

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
November 2017



Signatory of:



## Fund Objective

The Morpic 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	ITD p.a.
Morphic Ethical Equities Fund <sup>1</sup>	2.65%	12.03%	9.83%
Index <sup>2</sup>	2.96%	10.81%	10.70%

## Ethical Investing in Focus

Morphic's Joint CIO, Chad Slater, and Head of Research, James Tayler, were in Berlin last week for the Expert Investor ESG Congress. Over 60 allocators from across Europe, representing billions of dollars of assets, gathered for two days to hear updates on ethical and sustainable investing. Topics ranged from impact investing for change in the third world through to carbon reduction winners and losers. Morpic was one of only five institutions invited to talk at the event.

ESG investing is at the forefront of many portfolio construction strategies, with clients demanding their advisors to consider more offerings. One statistic stood out: 80% of millennials change advisors when they inherit money, suggesting a deep dissatisfaction with the lack of ESG funds for them to invest in that align with their personal values.

## Portfolio review

The Fund's year to date gains continued in November, rising by 2.65% over the month. Global markets were up 1.8% in USD terms and a falling AUD was a tailwind again.

Japan and the USA were the best performing regions as opposed to Europe and Emerging Markets which were the worst.

The Fund lagged global equity markets somewhat over the month. Market hedges were the largest detractors, with stock selection a small detractor. Market neutral pairs trades provided a positive offset.

Whilst we have written at length about our long position in Open House, our Japanese condo builder, we haven't done so about the short leg against it (Iida Group). Over the month, Iida Group missed earnings at the same time Open House beat earnings expectations, leading to the rare, but profitable, outcome of both legs working. By month end, we had closed the short in Iida out, whilst staying long Open House.

Macromill, which was last month's largest positive contributor, gave back some gains after it reported earnings that whilst still good, lagged the markets lofty expectations. The other detractor of note was Samsung electronics, which sold off later in the month on general weakness in the Technology sector as some market participants reacted to sell side research suggesting the cycle may be ending. We remain holders having reduced position size on valuation concerns last month.

## Outlook

The assertion that calendar returns favour the market late in the year managed to hold true over November. As such we would reiterate that if this is to hold true again, then December should be positive, though not as good as November. The looming tax cuts proposed in the USA could be the catalyst. We'll see.

Economic data globally remained elevated in November, continuing the run of good data we have seen all year. What has been remarkable is that global interest rate markets have preferred to focus on the weak wage data, thus enabling equities to re-rate with better earnings and powering this year's gains.

Hedges remain minimal. Some hedges have been added over the month to protect the Fund against rises in the AUD from this level. With economic data globally strong of late and commodity prices rising, we see the risk that local data improves rather than deteriorate from here, taking the AUD with it.

We are currently finalising our 2018 outlook thoughts for publication next month in which we will update investors on where we think the risks and rewards for 2018 lie.

## Key Facts

ASX code / share price	MEC / 1.08
ASX code / option price	MECO / 0.035
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>3</sup>	15%
Market Capitalisation	\$ 49m
Shares Outstanding	45,470,227
Options Outstanding	43,411,026
Options Exercise price	\$ 1.10
Options Expire	30 November 2018

## Net Tangible Assets (NTA)

Net tangible asset value before tax <sup>4</sup>	\$ 1.1602
Net tangible asset value after tax <sup>4</sup>	\$ 1.1421

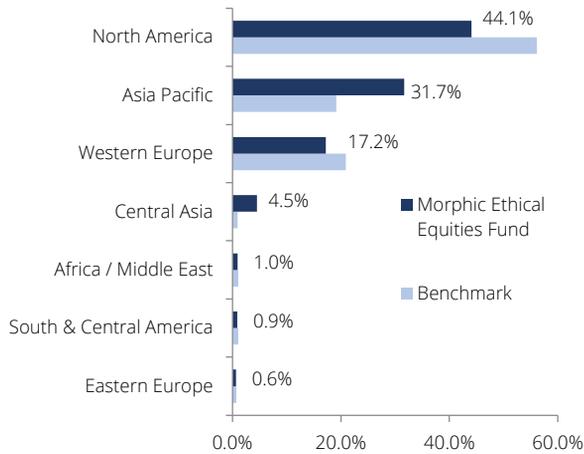
## Top 10 Holdings

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.1%
Service Corp	US Deathcare	North America	3.1%
Western Alliance	US Quality Banks	North America	2.7%
Ateam	Japanese E-Commerce	Asia Pacific	2.6%
Wells Fargo	US Quality Banks	North America	(2.1%)
Hazama Ando	Engineering & Construction	Asia Pacific	1.9%
Bank of Internet	US Quality Banks	North America	1.8%
Macromill	Global Research	Asia Pacific	1.7%
Power Grid	Indian Infrastructure	Central Asia	1.7%
Open House	Japanese Homebuilders	Asia Pacific	1.7%

## Hedge Positions

Name	Risk Limit Utilisation (%) <sup>6</sup>
Long AUD	0.9%
US Curve Flattening	0.2%

## Equity Exposure Summary By region



This communication has been prepared by Morphic Ethical Equities Fund Limited ("MEC") (ACN 617 345 123) and its Manager, Morphic Asset Management Pty Ltd ("Morphic") (ACN 155 937 901) (AFSL 419916). The information contained in this communication is for information purposes only and is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Please note that, in providing this communication, MEC and Morphic have not considered the objectives, financial position or needs of any particular recipient. MEC and Morphic strongly suggest that investors consult a financial advisor prior to making an investment decision. No warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this communication. To the maximum extent permitted by law, none of MEC, its related bodies corporate, shareholders or respective directors, officers, employees, agents or advisors, nor any other person accepts any liability, including, without limitation, any liability arising out of fault or negligence for any loss arising from the use of information contained in this communication. If this communication includes "forward looking statements", such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of MEC and its officers, employees, agents or associates that may cause actual results to differ materially from those expressed or implied in such statement. Actual results, performance or achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. MEC and Morphic assume no obligation to update such information. This communication is not, and does not constitute, an offer to sell or the solicitation, invitation or recommendation to purchase any securities and neither this communication nor anything contained in it forms the basis of any contract or commitment. The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Morphic Ethical Equities Fund adheres to the strict disclosure practices required under the Responsible Investment Certification Program for the category of Product Provider. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Morphic Ethical Equities Fund's methodology, performance and stock holdings can be found at [www.responsibleinvestment.org](http://www.responsibleinvestment.org), together with details about other responsible investment products certified by RIAA. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

<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 NDUJACWF) in AUD; <sup>3</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>4</sup> The figures are unaudited; <sup>5</sup> Attribution; relative returns against the Index excluding the effect of hedges; <sup>6</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>7</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>8</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>9</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.

## Top three contributors<sup>5</sup> (bps)



## Top three detractors<sup>5</sup> (bps)



## Risk Measures

Net Exposure <sup>7</sup>	104%
Gross Exposure <sup>8</sup>	139%
VAR <sup>9</sup>	0.96%

## Equity Exposure Summary By sector

