

Morphic Global Opportunities Fund – September 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 3.78% in September, outperforming global markets which rose again this month. Markets finished up 1.8% for the month in USD terms and 3.04% in AUD terms, as the Australian dollar weakened over the month providing a tailwind to local investors. Since inception (August 2nd, 2012), the Fund is up 17.13% annualised and net of all fees.

Market Recap

Global markets rose again in September, bucking the seasonal trend that often sees September as a down month. Last month Europe (+3.2% in USD terms) and the US (+1.9%) were the best performing regions. Japan (+1.3%) marginally underperformed global markets, while Emerging Markets (-0.5%) were down slightly, though Emerging Markets remain the best performer in 2017.

Cyclical sectors dominated performance in September. A rising oil price in September boosted the Energy sector (+7.8%), while most cyclicals outperformed, including Financials and Banks (as US bond yields climbed 22bps) as well as Industrials and Retailing. On the flip side, defensive sectors underperformed.

Portfolio Review

The Fund rebounded from August, strongly outperforming the market over the month and performance for 2017 is up 8.32% thus far.

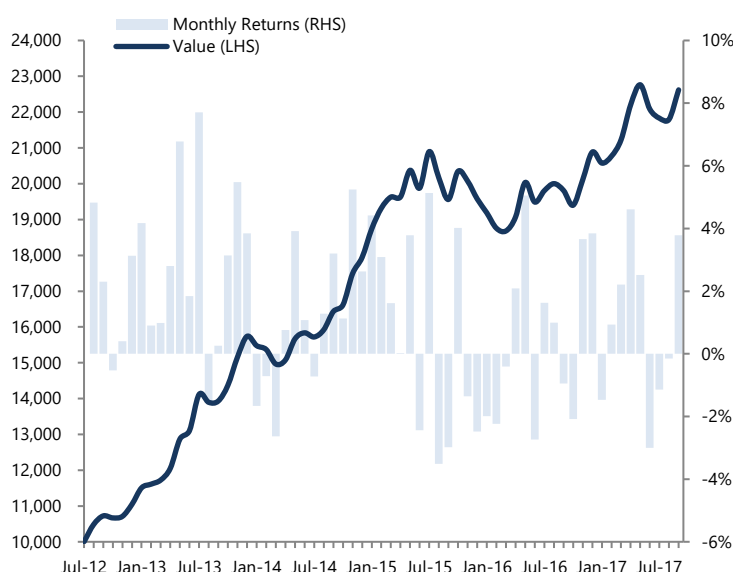
Long stock selection was the primary driver of outperformance over the month, with hedges also contributing positively. Market neutral pairs were a positive contributor. Outright shorts are currently minimal in the portfolio.

The Fund's largest position, French-listed train manufacturer Alstom, was the largest contributor after it was announced they would be merging with Siemens train division. Whilst nominally a merger, it is essentially a bid for Alstom from Siemens, as they are paying up to €8 of cash in dividends and bidders premium to Alstom shareholders. With completion not slated until late 2018, markets are discounting the price below the implied fair value, which we put at €42-45, as markets are wary of the deal being blocked.

Performance (net of all fees and taxes)

	Fund	Index ¹
1 Month	3.78%	3.04%
3 Months	2.44%	2.82%
CYTD	8.32%	8.21%
1 Year (p.a.)	14.17%	15.71%
3 Years (p.a.)	11.24%	11.41%
Since Inception (p.a.)	17.13%	17.49%

Performance of AUD \$10,000



Top 10 Holdings²

Long Stocks (Shorts)	Theme	Region	Weighting
Alstom	Global Rail	Europe	4.1%
Panalpina	Global Freighters	Europe	(3.1%)
Open House	Japanese Homebuilders	Asia Pacific	2.8%
Iida Group	Japanese Homebuilders	Asia Pacific	(2.6%)
Wells Fargo	US Quality Banks	North America	(2.6%)
Western Alliance	US Quality Banks	North America	2.6%
Samsung Electronics	Global Tech	Asia Pacific	2.6%
Macromill	Global Research	Asia Pacific	2.5%
SES	Global Satellite	Europe	2.5%
Service Corp	US Deathcare	North America	2.4%

Hedge Positions

Name	Risk Limit Utilisation (%)*
Long Volatility (VIX)	0.23%

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

We believe this deal has been “greenlighted” by the French and German governments to create a “European champion” to compete against the large Chinese player China Railroad Construction Corporation. We remain holders and have added to the position - the deal is very good for Alstom’s shareholders and we believe markets will come to recognise that over the coming months.

The second largest contributor came from our position in Open House, the Japanese property developer, which is paired against a short in Iida Group. Open House reported an excellent set of results over the course of the month and has led the sector higher on renewed optimism that Japan may indeed not be in a property bubble. Perhaps a trip to Australia is in order for local analysts. A P/E of 8x earnings – earnings which we don’t believe to be the peak of the cycle - is not an onerous valuation.

The largest detractor for the month was Power Grid of India. As a regulated utility, it undergoes periodic resets in its regulated rate of return. As interest rates have substantially fallen since the last reset, there is a concern that the regulated return hurdle could be set rather low this time. This stock concern, when combined with the backdrop of defensive sector underperformance for the month, led the stock lower. We have trimmed the position.

Outlook

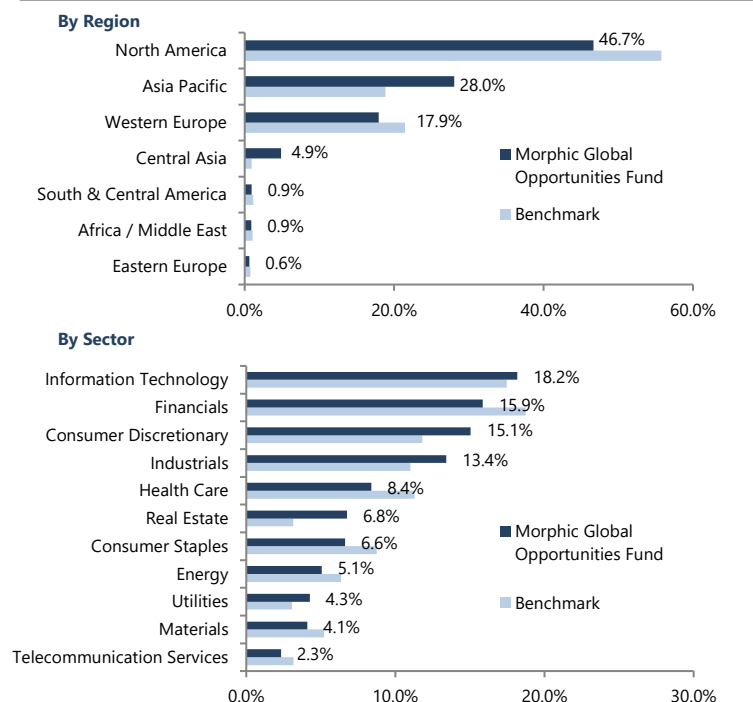
The US Federal Reserve’s announcement of “Quantitative Tightening” came and went, in much the same way each of their other steps towards policy normalisation have been and gone, with markets higher after each one. At some point, the cumulative effect of draining liquidity will cause financial conditions to tighten, but thus far that would appear to be a 2018 problem.

We approach the seasonally strongest quarter of the year (historically most equity returns of a year happen late in the year) with credit spreads on their lows; Emerging Markets on their highs; and global data printing the best for over 13 years in some cases.

With rates remaining low and financial conditions loose, the Fund remains fully invested. With data reaccelerating of late, interest rates may have bottomed in the USA, and hence the USD may find some support after a torrid year. Hedges are minimal reflecting this ambiguity.

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Equity Exposure Summary



Top 5 Contributors³ (bps)

Alstom	53	Panalpina	-28
Open House	31	Power Grid	-25
Western Alliance	19	SES	-16
Investors Cloud	18	Wells Fargo	-14
Bank of the Ozarks	17	Iida Group	-11

Top 5 Detractors³ (bps)

Risk Measures

Net Exposure ⁴	102%
Gross Exposure ⁵	156%
VAR ⁶	0.91%
Upside Capture ⁷	102%
Downside Capture ⁷	86%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.96%
Average Loss in Down Months	-1.75%
Annual Volatility	9.50%
Index Volatility	9.65%

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	\$1.5878
Funds Under Management - Fund	\$131m
Funds Under Management - Strategy	\$180m

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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