

Morphic Global Opportunities Fund – July 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 fell 1.1% in July, as the 4% rise in the Australian Dollar offset the 2.7% rise in global markets in US Dollar terms. The Fund outperformed global markets by 0.1% over the month. Since inception (August 2nd 2012), the Fund is up 16.9% annualised and net of all fees.

Market Recap

The enthusiasm for all things risky in 2017 continued, with yet another strong month for global markets. The love of risk extended to the Australian Dollar, with its large gains offsetting the rise in stocks over the month. It's all very different from a year ago where investors fretted about recession risk.

Emerging Markets continue to be the favourite destination for capital and rose 5.5% for the month, led by Brazil (10.8%) and China (8.3%). The USA (1.9%) and Japan (2%) were the laggards. The love of technology shows no sign of abating. Software was up 5.4% for the month and 27% YTD. Lagging over the month were defensive sectors such as Health Care (0%) and Consumer Staples (0.6%).

After last month's sell off in bonds, buyers returned to drive yields down. This led to broad based falls in the US Dollar. A more dovish outlook from the US Federal Reserve was cited, yet our read was nothing changed: The Federal Reserve remains on track to reverse its Quantitative Easing program of 2008-14 and kept the option open for another rate hike in December.

Portfolio Review

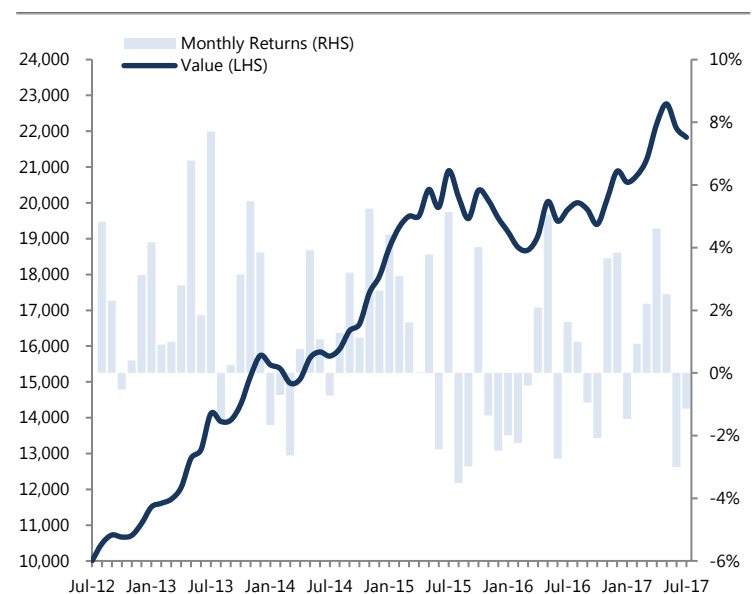
The Fund outperformed global markets over July. Hedges added value over the month. Stocks were a positive contributor; outright shorts detracted value.

The largest contributor was our long-short pair in European Freight companies, DSV (long) and Panalpina (short). Panalpina reported a disappointing set of results towards the end of the month, which saw the stock fall heavily. Analysts' earnings expectations still seem too optimistic due to their misplaced focus on the potential for rising freight volumes from improving global growth while ignoring what we believe will be continuous margin pressure in the industry. Analyst estimates imply Panalpina will have its best two quarters in the last seven years. We remain sceptical and short.

Performance (net of all fees and taxes)

	Fund	Index ¹
1 Month	-1.14%	-1.24%
3 Months	-1.69%	-1.13%
CYTD	4.54%	3.93%
1 Year (p.a.)	10.22%	11.44%
3 Years (p.a.)	11.56%	11.75%
Since Inception (p.a.)	16.91%	17.17%

Performance of AUD \$10,000



Top 10 Holdings²

Long Stocks (Shorts)	Theme	Region	Weighting
Power Grid	Indian Infrastructure	Central Asia	3.8%
Alstom	Global Rail	Europe	3.2%
SES	Global Satellite	Europe	2.7%
Wells Fargo	US Quality Banks	North America	(2.6%)
Service Corp	US Deathcare	North America	2.5%
Rural Electrification	Indian Infrastructure	Central Asia	2.4%
Samsung Electronics	Global Tech	Asia Pacific	2.3%
DSV	Global Freighters	Europe	2.1%
Panalpina	Global Freighters	Europe	(2.1%)
HCA	US Healthcare	North America	1.8%

Hedge Positions

Name	Risk Limit Utilisation (%)*
Short Yen vs. Euro	0.4%
Short Global Bonds	0.4%
Long French Bonds vs. Germany	0.4%
Long AUD	0.3%

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

The second largest contributor came from a position we know well, Bank of Internet. Investors are divided between optimists and sceptics on the bank's business model. The quarterly results showed earnings remain on track, and gave the clearest statement yet, that rumours of regulatory issues are baseless, giving the sceptics, some pause for thought. After a 20% rally last month, we have taken profits on a portion of this investment.

Remaining on the theme of divisive stocks, our largest detractor for the month came from our long Magellan, short Platinum Asset Management pair. Despite Platinum reporting very large outflows in May of \$500m and a larger than expected (forced) outflow of over \$1bn in June, the stock has rallied over 30%. The stock is now trading on over 20x earnings, up from 15x, pricing Platinum as a growth stock, and indeed one of the most expensive listed Fund management businesses in the world.

The most common explanation of this is the improved performance in the main International Fund, and the belief that with better performance, flows will go from negative to positive. Our issue with this thesis is that the correlation between flows and performance is tenuous. Flows are driven by a number of factors, of which performance is just one. We remain in the position but have reduced our short position sizing based on our risk rules, and await the earnings results.

Outlook

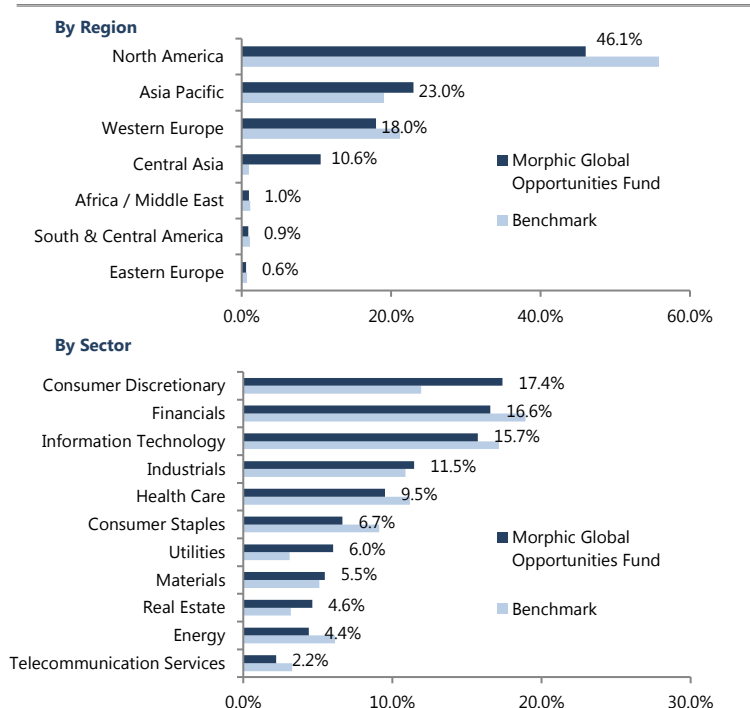
Our confidence [last month](#) that the surging Australian Dollar had reached its limits again proved premature. Fool me once shame on you, fool me twice, shame on me. Interest rate differentials can't account for the size of this move, so we are left with speculative positioning as the most plausible explanation. Though somewhat chastised, we still hold the view that the second half will be tougher for Australian Dollar bulls and US Dollar bears, but with a lower level of conviction!

Our main hedges are focused on hedging Japanese Yen risk against the Euro along with hedging out some risks associated with rising interest rates globally.

The Fund remains fully invested, although optimistically cautious, rather than cautiously optimistic best describes our stance. Our emerging market overweight remains but has been reduced reflective of the less compelling value proposition caused by recent gains. This is funded through a US market underweight.

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Equity Exposure Summary



Top 5 Contributors³ (bps)

<i>Panalpina</i>	38
Bank of Internet	23
Macromill	18
<i>Wells Fargo</i>	15
Power Grid	14

Top 5 Detractors³ (bps)

<i>Platinum Asset Mgmt.</i>	-26
D.G. Khan Cement	-26
HCA	-20
Bank of the Ozarks	-15
<i>Cosmos Pharmaceutical</i>	-9

Risk Measures

Net Exposure ⁴	100%
Gross Exposure ⁵	144%
VAR ⁶	0.92%
Upside Capture ⁷	102%
Downside Capture ⁷	86%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.93%
Average Loss in Down Months	-1.83%
Annual Volatility	9.58%
Index Volatility	9.78%

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	\$ 1.5323
Funds Under Management - Fund	\$124m
Funds Under Management - Strategy	\$171m

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¹ The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUEACWF) 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