



**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 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	6 Months	CYTD	ITD (p.a.)
Morphic Ethical Equities Fund <sup>1</sup>	3.22%	-0.50%	-4.30%	3.22%	3.82%
Index <sup>2</sup>	4.18%	-1.08%	-2.85%	4.18%	8.03%

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

## Ethical Investing in Focus

The World Economic Forum Annual Meeting took place this month in Davos and one of the big themes and challenges world leaders discussed was climate change. Big corporates like Procter & Gamble, Pepsi, Nestlé and Unilever (UL) joined forces with waste management company TerraCycle to launch [Loop](#), a project that will allow people to reuse containers for some of the world's most popular household products.

We believe the best speech though on the topic didn't come from a world leader or a CEO; it came from the 16-year-old activist Greta Thunberg who warned everyone that "[Our house is on fire](#)". It is great to see that people around the world are adding their voice to call for urgent action to protect and restore nature. [Click here if you want to get involved today.](#)

## Portfolio review

The Fund rose 3.2% (in AUD) in January, trailing global markets for the month (4.2% in AUD) which rallied 7.8% in USD terms.

Heavily oversold in December, markets in January rose on the back of hope for a looser monetary policy coupled with positive expectations for the China-US trade war negotiations. All regions posted strong returns with Emerging Markets being the best performer during the month (+8.7%).

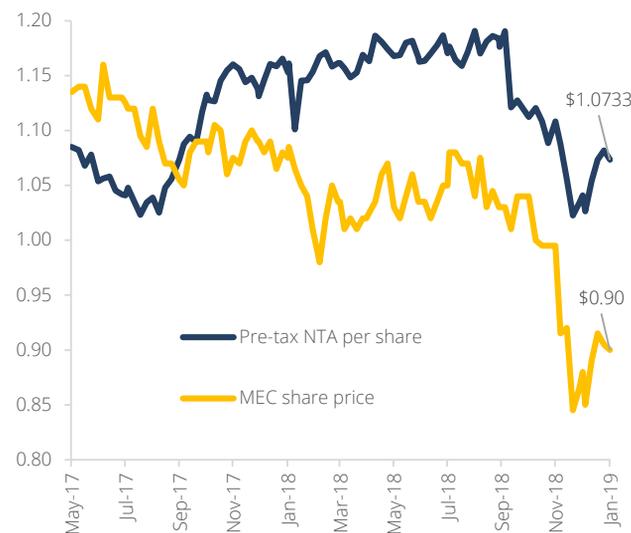
The largest detractor for the month was our position in rail equipment manufacturer Alstom on fears that the merger with Siemens Mobility might be blocked by the European competition authorities. Alstom has continued to exceed expectations in terms of sales growth and margin expansion, with a record 5-year order book. Whilst we expect the share price to be volatile in the short term, we believe Alstom remains attractively valued with or without the merger.

On the positive side, the Fund's largest contributor was the position in freight forwarder Panalpina. In November, the company announced that the non-independent Chairman would step down in 2019. The largest shareholder (45%) had previously used this position to block any discussion of takeover, and we judged that the company's valuation did not reflect the new probability of this. Pairing the holding with short positions in other peers rewarded us when DSV recently announced a takeover approach at a significant premium to the market valuation.

## Net Tangible Assets (NTA)

NTA value before tax <sup>3</sup>	\$ 1.0733
NTA value after tax <sup>3</sup>	\$ 1.0652

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



## Outlook

[Our half year report](#) expressed cautious optimism in early January that markets had over-reacted in December and should rally. After the largest rally in January in 30 years, we believe markets are likely to enter a more difficult directionless range as some data in the background such as earning revisions and growth expectations have slowed over the last four months.

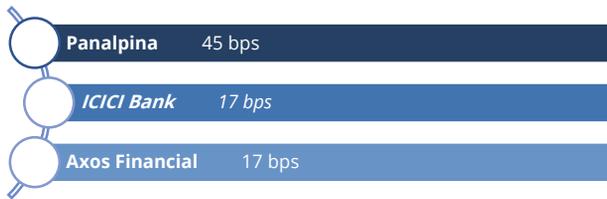
Historically, a Federal Reserve that goes on hold and stops hiking is positive for equities, but the reason they are on hold is a double-edged sword: if worsening data get too bad, there is a risk of recession and equities don't rise in that situation. We remain of the view this is not the case but temper our bullish stance with some cash being raised at the margin in the Fund.

## Top 10 Active Positions

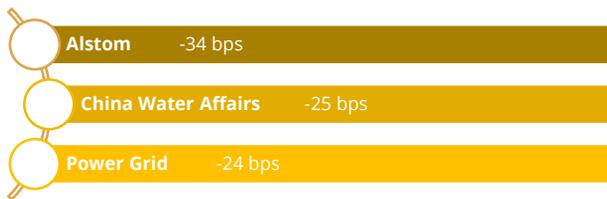
Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	4.1%
Service Corp	US Deathcare	North America	3.0%
China Water Affairs	Water Utility	Asia Pacific	2.9%
Toyota Motor	Automotive Manufacturer	Asia Pacific	2.7%
Mazda Motor	Automotive Manufacturer	Asia Pacific	(2.7%)
China Everbright Intl	Waste-to-Energy	Asia Pacific	2.6%
Bank Leumi	Israeli Bank	Middle East	2.6%
Panalpina	Freight Forwarder	Europe	2.5%
Power Grid	Indian National Electricity Grid	Central Asia	1.9%
ICICI Bank	Indian Bank	Central Asia	(1.9%)

Risk Measures	
Net Exposure <sup>5</sup>	99%
Gross Exposure <sup>6</sup>	159%
VAR <sup>7</sup>	1.36%
Upside Capture <sup>8</sup>	67%
Downside Capture <sup>8</sup>	82%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.03%
Average Loss in Down Months	-1.90%
Annual Volatility	8.95%
Index Volatility	9.27%

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



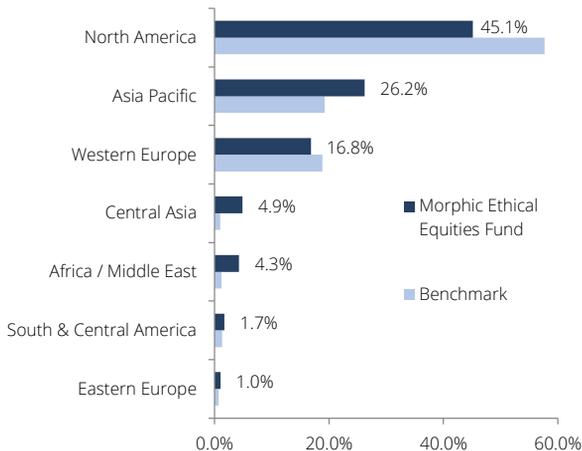
## Top three alpha detractors<sup>10</sup> (bps)



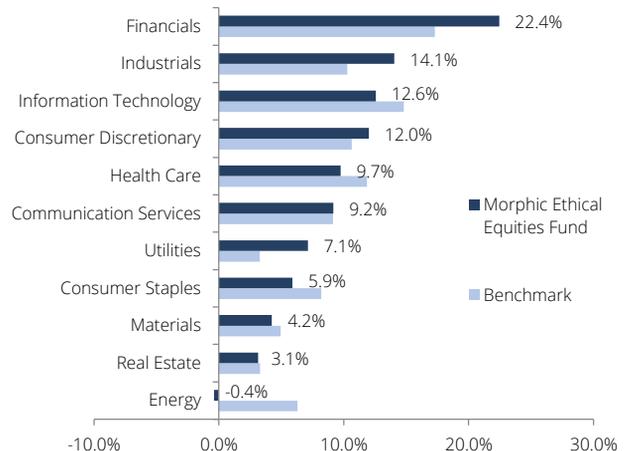
Hedge Positions	Risk Limit Utilisation (%) <sup>9</sup>
Long Global Bonds	0.6%
US 5/30 Steepener	0.3%
Short AUD and EUR	0.3%

Key Facts	
ASX code / share price	MEC / 0.90
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>11</sup>	15%
Market Capitalisation	\$ 47m
Shares Outstanding	52,619,987
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 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.