

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
June 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 Morpheic 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>	3.66%	2.31%	10.02%	10.02%	6.17%
Index <sup>2</sup>	5.20%	4.88%	16.60%	16.60%	12.15%

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

## Ethical Investing in Focus

June marked the start of the Atlantic hurricane season in the Northern hemisphere with 15 major weather events predicted (between 1980 and 2015, the average was five events a year!). To put it in context, the three consecutive, major hurricanes in 2017, Harvey, Irma and Maria were among the ten most costly insured natural catastrophes globally, with total economic costs surpassing \$270 billion. In Europe, you will be warned of the European heatwave with temperatures reaching a record of 45.9C in France, making 2019 on track to be among the hottest years ever.

United Nations' World Meteorological Organization states that this is consistent with climate change and the World Economic Forum named extreme weather events as "the risk of greatest concern" earlier this year, with the [impact](#) to be experienced globally.

## Portfolio review

The Fund rose 3.7% in June, underperforming global markets which rose 5.2% in AUD terms. Global equities rallied 6.4% in USD terms, making it the best June on record.

As May's selloff was reversed, all regions of the world posted positive returns in June. The Tech sector continues to lead global sector performance, while defensive sectors have lagged. During the month, the US (+6.9%) and Europe (+6.5%) outperformed global markets, while Japan (+3.6%) lagged the most. Asia Pac ex-Japan (+5.9%) and Emerging Markets (+5.7%) marginally underperformed.

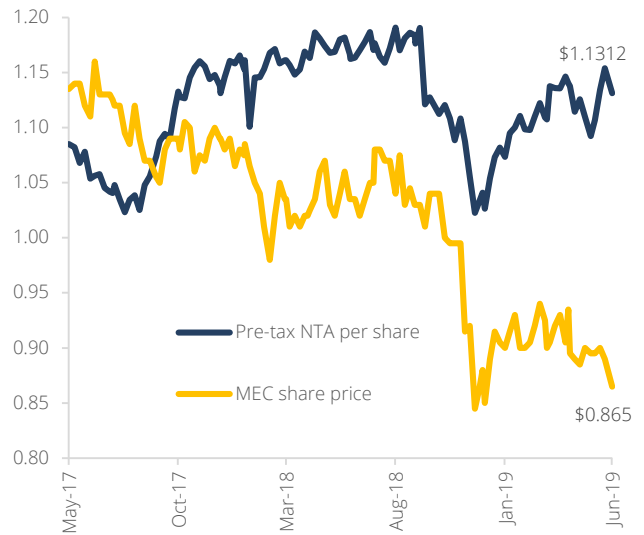
The Fund's largest contributor was the short position in Australian airline Qantas which lagged global markets, as earnings forecasts were cut on weaker Australian demand and domestic passenger traffic. We remain short ahead of the August result as we believe the FY20 outlook will be below expectations as they struggle to increase ticket prices within a weaker Australian economy.

The Fund's position in China Everbright was the largest detractor for the month. However, the stock is paired with a short position in Huadian Power which also fell and was one of the larger positive contributors. As such, the combined effect was more muted. There was no stock/sector specific news of note, with the underperformance mostly attributable to the defensive nature of the stocks underperforming in strong up months.

## Net Tangible Assets (NTA)

NTA value before tax <sup>3</sup>	\$ 1.1312
NTA value after tax <sup>3</sup>	\$ 1.1163

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



## Outlook

With a Federal Reserve cutting rates soon and Trade War tensions put on hold, history says markets stay at elevated levels until the data deteriorates to such an extent that earnings are revised down, and GDP decelerates to a recession level. Whether investors favour Emerging Markets over Developed is less clear, as the path of the US Dollar determines that to some degree. Morpheic will publish soon a Half Year Report that delves deeper into our views on the coming six months.

Reflective of this uncertainty, the Fund has some upside call options and hedges in US Interest rate futures in place, which should add value if the data doesn't collapse. Both hedges work in a "muddle through" outcome.

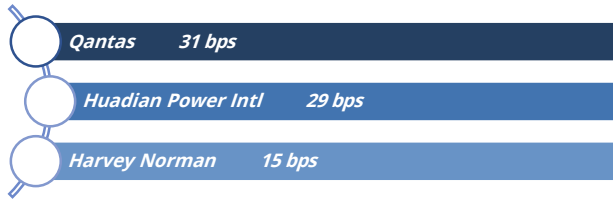
## Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Service Corp	US Deathcare	North America	4.8%
China Everbright Intl	Waste-to-Energy	Asia Pacific	4.4%
Qantas	Australian Airline	Asia Pacific	(3.8%)
Alstom	Global Rail Equipment	Europe	3.3%
Power Grid	Indian National Electricity Grid	Central Asia	3.2%
Huadian Power Intl	Power Utility	Asia Pacific	(3.2%)
Bank Leumi	Israeli Bank	Middle East	2.8%
Platinum Asset Management	Financial Services	Asia Pacific	(2.6%)
Harvey Norman	General Retailers	Asia Pacific	(2.4%)
China Water Affairs	Water Utility	Asia Pacific	2.3%

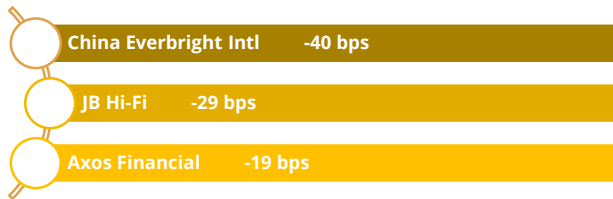
Risk Measures	
Net Exposure <sup>5</sup>	99%
Gross Exposure <sup>6</sup>	149%
VAR <sup>7</sup>	1.44%
Upside Capture <sup>8</sup>	66%
Downside Capture <sup>8</sup>	84%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.19%
Average Loss in Down Months	-2.12%
Annual Volatility	9.29%
Index Volatility	10.32%

Hedge Positions	Risk Limit Utilisation (%) <sup>9</sup>
None	

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

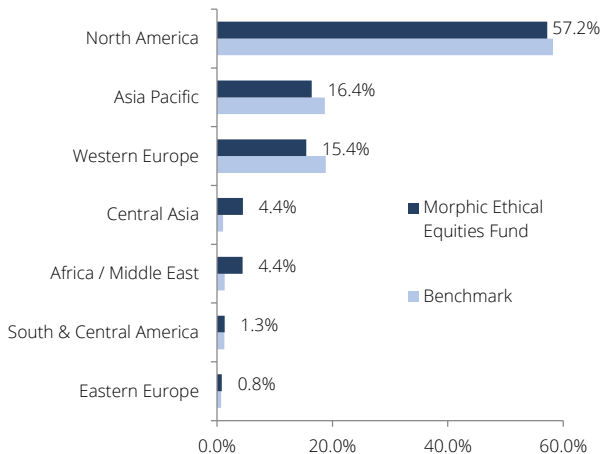


## Top three alpha detractors<sup>10</sup> (bps)

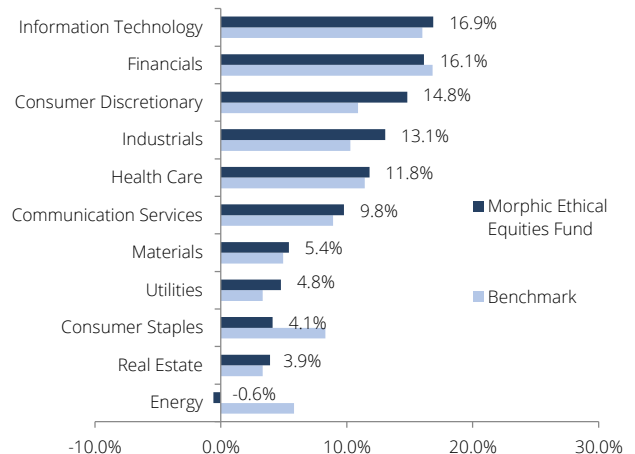


Key Facts	
ASX code / share price	MEC / 0.865
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>11</sup>	15%
Market Capitalisation	\$ 46m
Shares Outstanding	52,619,987
Dividend per share <sup>12</sup>	\$ 0.02

## 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 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.