



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	1.43%	0.77%	8.11%	11.59%	6.60%
Index ²	2.11%	2.65%	14.29%	19.06%	12.71%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

In amongst the gloom of record [heatwaves in Greenland](#) in July, that is seeing rates of ice melt originally expected to occur in 2050, there are some slivers of good news. It can be hard to quantify, yet there is a perceptible mood shift taking place in the world. As a recognition of climate issues more broadly, even if [governments try to impede it](#), consumers are voting with their feet, which always gets businesses attention.

This month alone, US auto producers, hardly the paragons of climate virtue, are pushing for [more regulations](#) on emissions, against the Trump administration wishes. BHP has openly discussed targeting [Scope 3 emissions](#) – the elephant in the climate room – [infuriating the conservative government](#) of Australia. This is the same government who slashed Renewables targets five years ago and removed carbon pricing, arguing they were unachievable and would cripple the industry. These [targets will be passed anyway next year](#), without a carbon price. So, on bad days, just remember: how you spend your money really does make a difference!

Portfolio review

The Fund rose 1.4% in July, whilst global markets rose 2.1% in AUD terms. Global equities rallied 0.2% in USD terms, consolidating the gains of June.

July saw a large divergence between regions, with the USA rallying (+1.4%) whilst Asia Ex-Japan struggled (-1.6%) against a stronger US dollar and a lack of resolution on trade issues. Tech stocks led the rally (+1.7%), with the cyclical sectors of Materials (-2.8%) and Energy (-2.9%) the laggards.

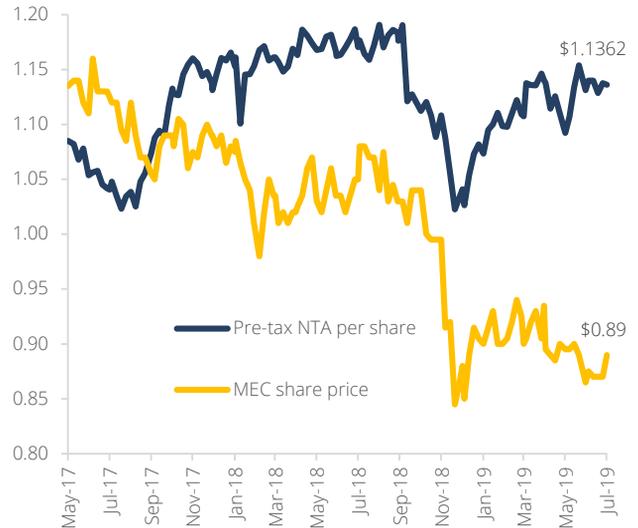
The Fund's long position in French train maker, Alstom, was one of the largest contributors in July. The stock rallied over the month on its quarterly sales update which confirmed a strong order book, along with the payment of a special dividend to shareholders of approximately 14% returning the cash from the sale of businesses to General Electric.

China Water Affairs Group was one of the largest detractors over the month as the market sold the stock on the back on its quarterly earnings expectations and concerns about its recent acquisition. The stock has de-rated heavily and the Fund has trimmed the position around these concerns.

Net Tangible Assets (NTA)

NTA value before tax ³	\$ 1.1362
NTA value after tax ³	\$ 1.1177

MEC share price and Pre-tax NTA performance⁴



Outlook

In what has been described as a "hawkish cut", the Federal Reserve appears to have pleased no-one, including their master Trump. With the added news of more tariffs, it would seem for now the path of least resistance for equity markets is downwards to sideways, after such a breathtaking rally this year. Data disappointment is focused on the exporting and trade-focused sectors, whilst consumer-facing data remains robust, which ultimately accounts for two-thirds of US GDP. Job losses will be needed for them to change their behaviour and that's what our focus will be on.

We note that for the gloom of Emerging Markets, earnings revisions have bottomed, and historically these levels are associated with global markets being 13% higher in the next 12 months. One to keep in mind in the coming months.

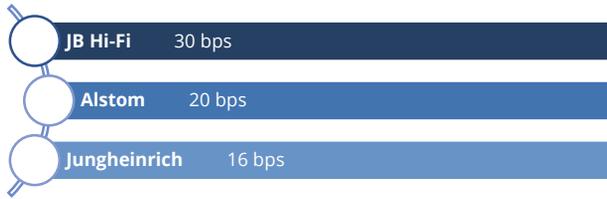
Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Qantas	Australian Airline	Asia Pacific	(4.9%)
Service Corp	US Deathcare	North America	4.8%
China Everbright Intl	Waste-to-Energy	Asia Pacific	4.2%
Coca-Cola Amatil	Beverages	Asia Pacific	(3.5%)
Huadian Power Intl	Power Utility	Asia Pacific	(3.4%)
Power Grid	Indian National Electricity Grid	Central Asia	3.3%
Alstom	Global Rail Equipment	Europe	3.1%
Bank Leumi	Israeli Bank	Middle East	2.9%
JB Hi-Fi	General Retailers	Asia Pacific	2.7%
Harvey Norman	General Retailers	Asia Pacific	(2.6%)

Risk Measures	
Net Exposure ⁵	102%
Gross Exposure ⁶	159%
VAR ⁷	1.53%
Upside Capture ⁸	67%
Downside Capture ⁸	84%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.15%
Average Loss in Down Months	-2.12%
Annual Volatility	9.13%
Index Volatility	10.14%

Hedge Positions	Risk Limit Utilisation (%) ⁹
Short US Bonds	0.5%

Top three alpha contributors¹⁰ (bps)

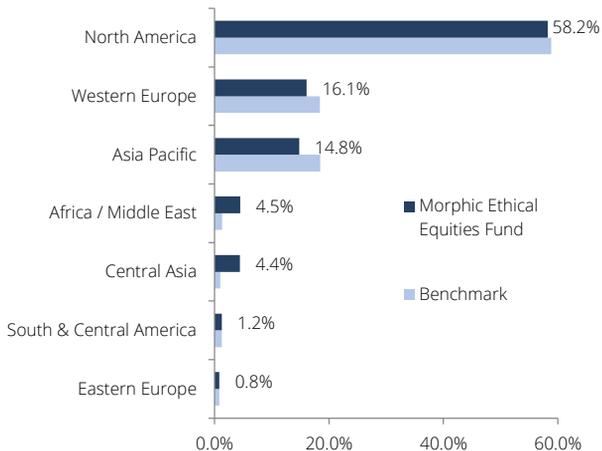


Top three alpha detractors¹⁰ (bps)

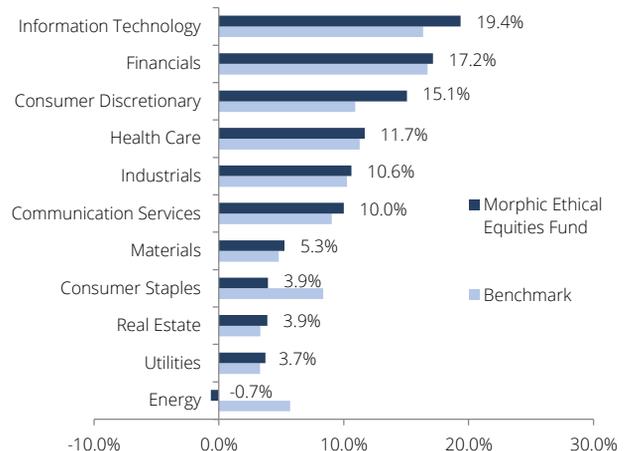


Key Facts	
ASX code / share price	MEC / 0.89
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee ¹¹	15%
Market Capitalisation	\$ 47m
Shares Outstanding	52,728,519
Dividend per share ¹²	\$ 0.02

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 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 Annual dividend per share.