

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
May 2020



## Fund Objective

The Morphic Ethical Equities Fund Limited (the Fund) seeks to provide investors a way to grow their wealth and feel confident they do so without investing in businesses that harm the environment, people, and society.

The Fund excludes direct investments in entities involved in environmental destruction, including coal and uranium mining, oil and gas, intensive animal farming and aquaculture, tobacco and alcohol, armaments, gambling and rainforest and old growth logging.

## Investment returns\*

|  | 1 Month | 3 Months | 6 Months | 1 Year | ITD (p.a.) |
|--|---------|----------|----------|--------|------------|
| Morphic Ethical Equities Fund <sup>1</sup> | 3.76%   | -1.41%   | -0.63%   | 8.82%  | 5.94%      |
| Index <sup>2</sup>                         | 2.92%   | -2.94%   | -4.17%   | 10.04% | 9.97%      |

\* Past Performance is not an indication of future performance.

## Ethical Investing in Focus

During the month, The Australian Centre for Corporate Responsibility (ACCR) released a report that found that eight members of the Investor Group on Climate Change supported less than 50% of climate related proposals between 2017 and 2019. A number of funds also don't release their voting records.

As both an active manager and an ethical investor, we believe your active shareholdings should be voted and where there is an issue that we disagree with management that we vote against that and let you, the investor, know why. If the world is to change the behaviour of companies, not voting or simply voting along Chair recommendations won't see companies face any pressure. As a reminder, your Fund votes its shareholdings and investors can read our voting instructions on our website.

## Portfolio review

The Fund rose 3.8% in May, outperforming global markets which rose 2.9% in AUD terms. Global equities rose 4.1% in USD terms, as markets continued their strong April performance through May with signs of re-openings driving more cyclical stocks. The strong rise in the AUD dampened returns.

The Japanese market performed best (+5.9%) with the USA (+5.0%) not far behind. Asia Ex Japan (-0.6%) lagged as fears over a China-USA escalation over Hong Kong sovereignty rose. The Technology sector resumed its leadership (7.4%), though industrials (+5.8%) rose reflecting increased confidence in the economic recovery. Defensives, such as Staples (1.8%), lagged.

Reflective of the strong performance of Software and Tech for the month, Logitech, our Swiss based technology hardware provider, was one of the largest contributors. Reporting earnings during the month, the "Working from Home" demand for their peripherals drove strong sales and the company gave margin guidance that was ahead of expectations.

The largest detractor for the month was our position in Tencent. Despite reporting an excellent result with upgrades to sell-side forecasts, the stock lagged in a strong up market, its weight in the Hong Kong market which fell being the primary issue. The Fund remains a holder.

## Outlook

As discussed last month, the Fund had a number of "walk always" levels where it would reinvest back in markets. The rally of last month saw these hit, returning the Fund to fully invested in Mid-May. This limited the damage from a high cash weighting. The Fund finished the month with minimal cash holdings.

## Net Tangible Assets (NTA)

|                                   |           |
|-----------------------------------|-----------|
| NTA value before tax <sup>3</sup> | \$ 1.1544 |
| NTA value after tax <sup>3</sup>  | \$ 1.1327 |

## Investment Returns since inception<sup>4</sup>



Past Performance is not an indication of future performance.

We posited last month that markets were moving to price a reflationary outcome and the market was stuck in a range. With markets now back where they started the year, our call of new highs being unlikely, could well be tested in the coming months. But for now we hold to that call.

What could de-rail things? Our view is the data to stop improving. Whilst participants can argue over the size of the moves, as long as the data gets better, it's difficult to argue over the direction. If (when) the data fails to improve, markets are likely to struggle. But that would seem to be a post July/August timeframe

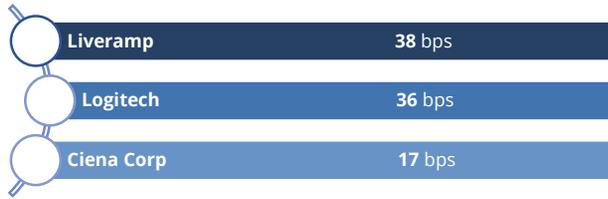
## Top 10 Active Positions

| Stocks (Shorts)        | Industry               | Region        | Position Weighting |
|------------------------|------------------------|---------------|--------------------|
| Tencent                | Information Technology | Asia Pacific  | 3.1%               |
| Cellnex                | Telecom                | Europe        | 3.0%               |
| Alstom                 | Industrials            | Europe        | 2.7%               |
| Keysight Technologies  | Industrials            | North America | 2.3%               |
| Service Corp           | Consumer Staples       | North America | 2.1%               |
| Graphic Packaging      | Industrials            | North America | 2.0%               |
| Liveramp               | Information Technology | North America | 1.8%               |
| New Oriental Education | Consumer Services      | North America | 1.7%               |
| Techtronic Industries  | Information Technology | Asia Pacific  | 1.6%               |
| Logitech               | Information Technology | Europe        | 1.4%               |

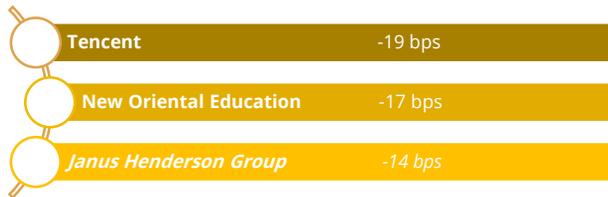
| Risk Measures                 |        |
|-------------------------------|--------|
| Net Exposure <sup>5</sup>     | 99%    |
| Gross Exposure <sup>6</sup>   | 124%   |
| VAR <sup>7</sup>              | 2.55%  |
| Upside Capture <sup>8</sup>   | 71%    |
| Downside Capture <sup>8</sup> | 79%    |
| Best Month                    | 5.51%  |
| Worst Month                   | -6.49% |
| Average Gain in Up Months     | 2.21%  |
| Average Loss in Down Months   | -2.26% |
| Annual Volatility             | 9.65%  |
| Index Volatility              | 11.32% |

| Hedge Positions | Risk Limit Utilisation (%) <sup>9</sup> |
|-----------------|---|
| None            |   |

## Top three alpha contributors<sup>10</sup> (bps)

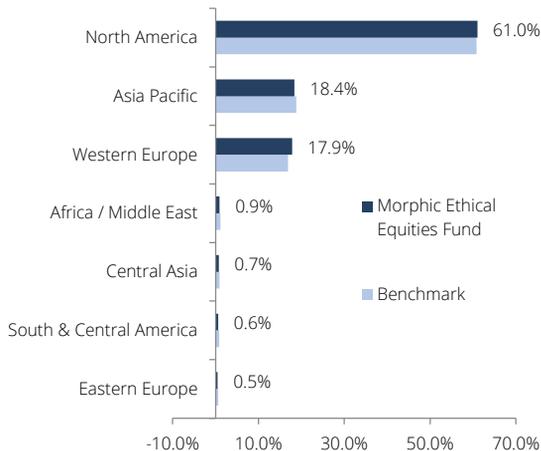


## Top three alpha detractors<sup>10</sup> (bps)

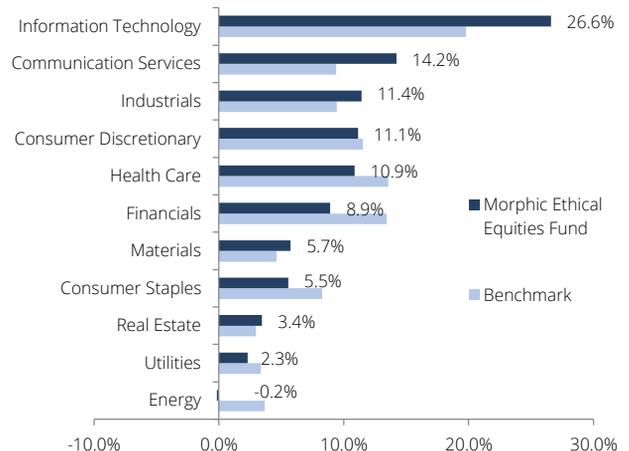


| Key Facts                        |             |
|----------------------------------|-------------|
| ASX code / share price           | MEC / 0.875 |
| Listing Date                     | 3 May 2017  |
| Management Fee                   | 1.25%       |
| Performance Fee <sup>11</sup>    | 15%         |
| Market Capitalisation            | \$ 46m      |
| Shares Outstanding               | 52,829,432  |
| Dividend per share <sup>12</sup> | \$ 0.02     |

## Equity Exposure Summary By region



## Equity Exposure Summary By sector



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<sup>1</sup> Performance is net of investment management fees, before company admin costs and taxes; <sup>2</sup> The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUEACWF) in AUD; <sup>3</sup> The figures are estimated and unaudited; <sup>4</sup> Performance is net of investment management fees, before dividends, company admin costs and taxes. Fund listing on the ASX 3 May 2017. Past performance is not an indication of future performance; <sup>5</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>6</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>7</sup> Based on gross returns since Fund's inception; <sup>8</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>9</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>10</sup> Attribution; relative returns against the Index excluding the effect of hedges; <sup>11</sup> The Performance Fee is payable 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; <sup>12</sup> Annual dividend per share.