



MORPHIC ASSET MANAGEMENT UPDATE

05 December 2017



CERTIFIED BY RIAA

Morphic Asset Management Update

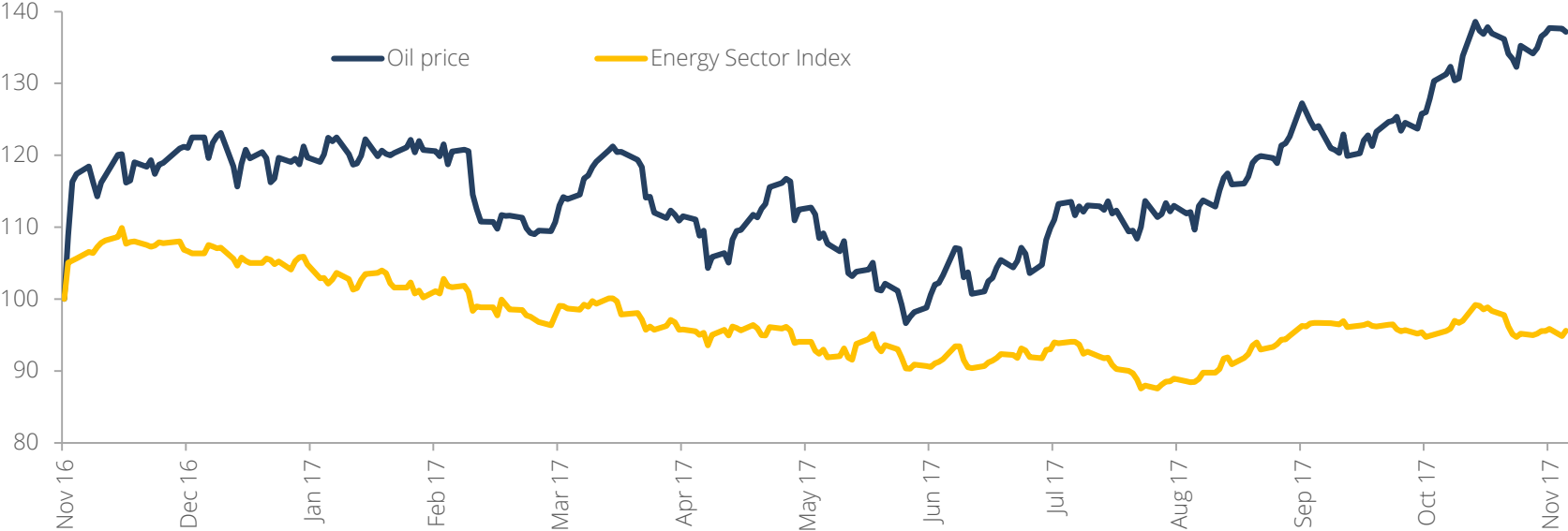
- Signatory of Principles for Responsible Investment (formerly known as UNPRI)
- Morphic Ethical Equities Fund and Morphic Global Opportunities Fund are certified Ethical investments by the Responsible Investment Association of Australasia (RIAA)
- First donation to Bush Heritage from Morphic Asset Management

Signatory of:



Mark Fulton – Valuing oil companies for a post-carbon world

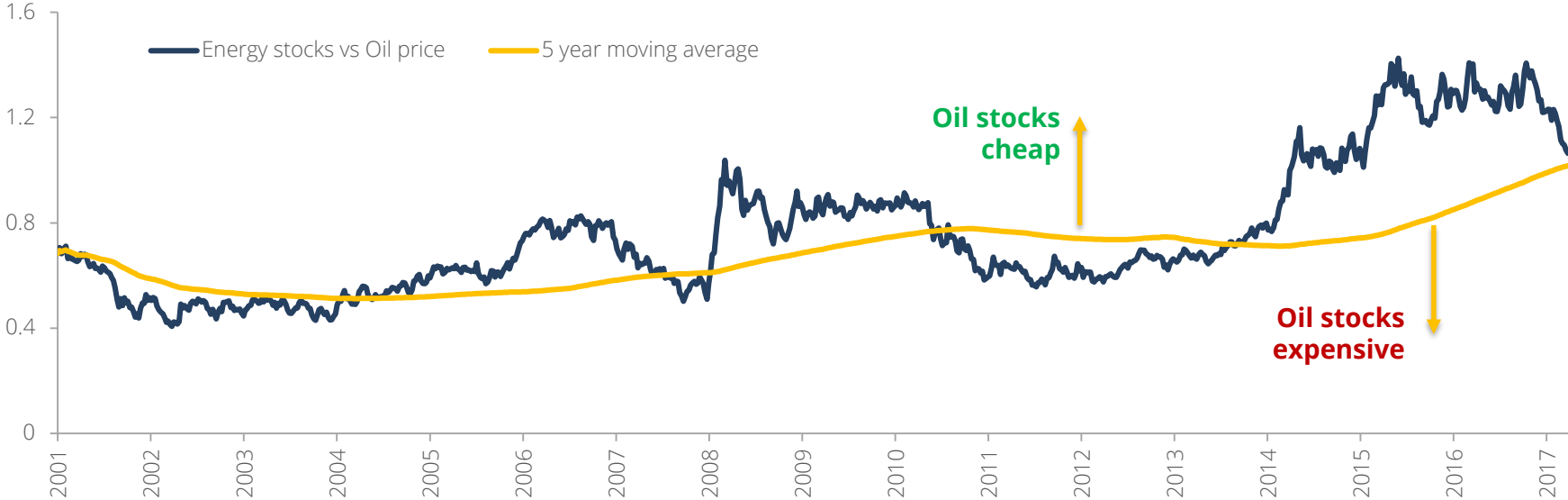
Energy stocks Index (XLE:US) vs Oil price (CO1:COM) USD, normalised, Nov 2016 – Nov 2017



Source: Bloomberg, Team Analysis

Mark Fulton – Valuing oil companies for a post-carbon world

Energy stocks Index (XLE:US) vs Oil price (CO1:COM) USD, 2001 - 2017



Source: Bloomberg, Team Analysis

**A WORD FROM
BUSH HERITAGE**



YEARS OF
CONSERVATION
EXCELLENCE

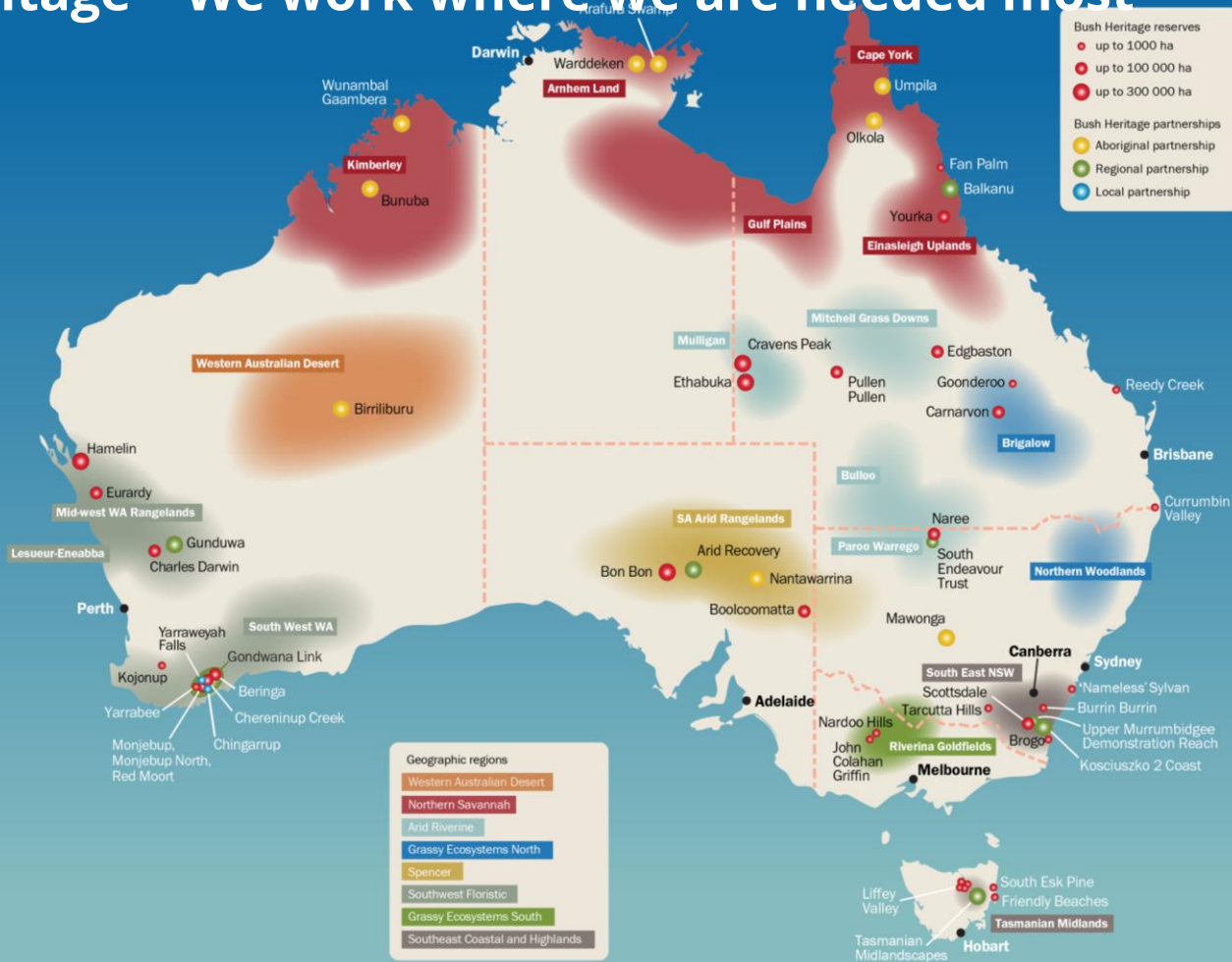
Bush Heritage – Healthy Country, Protected Forever



- We are a national charity that exists to protect Australia's unique animals, plants and their habitats – and stop them from being lost forever.
- We do this by owning and managing a network of wildlife reserves around the country.
- The numbers...
 - 🌿 6.2 million hectares of land protected
 - 🦘 44 reserves and partnerships
 - 🐘 5200 species recorded on our land
 - 🦎 222 threatened species protected



Bush Heritage – We work where we are needed most



Bush Heritage – Our Reserves & Partnerships

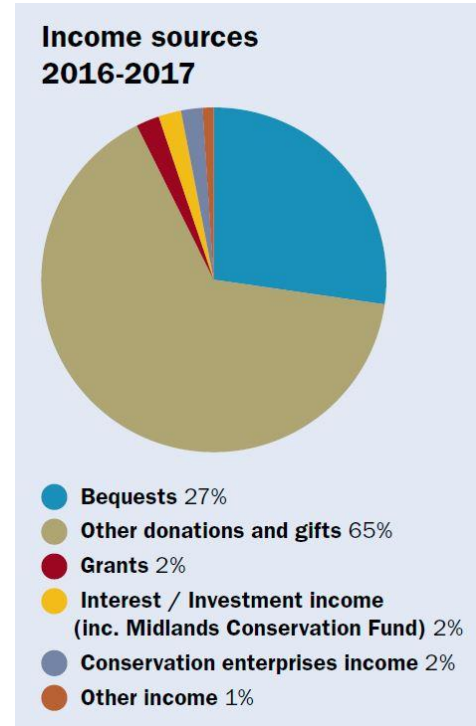
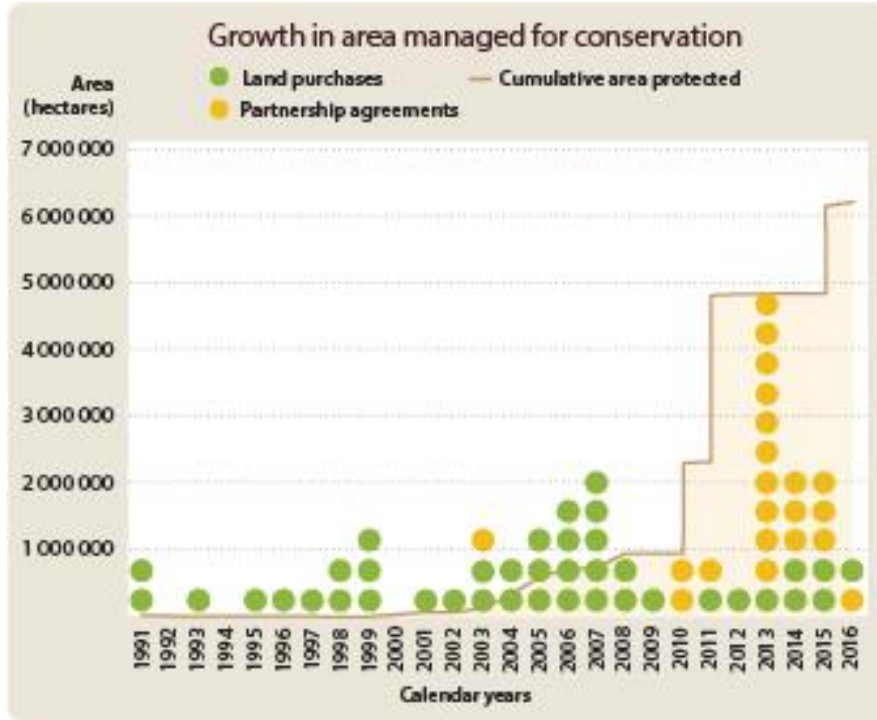


Bush Heritage – Science Plan: six research themes

-  Landscape connectivity
-  Threatened species
-  Habitat refugia
-  Fire ecology
-  Restoration ecology
-  Introduced species



Bush Heritage – Performance



An aerial photograph of a rural landscape. The top half of the image shows a large, vibrant green field, possibly a cornfield, with some yellow patches. A road runs horizontally across the middle of the field. To the right of the road, there is a dark, rectangular pond. The bottom half of the image shows a dark, wooded area with a few small buildings. A large, semi-transparent grey circle is overlaid on the right side of the image, containing the text 'FUNDS UPDATES'.

FUNDS UPDATES

Morphic Ethical Equities Fund (ASX: MEC) Update



MEC Performance*

As at October 2017

1 Month	3 Months	ITD p.a.
5.51%	9.05%	7.00%

* Performance is net of investment management fees, before company admin costs and taxes

Options details

As at October 2017

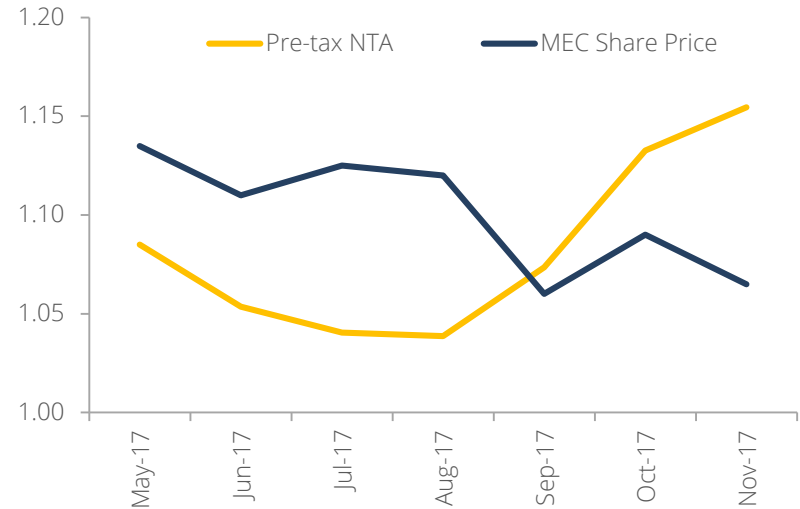
	ASX: MECO
Option Price	\$ 0.016
Options Exercise Price	\$ 1.10
Options Expire	30 November 2018

Platform availability



MEC Share Price vs NTA**

AUD, May 2017 - 23 November 2017



** Net Tangible Asset Value before tax
Past performance is not indicative of future performance.

Morphic Global Opportunities Fund (MGOF) Update



MGOF Performance

As at October 2017

1 Month	3 Months	CYTD	1 Year	ITD p.a.
5.13%	8.94%	13.88%	22.59%	17.95%

Three-Year Risk Measures

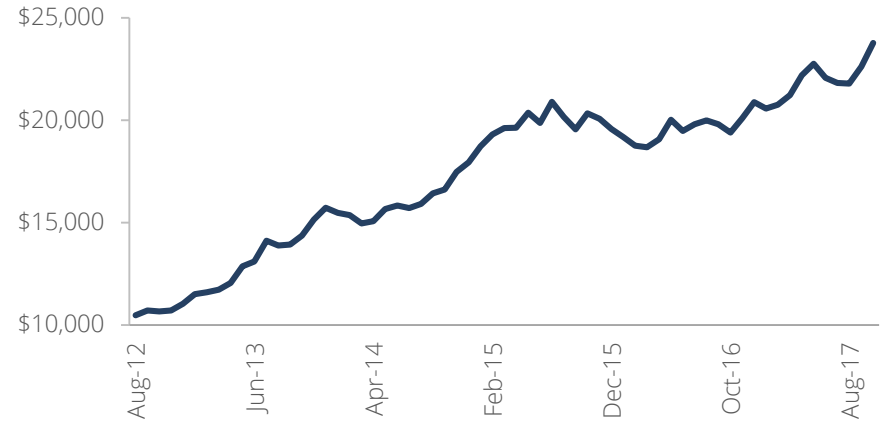
Nov 2014 – Oct 2017

	MGOF	Average Peer	Index
Standard Deviation	9.96	11.06	10.99
Sharpe Ratio	1.05	0.97	1.02
Alpha	0.74	0.18	--

Source: Morningstar, Index used by Morningstar is ACWI ex Australia

MGOF Performance of \$10,000*

AUD, Aug 2012 – Oct 2017



*Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 2 August 2012.

Platform availability



Portfolio positioning

As at October 2017 by country, sector and stock

Stocks (<i>Shorts</i>)	Theme	Region	MGOF Position Weighting	MEC Position Weighting
Alstom	Global Rail	Europe	3.8%	3.8%
Service Corp	US Deathcare	North America	3.0%	3.0%
Samsung Electronics	Global Tech	Asia Pacific	2.9%	3.0%
Ateam	Japanese E-Commerce	Asia Pacific	2.8%	2.9%
Western Alliance	US Quality Banks	North America	2.6%	2.6%
Open House	Japanese Homebuilders	Asia Pacific	2.3%	2.4%
<i>Iida Group</i>	Japanese Homebuilders	Asia Pacific	(2.1%)	(2.2%)
<i>Wells Fargo</i>	US Quality Banks	North America	(2.1%)	(2.1%)
Macromill	Global Research	Asia Pacific	2.0%	2.0%
Hazama Ando	Engineering & Construction	Asia Pacific	1.9%	2.0%



THEME: JAPAN

Is history repeating itself?

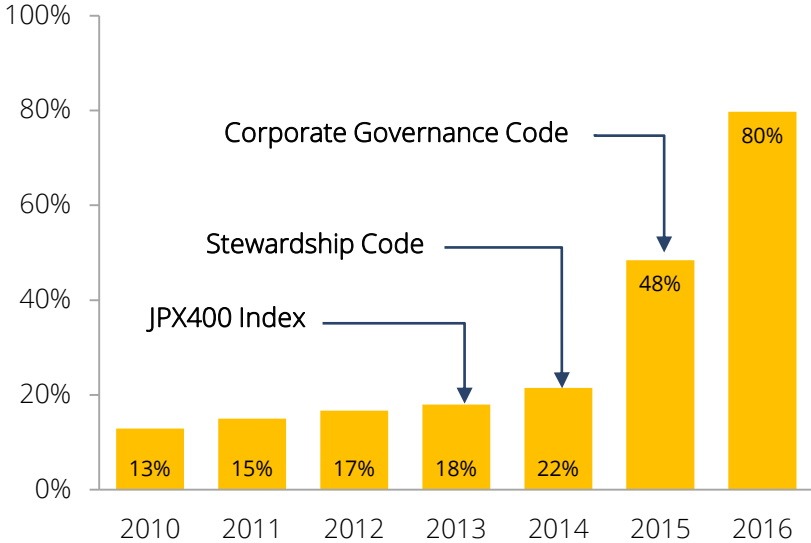


- Japan has a history of resisting change until it is forced upon it e.g. Perry's 'black ships'
- Once it does, a consensus based society then changes rapidly
- Threat of China & declining population are arguably the **new** 'black ships'

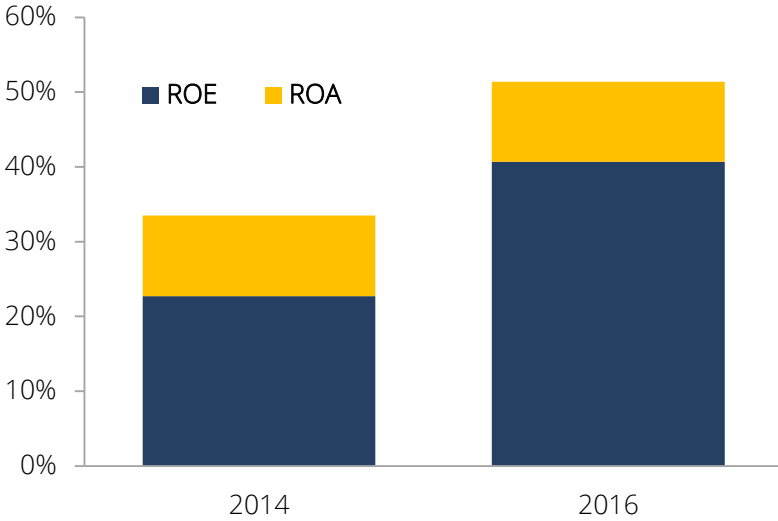
Source: Australian Ministry of Finance, Cabinet office

Are Abe's reforms a response to the new 'black ships'?

Percentage of 1st section companies with two or more independent directors 2010 - 2016



Japanese companies citing return-on-equity ("ROE") and return-on-assets ("ROA") targets in medium-term plans

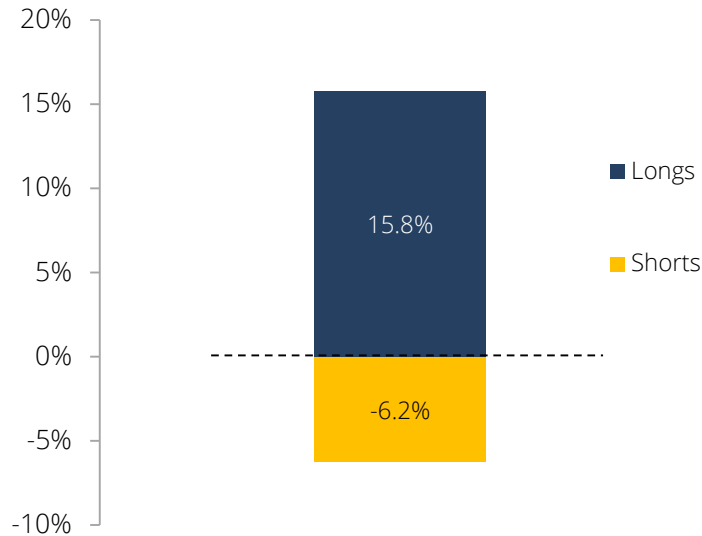


*Source: Morningstar

Japan is interesting from both a macro and micro perspective

Current MGOF Long/Short Japan Direct Exposure

As at October 2017



Source: Morpic Asset Management, Team Analysis

Top 5 MGOF Japanese holdings in the portfolio

As at October 2017

Stocks (<i>Shorts</i>)	Theme	Position Weighting
Ateam	Japanese E-Commerce	2.8%
Open House	Japanese Homebuilders	2.3%
<i>Iida Group</i>	<i>Japanese Homebuilders</i>	<i>(2.1%)</i>
Macromill	Global Research	2.0%
Hazama Ando	Engineering & Construction	1.9%

Japan Property Developers: It's all in the name



Open House (3288 JP)

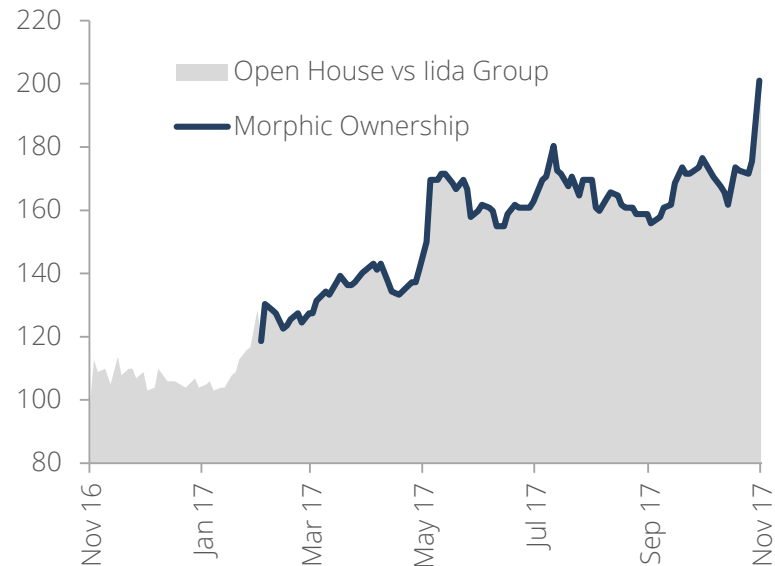
- Shareholder friendly: Dividends, buybacks, relatively progressive & young board (2 under 40)



Iida (3291 JP)

- Merger of 6 listed companies controlled by one family
- Founder's son in law is CEO, lacks influence
- Other siblings running subsidiaries with divergent strategies

Open House versus Iida Group share price
Normalised, November 2016 – November 2017



Source: Bloomberg, Team Analysis

A stock with weak ESG standards can be a profitable short

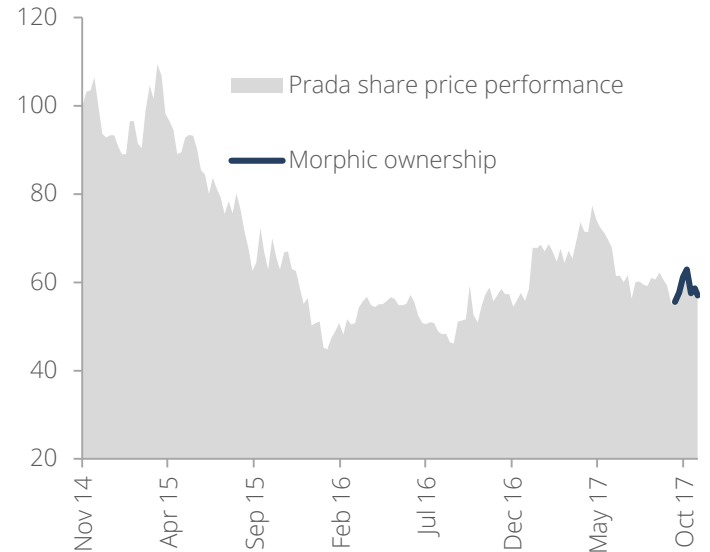
Prada

- Prada screened poorly on a number of internal models
 - Falling EPS revisions
- Consensus assuming an unlikely swift turnaround
- ESG audit highlights “worst in class”
 - Excessive consultancy agreements and director fees
 - Related-party transactions favouring co-CEOs
 - Director’s independence questionable



Prada share price performance

Normalised, November 2014 - October 2017



Source: Bloomberg, Team Analysis



ANY QUESTIONS?



APPENDIX

Our approach to integrating ESG



EXCLUDE

Morphic excludes investments in companies fundamentally misaligned with sustainable practices



ANALYSE & EVALUATE

Morphic integrates consideration of material ESG issues within research and financial analysis



ENGAGE

Morphic engages with companies to encourage achievement of best-practice in all ESG-related business practices

Our approach to integrating ESG



EXCLUDE

Morphic excludes investments in companies fundamentally misaligned with sustainable practices



Armaments



Tobacco & alcohol



Intensive animal farming & aquaculture



Oil & gas



Coal & Uranium Mining



Gambling



Rain forest & old growth logging

Can **short screened out** stocks and sectors

Our approach to integrating ESG



ANALYSE & EVALUATE

Research & Analysis

- Research
- Model
- Value
- Risks

ESG Audit

- Questionnaire to identify relevant ESG issues

ESG Materiality

- Sustainable Accounting Standards Board (SASB) Materiality Map
- Case studies

Third Party ESG Data

- Sustainalytics
- RobecoSAM
- ISS
- Carbon Disclosure Project ratings

Our approach to integrating ESG



Management Meetings



Written Questionnaires



Feedback

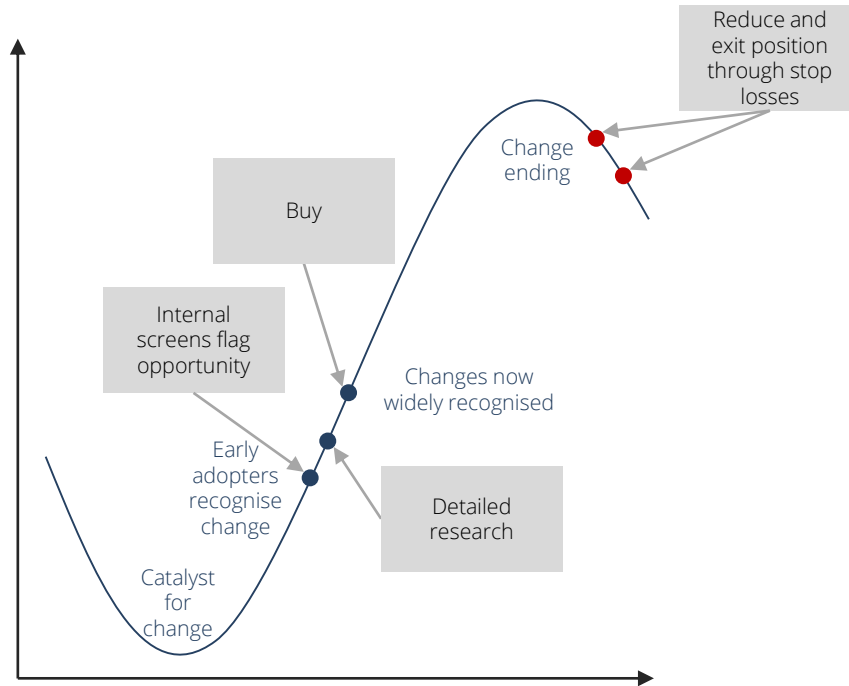


ENGAGE

Morphic engages with companies to encourage achievement of best-practice in all ESG-related business practices

Philosophy: Markets have trouble pricing changes efficiently

Morphic investment by stage of the change cycle Illustrative



We select investments based on:

- Expected absolute returns
- “Market style” risk – is it a risk on/off investment?

We determine position sizes based on:

- Conviction level
- Risk of individual investment idea
- Contribution to portfolio risk

We determine appropriate hedges and/or risk mitigation to:

- Enhance reward/risk
- Eliminate unintended consequences

Investment Process: Fundamental research combined with risk management



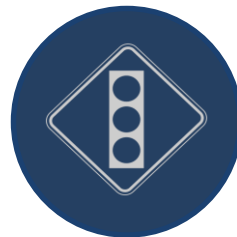
1. Identify change

- Why invest now?
- Has the market already responded?
- Is this cyclical or structural?
- Self-reinforcing cycle?



2. Analyse

- Can we look at the investment from another angle or data set?
- Relative valuation
- DCF models
- Reverse DCF
- Meetings with Management
- ESG Audit



3. Decide

- Group review, Joint CIO veto power
- Identify “wrong” price
- Do we need more information?
- What is our loss appetite?



4. Structure

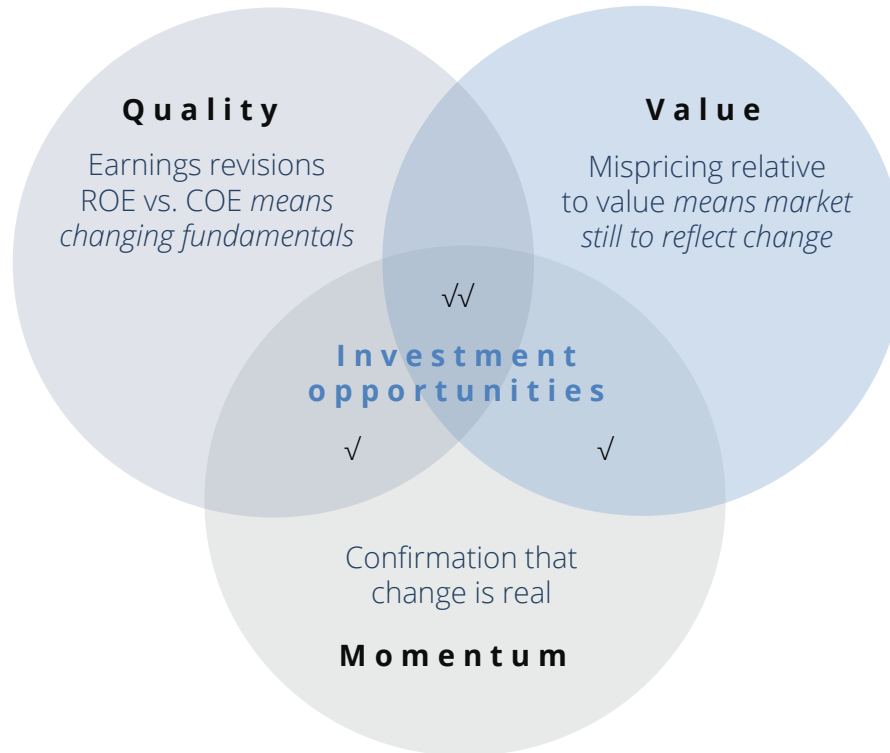
- Discuss with risk manager: How can we structure this investment better?
- Is the sizing right?
- Contribution to portfolio risk

On-going monitoring

Identify Change



What we seek
Why it matters



Identifying Investments: Leveraging diverse views



Fundamental research

&

Tech-enabled research

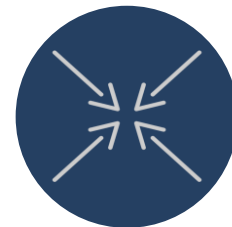
- 83 years of collective experience
- Modelling of stocks in-house
- Meetings with management
- Conferences

- Look for different data sources
- Apply Quantitative models
- Factors based research

600+ stocks we researched or owned previously

6000+ liquid stocks globally

Analyse Ideas



Focused set of idea sources

Ethical screening

Bottom Up

Top Down

Factor and industry screens
for new ideas

Review of previously held stocks
via quantitative models

Macro and thematic research

Promising outputs subject to detailed research based on:

- Review of publicly available materials
- Contact with management

Research Reports written in standard templates

Review of investments' progress against expectations conducted at least weekly

Investment Decision

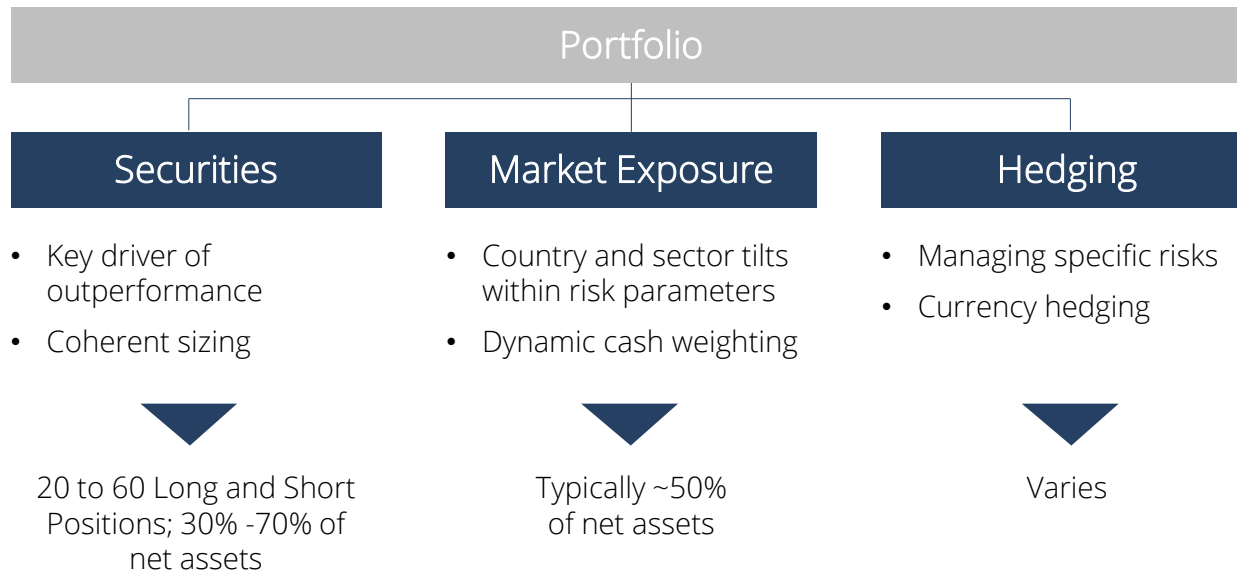


- Four senior team members act as capital allocators
- Approvals following presentation at team meetings
- All proposals subject to veto by either PM
- Sizing based on loss tolerance and VaR
- Exits determined by valuation, news flow and stop-losses



Robust but flexible approach allowing real time reaction pre and post trade

Portfolio Construction



- PM & Risk Manager decide on choice of appropriate instruments
- For consistency, everything is measured using VaR

- Contribution to portfolio risk
- Exits determined by valuation, news flow and stop-losses

Ongoing Monitoring: Portfolio Management governance

Checklist for analysts

1. Daily news flow update
2. Preview and de-brief after company results/conference calls
 - Prepare “Estimates vs Actual” template
 - Update company models
 - Provide CIOs with updated “indicative value” where appropriate
3. Monitor industry publications, key statistics
4. Monitor results from companies in the value chain and direct competitors
5. Test and restate drivers/assumptions where appropriate
6. Update state of the industry body of knowledge

Structured meeting schedule

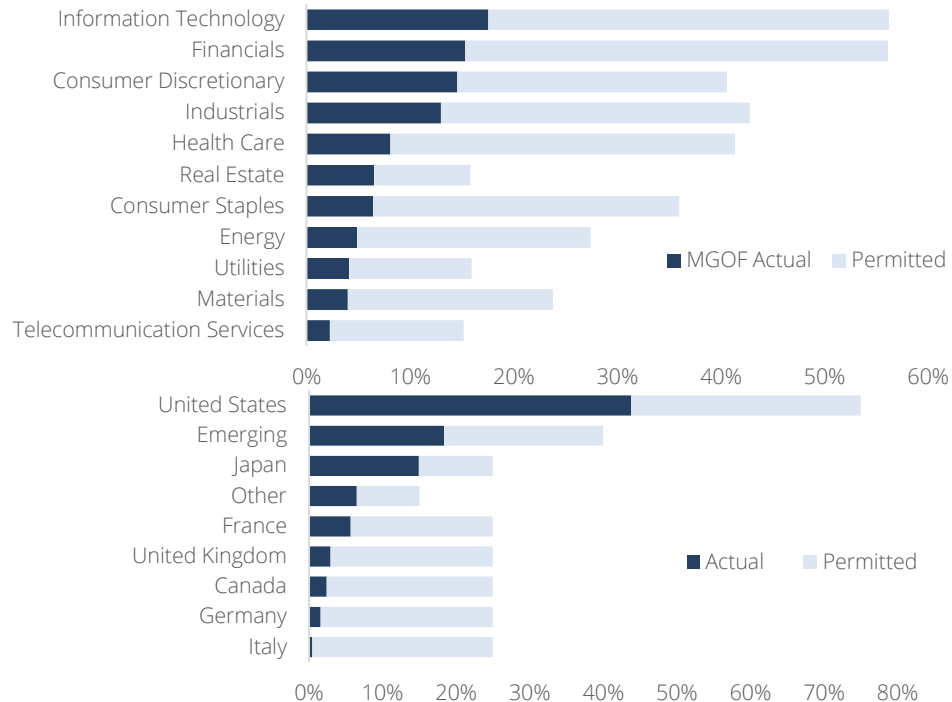
Forum	Issues
Daily debrief	<ul style="list-style-type: none">▪ Analysts update with “night action”▪ General (company- & macro) news flow▪ Preview / update after company results
Weekly meeting (Stocks)	<ul style="list-style-type: none">▪ Position (re-sizing)▪ Presentation of ideas for inclusion
Weekly meeting (Risk, Macro & Portfolio Construction)	<ul style="list-style-type: none">▪ Asset Allocation▪ Risk dashboard▪ Macro discussion and hedging strategy

Structuring investment to capture intended exposures only

Intended exposures and hedging

- Regular analysis of country, regional and industry exposures
- Use of ETFs to align active equity exposure with the target portfolio
- Strict single stock size limits:
 - Market cap:
 - >\$400M
 - >\$1bn for shorts
 - Liquidity: >\$3M
 - Max size: 5%
- Average holding period:
 - Long positions: 6-24 months
 - Short positions: 3-6 months
- Average Exposures:
 - Net: 100%
 - Gross: 160%

Sector and regional limits



Comprehensive overview of portfolio risks

		Risk Insight				
		Blind Spots	Concentration	Liquidity	Fat Tails	Portfolio Correlation
Risk Metric	Daily Volume Tests	●	●	●	●	
	Leverage	●	●			
	Market Cap		●	●	●	
	Position number		●			●
	Position Size		●	●	●	
	Sector / Country Exposure	●	●			●
	Sensitivities / Greeks	●	●			
	Stop Loss	●			●	●
	Stress Testing	●			●	●
	Value At Risk (VaR)	●			●	●

Checklist for Risk Manager

1. Measure and Monitor individual Investment Risks
 - Historical Simulations and volatility analysis
2. Test the Portfolio as a whole
 - Concentration Risks
 - Liquidity Risks
 - Stress Testing
3. Ensure Limits are adhered to
4. Keep team updated on the current macroeconomic landscape and event risks

Experienced Senior investment team



Jack Lowenstein
Managing Director
Joint Chief
Investment Officer

- **27 years experience in financial markets.**
- Jack co-founded Morphic Asset Management in 2012. He was previously Deputy Chief Investment Officer at Sydney based global equity manager Hunter Hall with responsibility for risk management and portfolio construction.
- He played a key role in building Hunter Hall from just \$13m under management when he joined, to a peak of just under \$3 billion. In ten years as a Portfolio Manager with Hunter Hall, he generated substantial out-performance.



Geoff Wood
Head of Macro
& Risk

- **16 years experience in financial markets.**
- Geoff joined Morphic at the inception in 2012. He previously worked in risk management at Global Trading Strategies, a global macro hedge fund that managed in excess of US\$1 billion through the global financial crisis, 2009 to 2011.
- Prior to that, he worked in risk management at Barclays Capital in London, managing the risks arising from the hedge fund clients of the bank's Prime Brokerage business.



Chad Slater
Executive Director
Joint Chief
Investment Officer

- **17 years experience in financial markets.**
- Chad co-founded Morphic Asset Management in 2012. He was previously a Portfolio Manager and Head of Currency and Macroeconomics at Hunter Hall for five years.
- Prior to this, Chad was an Investment analyst at BT Financial Group including a secondment to Putnam Investments in Boston. He began his career as an Economist at Australian Federal Treasury.



James Tayler
Head of Research

- **23 years experience in financial markets.**
- James joined Morphic in 2016. He was previously Head of Investment Research at Knight Vinke, a leading activist investor focused on European companies, based in Zurich and London.
- Prior to this, James was Head of Investment Research for a single family office in Switzerland following more than 10 years at Swiss Reinsurance Company.

Significant alignment of interests with investors

- All senior team members are shareholders in the Firm
- Senior team members have a significant proportion of NAV in the Fund
- Short term incentives are driven by individual and Fund performance
- One third of bonuses invested into the Fund with three year lock-up to ensure long term alignment

Morphic Asset Management

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