

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
August 2019



Signatory of:



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 ¹	0.00%	5.14%	4.65%	11.60%	6.36%
Index ²	-0.13%	7.28%	8.47%	18.91%	12.16%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

As a PRI signatory, we are committed to the six principles covering the incorporation of Environmental, Social and Governance (ESG) issues in our investment process. We actively promote and collaborate with other responsible investors and aspire to the highest levels of transparency.

We are proud that the integration of ESG issues in both our investment strategy and governance structures, and our stewardship activities as an active investor have been validated by the recently published [PRI 2019 Assessment Report](#).

For all modules, including the key modules - Strategy & Governance, Listed Equity - Incorporation & Listed Equity - Active Ownership - we achieved the highest score of A+. A description of the PRI Assessment and its methodology can be found [here](#).

Portfolio review

The Fund was flat 0.0% in August, outperforming global markets which fell 0.1% in AUD terms. Global equities fell 2.6% in USD terms, as new tariffs were introduced in the US-China trade war, the US yield curve inverted, and the PMIs fell.

During the month, the US (-2.0%) and Japan (-1.0%) fell the least while Emerging Markets (-5.1%) performed worst. Defensive sectors rallied in August, while tariffs hurt Tech; the flattening yield curve hurt Financials; and the weaker macro data hurt Energy and Materials.

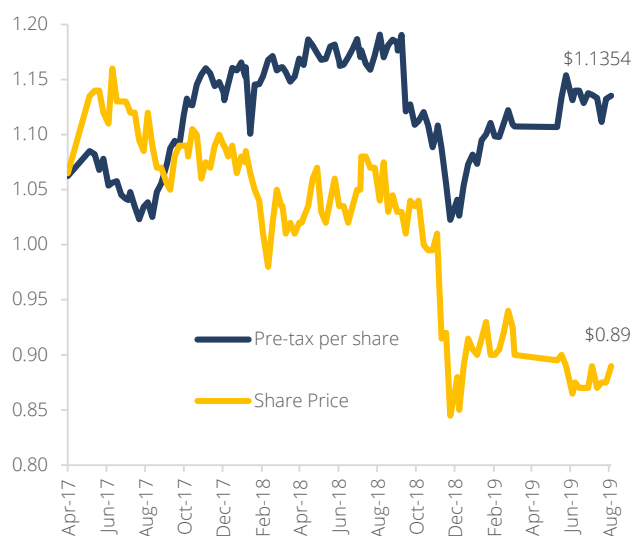
The Fund's largest contributor was the long position in Entertainment One, a media and entertainment company specialising in acquisition, production and distribution of film and television content across all media (TV hits include Peppa Pig & PJ Masks). In late August, Entertainment One received a takeover offer from US-listed toy and entertainment company Hasbro. News of the bid sent Entertainment One's shares soaring by almost a third.

China Water Affairs Group was one of the largest detractors over the month, despite the absence of any adverse news on the company or the industry. However, like most utilities, China Water Affairs does have relatively high gearing as part of its business model, and this may have raised concerns given the general weakening of the Chinese economy and tightening local credit conditions. In addition, some China utilities, including waste-to-energy operator China Everbright Intl which we also own, similarly had a poor month as they are experiencing delays in getting paid by various government entities, which is souring investors.

Net Tangible Assets (NTA)

NTA value before tax ³	\$ 1.1354
NTA value after tax ³	\$ 1.1172

MEC share price and Pre-tax NTA performance⁴



Outlook

Markets are entering a period of peak uncertainty where both the seasonal effect (markets tend to fall this time of year) and the data flow worsen. Market pricing is implying that the poor data is a lagged effect and improved liquidity from lower interest rates will see the real economy start to improve, or in the consumers' case, not worsen. This is perhaps too optimistic in our view.

The Morpic team thinks that prior inflection points require a catalyst (oil, the Fed in 2016; Draghi in 2012) and as such without one, our positioning remains somewhat cautious with cash levels rising to circa 10% and 4% of the Fund in Gold Futures. This will be actively managed if news flow supports a more optimistic stance.

Top 10 Active Positions

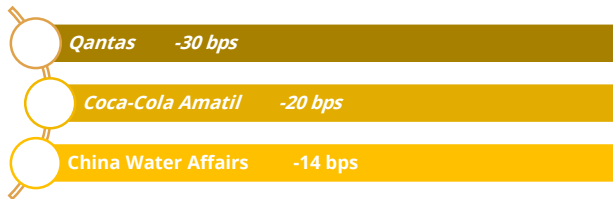
Stocks (Shorts)	Industry	Region	Position Weighting
Alstom	Global Rail Equipment	Europe	6.8%
Service Corp	US Deathcare	North America	5.4%
Coca-Cola Amatil	Beverages	Asia Pacific	(4.3%)
Bank Leumi	Israeli Bank	Middle East	3.2%
Kuehne + Nagel	Global Freighters	Europe	(2.7%)
Kion Group	Industrial Equipment	Europe	(2.7%)
Jungheinrich	Industrial Equipment	Europe	2.6%
Qantas	Australian Airline	Asia Pacific	(2.2%)
Prada	Luxury Retailers	Europe	(1.9%)
Kurita Water	Water Utility	Asia Pacific	1.4%

Risk Measures	
Net Exposure ⁵	96%
Gross Exposure ⁶	137%
VAR ⁷	1.48%
Upside Capture ⁸	67%
Downside Capture ⁸	83%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.03%
Average Loss in Down Months	-2.12%
Annual Volatility	8.97%
Index Volatility	9.98%

Top three alpha contributors¹⁰ (bps)



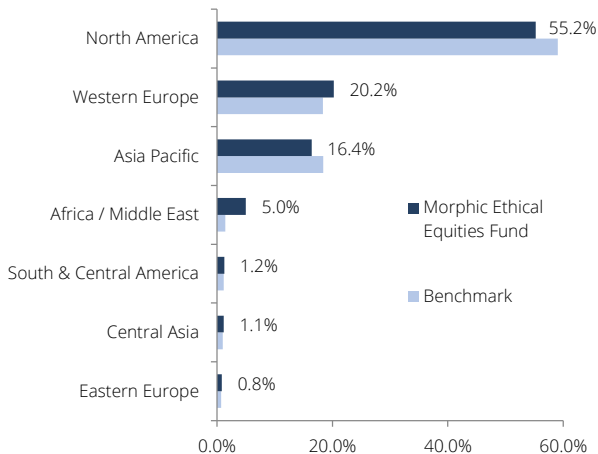
Top three alpha detractors¹⁰ (bps)



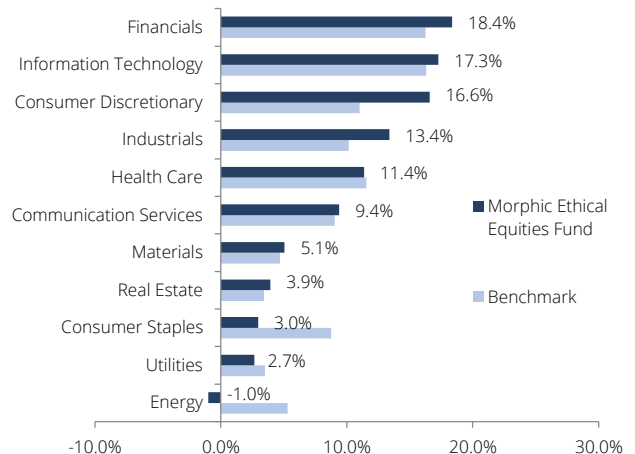
Hedge Positions	Risk Limit Utilisation (%) ⁹
Long Gold	0.9%
Long AUD vs EUR, NZD	0.6%
Short US Bonds	0.3%

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



Contact us

Morphic Asset Management Pty Ltd
Level 11, 179 Elizabeth St
Sydney 2000
New South Wales
Australia
www.morphicasset.com



Irene Kardasis
Business Development Manager
Phone: +61 2 9021 7726
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 Annual dividend per share.