

# Morphic Global Opportunities Fund – August 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 0.2% in August, despite a slight softening of the Australian Dollar pushing global markets up 1.0% over the month in local currency terms. Since inception (August 2<sup>nd</sup> 2012), the Fund is up 16.57% annualised and net of all fees.

## Market Recap

Market jitters caused by aggressive rhetoric from North Korea and its growing nuclear and missile capacity resulted in high intra month volatility.

At various periods during the month, we raised cash levels as high as 30%. This less reflected genuine fear a shooting war would break out on the Korean peninsula, than concerns a perhaps over-stretched market might be looking for reasons to trigger a sell-off.

Prudence required us to raise cash briefly when fragility looked greatest, even if this insurance proved to be a slightly expensive exercise as calm prevailed. By month end we felt that the market's resilience confirmed the bull market remained intact.

Emerging Markets once again did better than developed markets, while amongst the developed markets the US did slightly better than Europe, Japan or Australia.

## Portfolio Review

The Fund underperformed global markets over August. Asset allocation to South Asia and a handful of individual long stock positions were mainly responsible. Rates, currencies and commodities made a small positive gain overall. Shorts were generally of assistance.

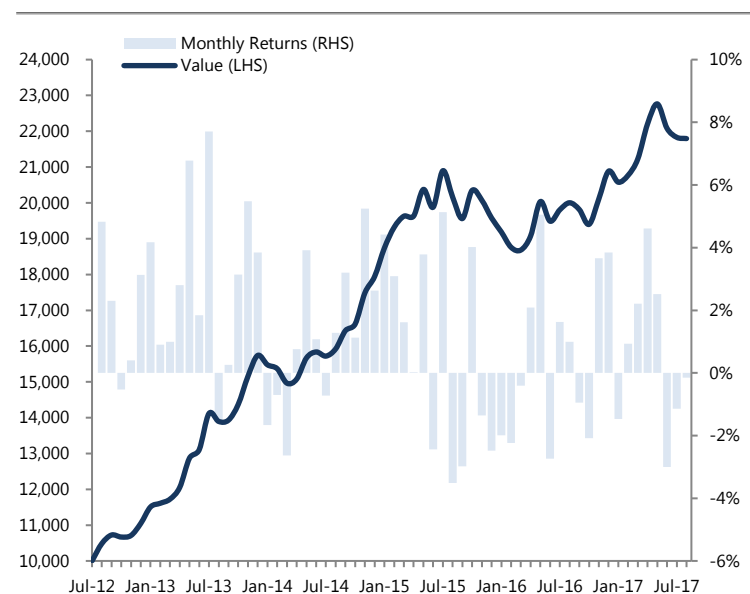
Two of the major positive contributors came from recent established long positions in smaller Japanese companies. [Investors Cloud is a virtual property developer](#) offering individual investors entry into the build-for-rent small apartment block market. Ateam is a computer game developer with a newer e-commerce business. Both are growing fast and have innovative business models.

Our long-short pair in European Freight companies, DSV (long) and Panalpina (short) again made a good contribution. [We have written extensively](#) about our views on the declining prospects of the sector.

## Performance (net of all fees and taxes)

	Fund	Index <sup>1</sup>
1 Month	-0.16%	1.04%
3 Months	-4.25%	-2.71%
CYTD	4.37%	5.02%
1 Year (p.a.)	8.97%	10.97%
3 Years (p.a.)	11.03%	11.54%
Since Inception (p.a.)	16.57%	17.10%

## Performance of AUD \$10,000



## Top 10 Holdings<sup>2</sup>

Long Stocks (Shorts)	Theme	Region	Weighting
Power Grid	Indian Infrastructure	Central Asia	3.7%
Alstom	Global Rail	Europe	3.2%
Samsung Electronics	Global Tech	Asia Pacific	3.2%
Panalpina	Global Freighters	Europe	(3.0%)
SES	Global Satellite	Europe	2.6%
Service Corp	US Deathcare	North America	2.6%
Wells Fargo	US Quality Banks	North America	(2.5%)
IRB InvIT	Indian Infrastructure	Central Asia	2.4%
Western Alliance	US Quality Banks	North America	2.4%
DSV	Global Freighters	Europe	2.3%

## Hedge Positions

Name	Risk Limit Utilisation (%)*
Long AUD	1.7%
Short Australian Bonds	0.6%
Long Copper	0.2%

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

Our largest detractor for the month came from US retailer Office Depot, which reported slightly disappointing quarterly results, and gave a very unimpressive management update on its turnaround strategy. The office and home stationery supplies business is in long term decline and big box retailers are facing challenges from the likes of Amazon. Even at a mid-single digit earnings multiple the stock was pricing into too much hope that earnings could be stabilised by the new management team. We have exited the position.

The continuing deterioration in the political outlook in Pakistan followed the court order sacking of President Nawaz Sharif, saw us cut our residual stake in cement maker DG Khan as it hit its stop-loss. This saw us exit completely our Pakistan positions, whilst over the medium-term we retain some confidence that this period of turbulence will pass, the increasing likelihood of a currency devaluation coupled with IMF risks and our stop-loss rules suggest that we wait to re-examine later in the year.

## Outlook

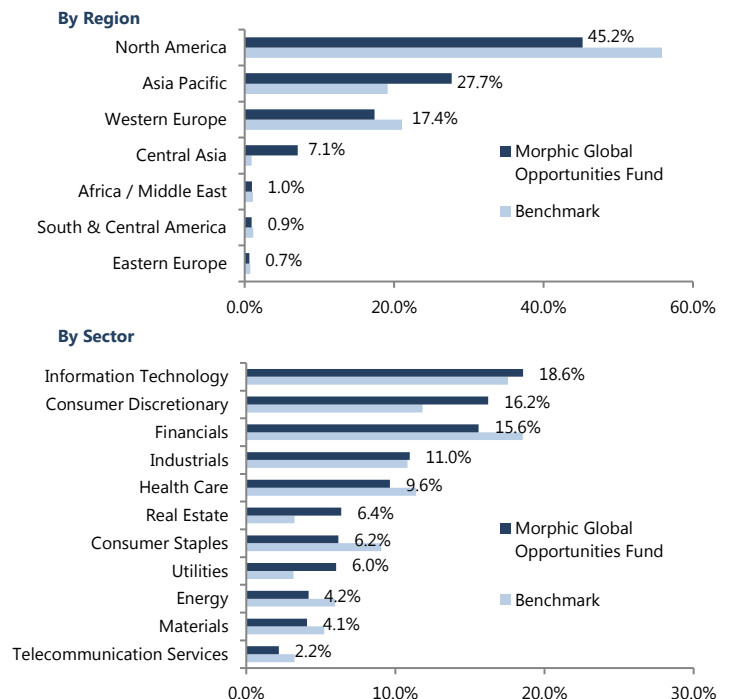
The US Federal Reserve is still expected to announce a reversal of its Quantitative Easing program of 2008-14 later this month. However there is growing market scepticism about there being any rate hikes this year, and very little baked in for next year either.

We expect North Korea will continue to feature in news headlines this month – and that this might cause more market volatility. Nevertheless we feel prospects for a shooting war are too remote to be worth taking the risk of raising cash, against the background of a strengthening global economy and accelerating corporate earnings.

The Fund remains fully invested, with increasing appetite for Japan, where intermittent geopolitical scares are presenting some interesting dip-buying opportunities in companies we already have a toe hold in and know well. Our emerging market overweight has been further reduced following the complete exit from Pakistan. We remain somewhat underweight the US market and have hedged up a proportion of the Funds risk to a rising Australian dollar.

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

## Equity Exposure Summary



## Top 5 Contributors<sup>3</sup> (bps)

DSV	20	Office Depot	-29
Investors Cloud	14	Macromill	-14
Wells Fargo	13	D.G. Khan Cement	-13
Tsuruha	9	Samsung Electronics	-13
Ateam	9	Open House	-12

## Top 5 Detractors<sup>3</sup> (bps)

## Risk Measures

Net Exposure <sup>4</sup>	100%
Gross Exposure <sup>5</sup>	152%
VAR <sup>6</sup>	0.88%
Upside Capture <sup>7</sup>	101%
Downside Capture <sup>7</sup>	86%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.93%
Average Loss in Down Months	-1.75%
Annual Volatility	9.52%
Index Volatility	9.70%

## Key Facts<sup>8,9</sup>

Launch Date	August 2 <sup>nd</sup> , 2012
Minimum Initial Investment	AUD 10,000
Pricing and Liquidity	Daily
Distributions	January and July
Management Fee <sup>10</sup>	1.35%
Performance Fee <sup>11</sup>	15.375%
Entry and Exit Fees	Zero
Buy/Sell Spread	0.3% each side
Unit Price	\$ 1.5299
Funds Under Management - Fund	\$125m
Funds Under Management - Strategy	\$172m

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