



# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
December 2018

AsiaHedge  
2018 Finalist  
"New Fund of  
the Year"



A proud founder of:  
Climate  
Action 100+

Signatory of:  
PRI Principles for  
Responsible  
Investment

## 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	CYTD	ITD (p.a.)
Morphic Ethical Equities Fund <sup>1</sup>	-3.46%	-8.82%	-6.61%	-3.41%	2.06%
Index <sup>2</sup>	-3.58%	-10.33%	-4.52%	0.64%	5.82%

## Ethical Investing in Focus

The momentum behind Ethical Investing continued throughout 2018 both here in Australia and globally.

As more asset owners demand their investment managers take account of ESG risks in addition to traditional financial measures, these issues will have an ever greater impact on company share prices. An example of this has been the decision of various large investors (including AMP Capital) to divest of all tobacco stocks. [We expect to see even bigger movements](#) around other negative activities such as coal, oil and gas exploration and production.

## Portfolio review

The Fund portfolio fell 3.5%\*, falling in line with global shares which fell by 3.6% in AUD terms. The fall was less than the fall in USD terms (-7.2%) as a falling AUD cushioned the impact for Australian investors.

The USA fell the most (-9.2% in USD) with Asia down 3.0% and Europe down 4.7%. In contrast to cyclical regions outperforming, the worst sectors were cyclical, with Energy (-9.2%) and Tech Hardware (-9.0%). Unsurprisingly, Utilities did best (-2.2%).

Axos Financial (formerly Bank of Internet), was the largest detractor over the month as Financial sector stocks came under pressure in a falling market about fears of bad debts and lower lending. The other detractor of note was Macromill in Japan, on fears lower advertising and marketing spend would accompany a global slowdown.

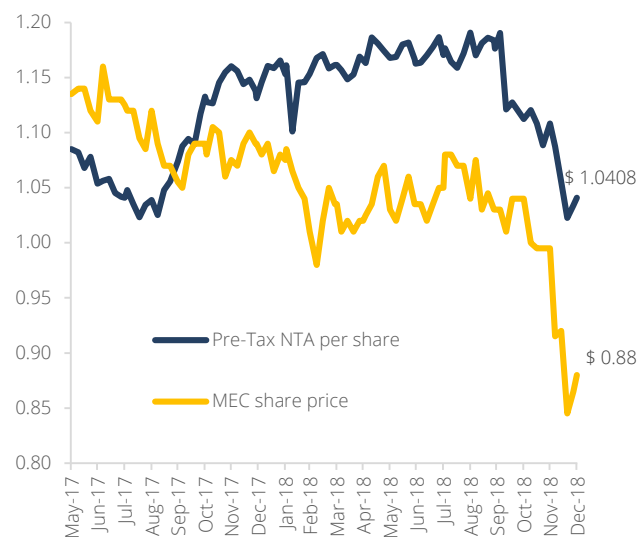
Consistent with broad trends of the month, all the largest positive contributors were in Asia and what can be characterised as "utility like" stocks. China Everbright, China Water Affairs and Power Grid Corporation of India were all amongst the largest positive contributors for the month.

*\*The Fund's NTA fell by a larger 5.08%, reflecting the impact of the placement of 6.83m new shares issued at \$0.93 a share. The company also released a [Share Purchase Plan \(SPP\)](#) that allows each shareholder to subscribe for up to 16,129 shares at \$0.93 on or before 18 January 2019. The aim of the SPP is to ensure all shareholders can buy shares at the same price as the placement, thus mitigating the dilutionary impact. Over time, the MEC board expects the increased scale of the Fund following the placement to reduce operational costs per share.*

## Net Tangible Assets (NTA)

NTA value before tax <sup>3</sup>	\$ 1.0408
NTA value after tax <sup>3</sup>	\$ 1.0418

## MEC share price and Pre-tax NTA performance<sup>4</sup>



## Outlook

Our decision to remain fully invested in anticipation of a market bounce proved to be incorrect as markets suffered the worst December in decades. Normally the seasonality is the opposite – markets tend to rally at year-end. Our Half Yearly report due out later this month delves deeper into our reflections on why the Fund was positioned this way and what was misread.

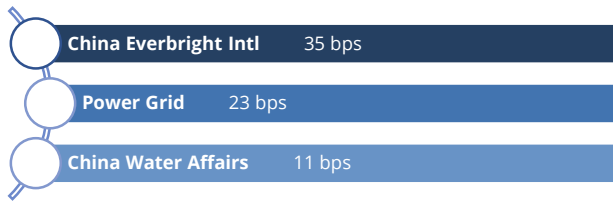
With the caveat that our predictions of markets reactions to news has not been in sync, the Fund continues to be positioned for a rebound from here. Sentiment indicators are extremely negative, as are sell-side revisions. This combination has historically seen positive returns over the coming 12 months. Some small hedges against this are in place with a long USD position. A longer outlook section is included in the upcoming Half Yearly report.

## Top 10 Active Positions

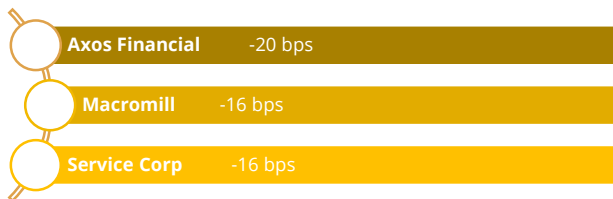
Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	4.4%
China Everbright Intl	Waste-to-Energy	Asia Pacific	3.7%
China Water Affairs	Water Utility	Asia Pacific	3.2%
Service Corp	US Deathcare	North America	3.0%
Bank Leumi	Israeli Bank	Middle East	2.5%
Power Grid	Indian National Electricity Grid	Central Asia	2.2%
ICICI Bank	Indian Bank	Central Asia	(2.0%)
Panalpina	Freight Forwarder	Europe	2.0%
Orix Corporation	Japanese Financial Services	Asia Pacific	1.9%
Axos Financial	US Bank	North America	1.4%

Risk Measures	
Net Exposure <sup>5</sup>	102%
Gross Exposure <sup>6</sup>	140%
VAR <sup>7</sup>	1.36%
Upside Capture <sup>8</sup>	66%
Downside Capture <sup>8</sup>	82%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	1.92%
Average Loss in Down Months	-1.90%
Annual Volatility	8.88%
Index Volatility	9.08%

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



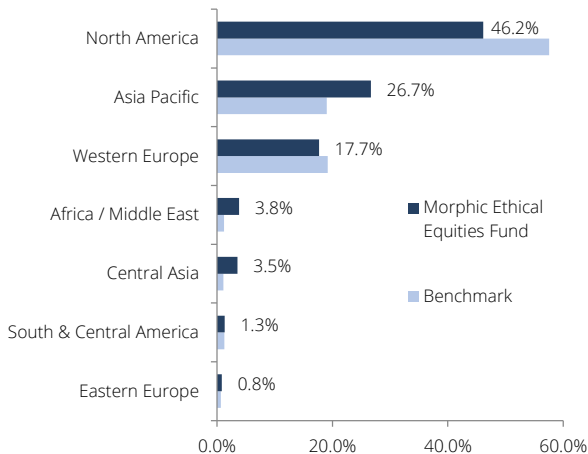
## Top three alpha detractors<sup>10</sup> (bps)



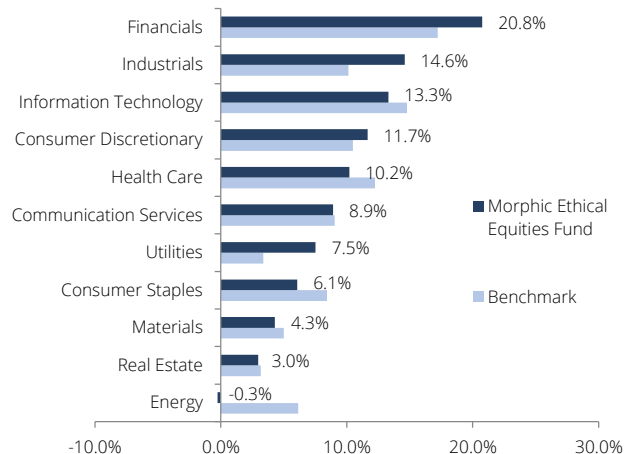
Hedge Positions	Risk Limit Utilisation (%) <sup>9</sup>
US 5/30 Steepener	0.5%
Long USD vs EUR and AUD	0.4%

Key Facts	
ASX code / share price	MEC / 0.88
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>11</sup>	15%
Market Capitalisation	\$ 46m
Shares Outstanding	52,417,736
Dividend per share <sup>12</sup>	\$ 0.02

## Equity Exposure Summary By region



## Equity Exposure Summary By sector



## Contact us

### Morphic Asset Management Pty Ltd

Level 3, 139 Macquarie St

Sydney 2000

New South Wales

Australia

[www.morphicasset.com](http://www.morphicasset.com)



### Irene Kardasis

*Business Development Manager*

Phone: +61 2 9194 6707

Email: [ikardasis@morphicasset.com](mailto:ikardasis@morphicasset.com)

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 NDUACWF) in AUD; <sup>3</sup> The figures are unaudited; <sup>4</sup> The pre-tax net tangible asset value is after the deduction of fees and costs. 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> Dividend per share includes the final dividend for FY18 payable on 12 December 2018.