is Value at Risk based upon the 95th percentile with a 1 day holding period using a 1 year look back; ⁷ Based on gross returns since Fund's inception; ⁸ ISIN AU60PER06735, APIR PER0673AU; ⁹ All fees shown are inclusive of GST; ¹⁰ The Manager may also recoup a maximum of 0.27% in expenses related to operating the Fund; ¹¹ 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