Morphic Global Opportunities Fund – November 2016

Change Creates Opportunity

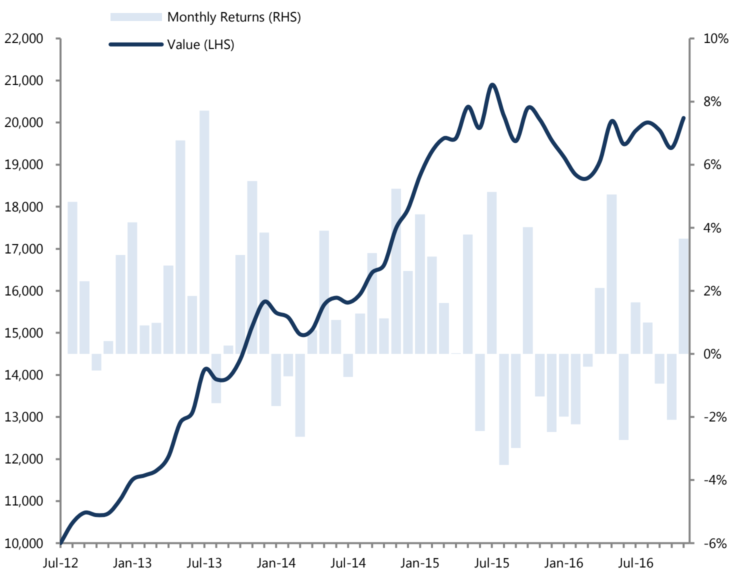
Fund Objective

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

Performance (net of all fees and taxes)

	Fund	Index[1]	Relative
1 Month	3.66%	3.77%	-0.12%
3 Months	0.53%	1.37%	-0.84%
6 Months	0.37%	1.65%	-1.28%
1 Year (p.a.)	0.18%	1.68%	-1.50%
3 Years (p.a.)	9.88%	10.55%	-0.67%
Since Inception (p.a.)	17.50%	17.86%	-0.36%

Performance of AUD $10,000



Performance Report

The Fund rose 3.66% in November, against a backdrop of stronger global markets. Since inception (August 2nd 2012), the Fund is up 17.50%, annualized and net of all fees, against benchmark returns 17.86%.

Market Recap

Calendar 2016 may be remembered as the year of surprises. First Leicester City wins the UK Premier League, then Brexit occurs; the Chicago Cubs takes the World Series, then Trump wins. Each political event was a double surprise: an outcome the market feared prompted an initial sell-off and then a sharp recovery.

The recovery in this case was somewhat uneven. Global markets rose 0.6% in US dollar terms. But this was almost entirely due to the strength of the US market which was up 3.3%. Emerging markets fell 4.7%, and Japan and Europe were down about 2.4% each as local market gains were eclipsed by the US dollar strength.

The cyclical sector rally of earlier this year accelerated: diversified financials were up 7.9% and energy up 4.2%, whilst utilities were down 6.6%.

Portfolio Review

The Fund had a solid return in November as the Trump Election victory increased expectations for a significant US fiscal stimulus package driving the trade weighted US dollar to decade highs. Tactical hedging and our fully invested position for most of the month added value.

Our biggest winners for the month highlighted the benefit of the range of uncorrelated ideas we have in the portfolio. These were led by our investments in Pakistan, especially cement maker D.G. Khan, and abetted by our short position in Australian retailer Woolworths, holdings in fast growing small US banks: Western Alliance and Bank of Internet, as well as Indian utility Power Grid.

These wins largely offset our two main detractors.

Clinton's defeat saw US hospital chain, HCA, fall on fears for the future of Obama's flagship policy, the Affordable Care Act. Republicans have vowed to dump Obamacare, which has helped hospitals by cutting the number of loss making uninsured patients coming into its emergency rooms.

Top 10 Holdings[2]

Theme	Long Stocks *(Shorts)*	Region	Long	Short	Net
Indian Infrastructure	Power Grid, Rural Electrification, IRB Infrastructure & Inox Wind	Central Asia	8.8%	0.0%	8.8%
Pakistan Infrastructure	D.G. Khan Cement & Pakistan Index	Central Asia	5.7%	0.0%	5.7%
Global Rail	Alstom	Europe	2.1%	0.0%	2.1%
Fund Managers	*Fund Managers Basket**	Global	0.0%	2.0%	-2.0%
Hong Kong Insurance Spread	Ping An Insurance *(People's Insurance)*	Asia Pacific	2.0%	2.0%	0.0%
US Healthcare	HCA	North America	2.0%	0.0%	2.0%
Quality Outperformance	Western Alliance *(Bank Index)*	North America	1.9%	1.9%	0.0%
Australian Retail Upheaval	*Woolworths*	Asia Pacific	0.0%	1.9%	-1.9%
Airlines	*Airlines Basket***	Asia Pacific	0.0%	1.8%	-1.8%
Global Automotive Hype	Nasdaq Index *(Tesla Motors)*	North America	1.5%	1.4%	0.0%

Hedge Positions

Name	Risk Limit Utilisation (%)***
Long USD vs basket	0.7%
Short Global bonds	0.3%
Short EUR vs basket	0.1%

*Includes: *Invesco, Och-Ziff, Affiliated Managers, Fortress, Eaton Vance, Legg Mason, Waddell & Reed, Artisan Partners, Janus Capital, Blackrock, AGF Management, IGM, Pzena, T Rowe, Alliance Bernstein, Federated Investors, Wisdomtree, Manning & Napier, CI Financial, GAMCO, Henderson Group, Schroders, Aberdeen, Man Group, Rathbone Brothers, GAM & Azimut*

**Includes: *ANA Holdings, Japan Airlines, China Southern, Singapore Airlines, Cathay Pacific, Air China, Qantas & China Eastern*

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

HCA is less affected than most given its three largest state markets (Texas, Florida and Tennessee) never signed up for Obamacare. The company, which has an excellent record both operationally and in financial management, immediately, authorized an increased buyback for $2bn or about 8% of its shares. We have nevertheless cut the position size until there is greater clarity on the policy outlook.

The bigger shock for the Fund also came on US Election day, but from a completely different source: the Indian government's decision to 'demonetize' its two largest denomination notes as part of its fight against corruption. As the dust settles the initiative looks well intentioned, and likely to benefit India in the long term, but also poorly executed with a lack of replacement notes. A market sell-off resulted as it became clear some companies and the economy as a whole may hit a speed bump.

India (with Pakistan) has been the main element in our emerging markets overweight, but fortunately with two exceptions, our Indian stocks did relatively well despite a broad Indian sell-off. The exceptions were toll road builder and operator IRB, which was unable to collect tolls for three weeks; and micro-finance lender Ujjivan, on fears it would struggle to collect old loans or issue new ones. We expect IRB to receive compensation, and Ujjivan to take less of a hit than feared, but have trimmed both positions.

Outlook

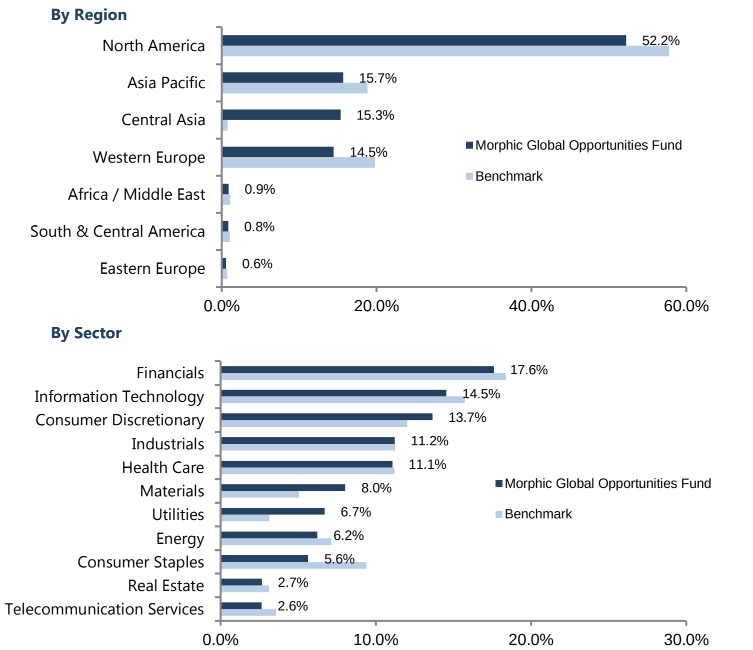
Our outlook last month (relatively optimistic) proved to be correct. Despite the election surprise, markets were just looking for a reason to buy, with far too much cash on the sidelines. We therefore re-formulate our view from last month: "We believe a ~~Clinton~~ Trump victory will clear the path for markets to re-focus on the fundamentals and set-up a year-end rally".

This move higher in bond yields has been absorbed thus far by equities markets as has the near certainty that the US Federal Reserve will hike short term rates this month, and probably a couple of times a year for 2017 and 2018.

We have hedged a portion of the Fund into US Dollar including some of its Yen, Euro, Indian Rupee and Australian dollar exposures.

Jack Lowenstein, Chad Slater, Geoff Wood, James Tayler, Mike Walpole-Skwarczynski, Irene Kardasis, Cameron Halkett

Equity Exposure Summary



Top 5 Contributors[3]	(bps)	Top 5 Detractors[3]	(bps)
Western Alliance	38	IRB Infrastructure	-54
D.G. Khan Cement	26	HCA	-38
Power Grid	22	*Bank Index*	-27
Bank of Internet	17	*Fund Managers basket*	-15
Woolworths	15	Ujjivan	-12

Risk Measures

Net Exposure[4]	103%
Gross Exposure[5]	154%
VAR[6]	1.23%
Upside Capture[7]	101%
Downside Capture[7]	85%
Best Month	7.71%
Worst Month	-3.52%
Average Gain in Up Months	2.95%
Average Loss in Down Months	-1.82%
Annual Volatility	9.69%
Index Volatility	9.96%

Key Facts[8,9]

Launch Date	August 2nd, 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	$ 1.4578
Funds Under Management	$ 115m

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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

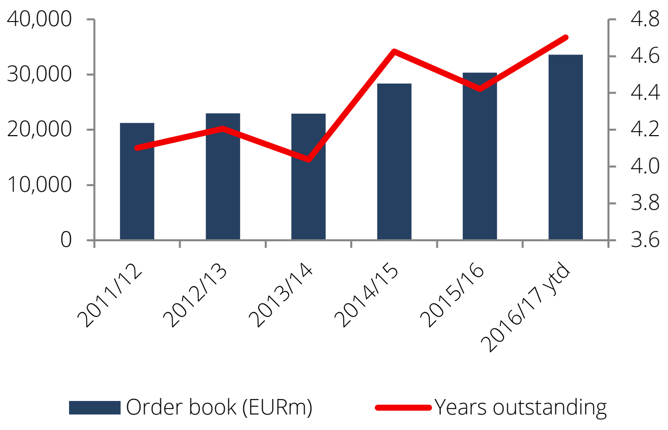
Alstom SA – MAM half yearly report, company focus

Fundamental change in companies often takes a long time. When benefits are not immediately obvious, lost in the complexity or require time to be implemented, impatient investors often move on, leaving an opportunity for diligent investors with a longer time horizon. This was certainly the case when we first invested in France-listed Alstom.

In 2014 Alstom started to morph from a global engineering conglomerate when it agreed to sell most of its business to General Electric (GE). The complex deal took until the end of 2015 to complete, but Alstom has now emerged as a refocused business operating as the leading global provider of rail transport infrastructure, including a century old presence in Australia where it supplies trains, trams and related equipment and services in Victoria, South Australia and New South Wales.

The change made analysis of the new company difficult. The last two financial years accounts have been opaque, reflecting a mix of the results of the old and the new company. Limited management guidance resulted in a wide range of analyst forecasts of a variable quality. Investor apathy was reflected in a share price which, after initial excitement, moved sideways for more than two years.

However, the recent results for the first half of the current financial year have been a catalyst for other investors to begin to realise that Alstom's market valuation may not reflect the quality of this newly focused business with a well-established growth trajectory. Sales have now grown for four consecutive years and new orders have grown faster. The order book is currently running at an all-time high and represents almost five years of work (see below). Likewise, margins have been on an upward path for the last five years and, at 5.6% currently, have further to rise to Management's target of 7%.



Source: Bloomberg, Team Analysis

At a quick first glance, Alstom continues to looks marginally more expensive than its global peers (many of which are conglomerates such as GE, Siemens and Hitachi).

However, this ignores the proceeds from the sale which are still tied up for a few years in joint ventures with GE, but which Alstom has the right to turn into cash over the next year or so. Taking this into account, the company trades at a 40% discount to its peers (5.6x vs 9.4x consensus 2017/18 EBITDA). On this basis, applying the peer group EV/EBITDA multiple suggests that Alstom could be worth in the region of EUR 37, compared to around EUR 26 at time of writing.

Alstom SA Valuation - Perception versus Reality	EURm	Multiple
Consensus (Bloomberg) 2017/18 EBITDA	**628**	
Perception		
Current value of listed shares	5,900	
Subtract: Net cash	61	
Add: Pension deficit	584	
Subtract: Other non-core assets (net)	246	
Perceived Enterprise Value (EV)	**6,177**	
Perceived EV/EBITDA		**9.8**
Reality		
Current value of listed shares	5,900	
Subtract: Net cash	61	
Add: Pension deficit	584	
Subtract: Other non-core assets (net)	246	
Subtract: Equity method associates including GE joint ventures	2,644	
Adjusted Enterprise Value	**3,533**	
Adjusted EV/EBITDA		**5.6**

Source: Morphic analysis, Company reports, Bloomberg

Alstom is subject to risks such as the global economic cycle, the complexity of governments and public bodies as clients, and operates in emerging markets. However, this is true of its competitors as well and we believe such risks are more than discounted by the current market valuation.

Positive attributes include a strong balance sheet, a global market leading position, growing annuity-like service revenues, a strong order book and the currently attractive operating momentum it faces. We expect management to monetise the GE joint ventures and buy back shares and raise dividends, while still having money to continue funding growth via bolt-on acquisitions.

Alstom also fits another of our current themes: expectation of a global wave of infrastructure focussed fiscal expansion. Not only is there growing policy maker recognition of the limits to the efficacy of monetary policy but there is a real need for this spending.

In many mature economies, years of investment neglect has resulted in crumbling transport infrastructure. Any visitor to New York will observe the pot-holed roads but the rail infrastructure is no better. In growing economies such as India and South Africa, investment in transport networks is required to replace the old services but also to facilitate the movement of a growing population.

Alstom is well positioned to serve the major geographical markets with significant ongoing investments in manufacturing plant on all continents. Indeed, recent contract wins include its largest ever, manufacturing and servicing a fleet of passenger trains in South Africa, similar contracts in India in both passenger and freight, and fast passenger trains in Europe and the US. That President-elect Trump recognises the need for expenditure in this area is another welcome catalyst for our investment in Alstom.