



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 ¹	3.31%	2.95%	-3.87%	6.64%	5.52%
Index ²	5.23%	5.70%	-1.32%	9.62%	10.73%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Recent weeks have seen two successful investor engagements with large mining companies. [Climate Action 100+](#), of which Morphic is a founding signatory, has been coordinating collective engagement with the world's largest carbon-emitting listed companies. Glencore and Rio Tinto announced improved commitments to their climate-related responsibilities including greater focus on the commodities required to meet the needs of a lower carbon world, renewed emissions targets and improved reporting. Whilst the companies can clearly be more proactive, we recognise these changes in the right direction and the effectiveness of such investor engagement.

Portfolio review

The Fund rose 3.3% in February, underperforming global markets for the month (5.2%). The rally in global equities continued as they returned 2.5% in USD terms, with a fall in the AUD providing a tailwind to Australian investors.

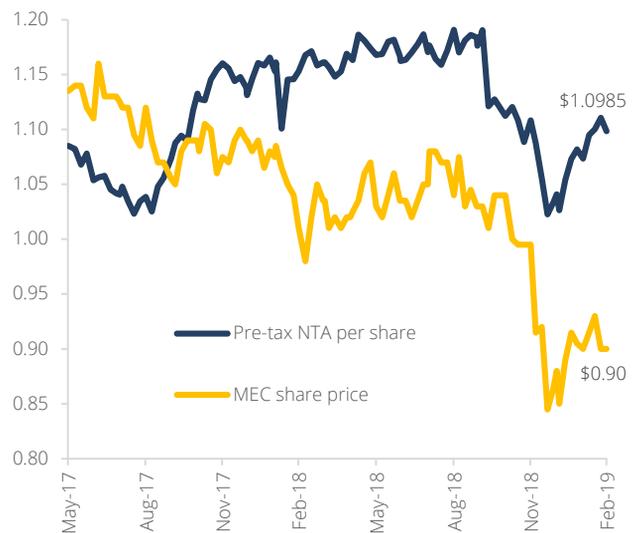
During the month, the US (+3.1%) and Europe (+3.1%) outperformed. Asia Pacific ex-Japan (+2.1%) and Emerging Markets (+0.1%) underperformed global equities, with Japan (-0.1%) the worst performer.

The largest detractor for the month was our long position in freight forwarder Panalpina, giving back some of last month's gains as markets become increasingly worried about the company's defence against the bid. The second and third largest shareholders have publicly backed the bid, however, the charitable foundation which holds the Founders stake (46%), is trying to leverage the company's corporate governance structure in order to support the Management's desire to remain independent. Morphic has engaged with the Board of Directors, urging them to act in the interest of all shareholders and consider all risks.

The Fund's largest contributor was the position in rail equipment manufacturer Alstom, partially recovering last month's losses. Despite the EU Competition Commissioner blocking Alstom's merger with peer Siemens Mobility, the underlying operating performance of the company has continued to be excellent. We remain holders as we still believe Alstom is attractively valued without the merger and it is now clearly being recognised by other investors who may have waited on the sidelines until the bid uncertainty was resolved.

Net Tangible Assets (NTA)	
NTA value before tax ³	\$ 1.0985
NTA value after tax ³	\$ 1.0918

MEC share price and Pre-tax NTA performance⁴



Outlook

Our concerns last month about a further rally proved to be unfounded as markets rallied to return to the levels of mid-last year. As such, any insurance carried last month hurt performance. With many market valuation metrics back to where they were before the sell-off, Morphic would note that real world data is still only showing glimpses of improvement. We continue to see markets in a consolidation phase, being currently neither bullish nor overly bearish.

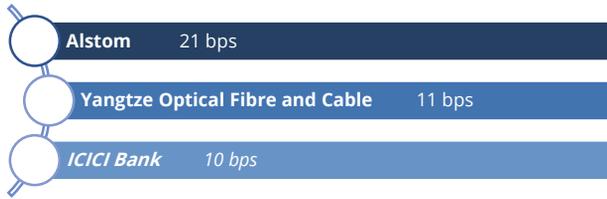
The portfolio is overweight Asia, as well as the USD via a short on the Australian dollar. The Fund carries some hedges in interest rates that would likely also benefit in a falling equity market scenario.

Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	4.4%
Panalpina	Freight Forwarder	Europe	3.2%
China Water Affairs	Water Utility	Asia Pacific	2.9%
Service Corp	US Deathcare	North America	2.8%
Bank Leumi	Israeli Bank	Middle East	2.5%
ICICI Bank	Indian Bank	Central Asia	(2.5%)
China Everbright Intl	Waste-to-Energy	Asia Pacific	2.5%
Axos Financial	US Bank	North America	2.2%
Japan Airlines	Asian Airline	Asia Pacific	2.0%
DSV	Freight Forwarder	Europe	(1.9%)

Risk Measures	
Net Exposure ⁵	102%
Gross Exposure ⁶	174%
VAR ⁷	1.35%
Upside Capture ⁸	66%
Downside Capture ⁸	82%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.13%
Average Loss in Down Months	-1.90%
Annual Volatility	9.01%
Index Volatility	9.65%

Top three alpha contributors¹⁰ (bps)



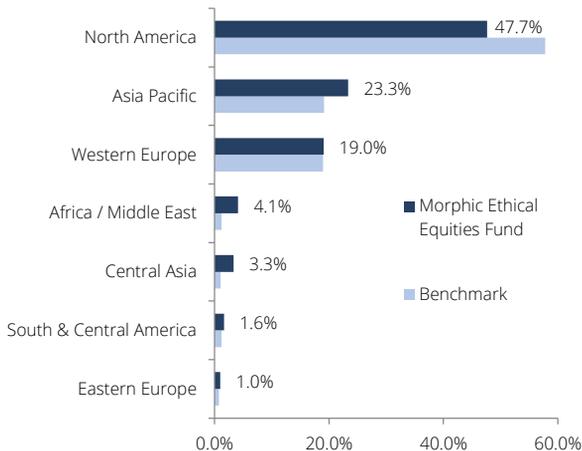
Top three alpha detractors¹⁰ (bps)



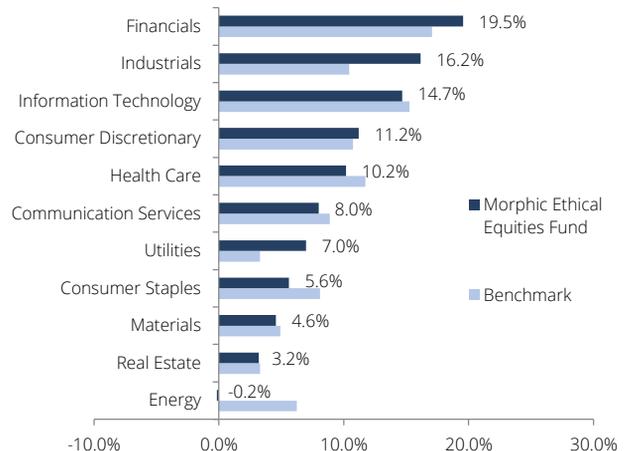
Hedge Positions	Risk Limit Utilisation (%) ⁹
Long Global Bonds	1.0%
US 5/30 Steepener	0.6%
Short AUD and EUR, Long USD and CNH	0.6%

Key Facts	
ASX code / share price	MEC / 0.90
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee ¹¹	15%
Market Capitalisation	\$ 47m
Shares Outstanding	52,619,987
Dividend per share ¹²	\$ 0.02

Equity Exposure Summary By region



Equity Exposure Summary By sector



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¹ Performance is net of investment management fees, before company admin costs and taxes; ² The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUACWF) in AUD; ³ The figures are unaudited; ⁴ 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; ⁵ Includes Equities and Commodities - longs and shorts are netted; ⁶ Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; ⁷ Based on gross returns since Fund's inception; ⁸ As a percentage of the Fund's Value at Risk (VaR) Limit; ⁹ As a percentage of the Fund's Value at Risk (VaR) Limit; ¹⁰ Attribution; relative returns against the Index excluding the effect of hedges; ¹¹ 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; ¹² Dividend per share includes the final dividend for FY18 payable on 12 December 2018.