

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
December 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
Morphic Ethical Equities Fund <sup>1</sup>	-2.48%	5.61%	7.10%
Index <sup>2</sup>	-1.38%	6.07%	9.18%

## Ethical Investing in Focus

In December, the Morpic Global Opportunities Fund was also certified by the Responsible Investment Authority of Australia, joining the Morpic Ethical Equities Fund (ASX: MEC) as an ethical investment option for investors.

Insight Investment's "[Thoughts for 2018](#)", believes the growth seen in ethical investing will continue to increase steadily, with a focus on managers who incorporate ESG into their investment process. Of particular interest will be the growth of "green bonds". These bonds allow investors to finance specific ESG projects within companies through debt rather than share ownership. According to HSBC's S&P Green Bond Index, the social bonds market rose by 231.8 per cent over the 2016 and 2017 calendar years, while sustainable bonds jumped 35.5 per cent.

## Portfolio review

The Fund fell 2.48% in December, trimming year to date returns. Global markets were up 1.5% in USD terms, but offsetting this the Australian dollar rose strongly, up 3% over the month.

For the year of 2017, global equities rose 21.6% in USD (14.8% in AUD terms) for the strongest year since the recovery took hold in 2009. It was a year of "new tech" with Software (+41.9%) and tech hardware (+36%) as the leading sectors globally. Investors also returned to Emerging Markets (+34%) and the US lagging with "just" 19% return for the year. For Australian investors, the 8% rise in the AUD over 2017 dampened these returns.

The Fund lagged global equity markets over the month. Stock selection was the primary detractor from performance.

[Investors Cloud](#) was the largest contributor to performance. Having fallen in November due to investors selling after the results, the stock rallied to new highs in December after the announcement of the regulatory approval for a more rapid roll-out of the cloud funding model they are pioneering in Japan (similar to [Brixx in Australia](#)). The Fund has started to sell the position as the price now incorporates most of the good news.

Our pairs position on the Japanese discount drugstore chains - Kusuri and Cosmos - was the largest detractor over the month as Kusuri fell heavily on weaker than expected monthly store sales. The Fund remains a holder, with the view the market is over extrapolating the monthly sales trend.

Lastly, Japanese digital marketing company Macromill fell following a sell down from its prior private equity owner during the month. We remain a holder, being of the view that now the sale is largely done, focus can return to the underlying business.

## Outlook

Our prediction [last month](#) that markets should be good to investors in December, if not quite as good as November, proved correct. We did not, however see a rally in the AUD of that magnitude.

The world starts 2018 with economic data being the best in many years and Developed Markets seeing continued strength. This is translating into earnings forecasts being revised up rather than down for the first time in many years. What will be interesting to observe is how long the bond market can focus on the negatives rather than the positives.

Our Half Yearly review will have a comprehensive overview of our thoughts on markets for the coming half as well as providing our usual "anti-forecasts" of what won't happen. It will be sent to investors next week, we hope you take the time to read it.

## Key Facts

ASX code / share price	MEC / 1.09
ASX code / option price	MECO / 0.035
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>3</sup>	15%
Market Capitalisation	\$ 50m
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>	\$ 1.1312
Net tangible asset value after tax <sup>4</sup>	\$ 1.1225

## 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	2.6%
Wells Fargo	US Quality Banks	North America	(2.3%)
China Everbright Intl	Environmental & Facilities	Asia Pacific	2.1%
Ateam	Japanese E-Commerce	Asia Pacific	2.0%
Hazama Ando	Engineering & Construction	Asia Pacific	1.9%
Open House	Japanese Homebuilders	Asia Pacific	1.8%
Macromill	Global Research	Asia Pacific	1.8%
Bank of Internet	US Quality Banks	North America	1.7%

Hedge Positions	Risk Limit Utilisation (%) <sup>6</sup>

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

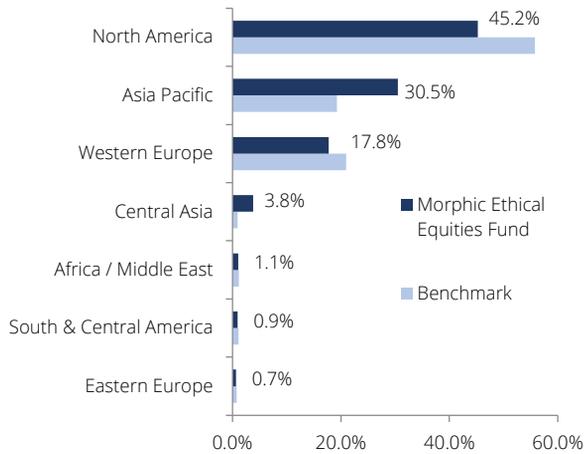


## Top three detractors<sup>5</sup> (bps)

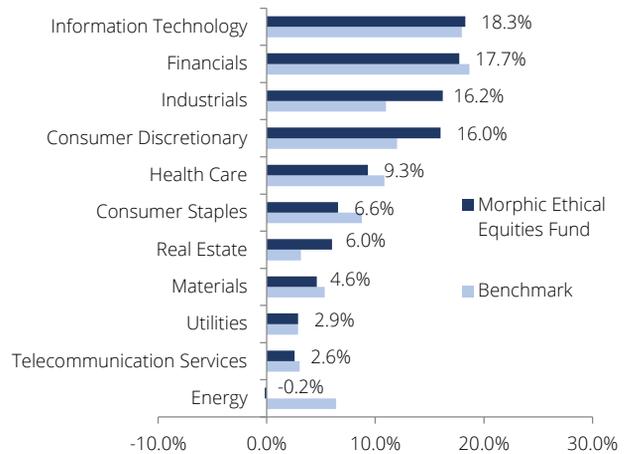


Risk Measures	
Net Exposure <sup>7</sup>	101%
Gross Exposure <sup>8</sup>	117%
VAR <sup>9</sup>	0.97%

## 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 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.