



MORPHIC ETHICAL EQUITIES FUND

Monthly Report
March 2019

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	0.83%	7.53%	-1.95%	7.53%	5.73%
Index ²	1.41%	11.17%	-0.31%	11.17%	11.04%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

The Fund has been short Coca-Cola Amatil in Australia for some time now and we have written before about our views and attempts to make an impact. In March, CEO [Alison Watkins gave a speech](#) to the Committee for Economic Development of Australia (CEDA) where for the first time she acknowledged the company's lobbying against consumer recycling schemes (and we would add lobbying against a sugar tax) had resulted in a general cynicism about their commitment to sustainability.

Whilst their acknowledgment that Coca-Cola's fight against sustainability has done them more damage than good, their refusal to entertain a sugar-free future and continued lack of progress in the developing nations they operate in, coupled with a refusal to take a meeting with us, leaves us still rather cynical about their apparent Damascus conversion. The Fund remains short the stock.

Portfolio review

The Fund rose 0.8% in March, underperforming global markets which went up 1.4% in AUD terms. Global equities returned 1.0% (USD) making Q1 the second strongest quarter on record with a return of 11.6%.

During the month, the US (+1.7%) performed best and continues to lead the bounce in equity markets this year. In contrast, Japan (-0.3%) was the worst performing region during the month and lags the global markets by 5.9% this year. The best performing country in March was India (+9.1%), significantly outperforming all large countries.

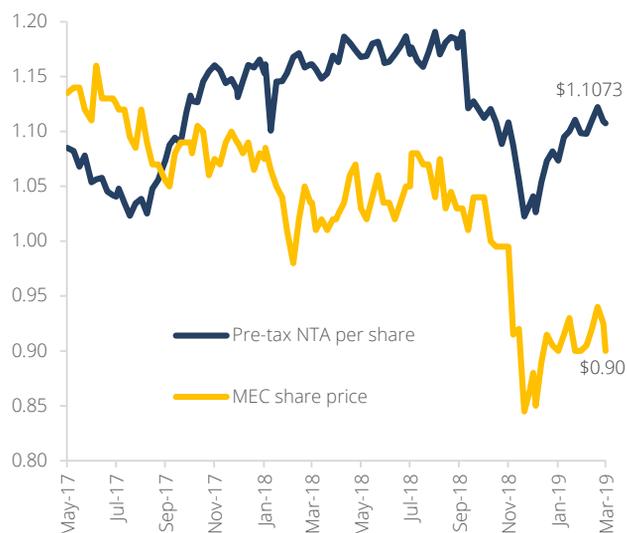
One of the largest detractors for the month was our long position in Hong Kong-listed Yangtze Optical Fibre and Cable (YOFC), a leading supplier of optical fibre cable globally. The company reported disappointing Q4 results and won only 4.3% of the China Mobile tender for optical fibre cables (versus 17% last year), both detrimental to share price. Offsetting that, their outlook included a large win in Peru. We remain a holder at a smaller weighting, reflecting increased uncertainty.

The Fund's largest contributor was the long position in Indian Bank, Yes Bank. Yes Bank's shares climbed as it cleared several hurdles towards its rehabilitation as one of India's top private banks. The company passed an inspection by the Reserve Bank of India for its provisioning for bad debts, which had previously been under scrutiny. It has room to rise further if the new managing director can improve the bank's governance culture without slowing its historic growth. The Fund is long Yes Bank, Shriram Transport Finance and Karnataka Bank against ICICI Bank.

Net Tangible Assets (NTA)

NTA value before tax ³	\$ 1.1073
NTA value after tax ³	\$ 1.0982

MEC share price and Pre-tax NTA performance⁴



Outlook

A dovish turn by the Federal Reserve in March has seen interest rate expectations collapse – from back in November pricing 2-3 hikes in 2019, they are now pricing cuts by year-end.

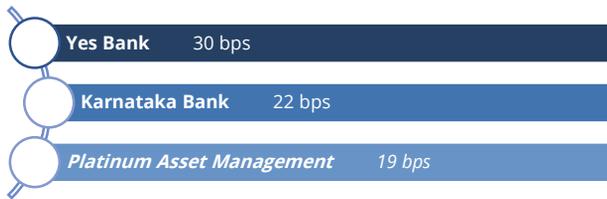
In December, [we blogged](#) about what a rate pause has historically meant for equities, bonds and the real economy. Thus far, the rally in stocks and now the fall in yields have been consistent with this playbook. From here, history suggests the data worsens, bonds rally some more and equities enter a sideways to down range.

Top 10 Active Positions

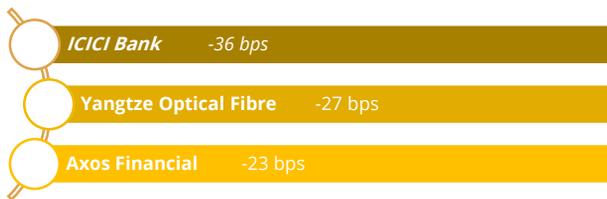
Stocks (Shorts)	Industry	Region	Position Weighting
China Everbright Intl	Waste-to-Energy	Asia Pacific	4.8%
Huadian Power Intl	Power Utility	Asia Pacific	(4.8%)
Panalpina	Freight Forwarder	Europe	4.6%
Alstom	Global Rail Equipment	Europe	4.5%
Qantas	Australian Airline	Asia Pacific	(4.2%)
Service Corp	US Deathcare	North America	4.2%
ICICI Bank	Indian Bank	Central Asia	(4.1%)
Iida	Japanese Homebuilders	Asia Pacific	(4.1%)
Bank Leumi	Israeli Bank	Middle East	3.8%
Coca-Cola Amatil	Beverages	Asia Pacific	(3.7%)

Risk Measures	
Net Exposure ⁵	89%
Gross Exposure ⁶	187%
VAR ⁷	1.26%
Upside Capture ⁸	66%
Downside Capture ⁸	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	8.80%
Index Volatility	9.44%

Top three alpha contributors¹⁰ (bps)



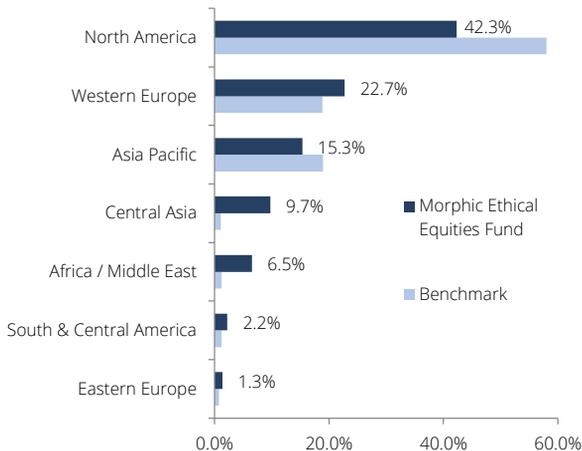
Top three alpha detractors¹⁰ (bps)



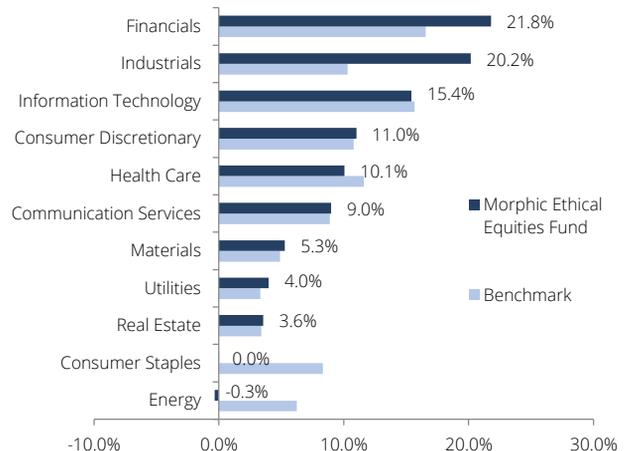
Hedge Positions	Risk Limit Utilisation (%) ⁹
Short AUD and EUR, Long USD and CNH	1.6%
US 5/30 Steepener	1.0%
Long Global Bonds	0.5%

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



Contact us

Morphic Asset Management Pty Ltd

Level 3, 139 Macquarie St

Sydney 2000

New South Wales

Australia

www.morphicasset.com



Irene Kardasis

Business Development Manager

Phone: +61 2 9194 6707

Email: 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, 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.

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 NDUEACWF) 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.