

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
September 2019



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	1.28%	2.74%	5.11%	13.03%	6.70%
Index ²	2.00%	4.02%	9.10%	21.29%	12.64%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

September saw massive numbers of people turn out both in Australia and globally in the latest round of support of the 16-year-old climate activist Greta Thunberg's student movement against the Climate Emergency. This was ahead of the UN Climate Change summit in New York on the 23rd of September where Greta, gave an emotional and powerful message to world leaders: "[you are failing us](#)".

United across time zones and cultures, the recent rallies were the biggest climate protests in history. We would hope many of our investors were able to get down and attend the rallies in their respective cities and hear some of the younger generation speak. Our thoughts are summarised in our latest blog - [Greta, Hugo And the Power of "You"](#).

Portfolio review

The Fund rose 1.3% in September, underperforming global markets which rose 2.0% in AUD terms. Global equities rallied +1.9% in USD terms as markets took comfort from the Fed easing monetary policy and the ECB cut the deposit rate and reintroduced QE. During the month, Japan (+3.2%) and Europe (+2.6%) performed best while the US (+1.6%) lagged. A jump in bond yields drove the outperformance of Financials while the bounce in the oil price in the Saudi Arabia drone attacks drove a large rally in Energy stocks, which negatively impacts the Fund which doesn't own fossil fuel stocks.

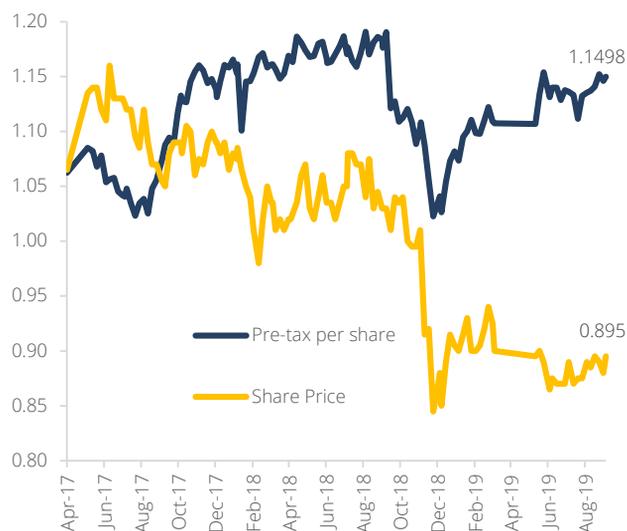
One of the Fund's largest contributors was our long-standing position in US Funeral Care provider Service Corp International which continued to perform well. Whilst there has been no material news of note, we have recently engaged with management, satisfactorily clarifying concerns surrounding various aspects of the business.

On the other hand, the Fund's biggest detractor was Alstom. Whilst there was no notable company specific news, Alstom's largest shareholder sold half of its 26% holding. The recent strong share price performance saw this investor exit having invested back in 2004 when the company was bailed out by the French state. The discount at which this stake was sold negatively impacted the share price.

Net Tangible Assets (NTA)

NTA value before tax ³	\$ 1.1498
NTA value after tax ³	\$ 1.1272

MEC share price and Pre-tax NTA performance⁴



Outlook

Decision time approaches for markets. If the current slowdown is the analogy of the 1995 "mid-cycle slowdown", then the data should start to bottom and improve from here. Markets at their highs say this is the implied base case. If not, "bad news will be bad news" - i.e the world is closer to a recession than the equity market believes and will start to fall on bad news.

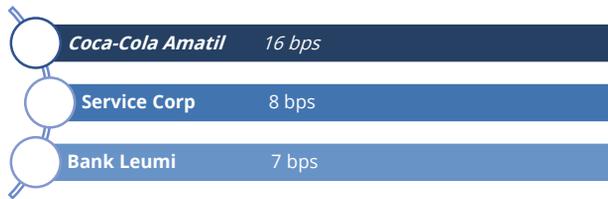
It is this uncertainty as to the future path that is causing a range bound market with sharp sell-offs and rallies since April. It is also why it is even more difficult to form a strong opinion on the future direction. Reflective of this, the Fund is carrying a small amount of cash along with some put options.

Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Service Corp	US Deathcare	North America	5.4%
Alstom	Global Rail Equipment	Europe	4.9%
Coca-Cola Amatil	Beverages	Asia Pacific	(4.1%)
Bank Leumi	Israeli Bank	Middle East	3.2%
Kion Group	Industrial Equipment	Europe	(2.8%)
Kuehne + Nagel	Global Freighters	Europe	(2.7%)
Jungheinrich	Industrial Equipment	Europe	2.6%
Kering	Luxury Retailers	Europe	2.4%
Qantas	Australian Airline	Asia Pacific	(2.2%)
Prada	Luxury Retailers	Europe	(2.2%)

Risk Measures	
Net Exposure ⁵	98%
Gross Exposure ⁶	140%
VAR ⁷	1.53%
Upside Capture ⁸	67%
Downside Capture ⁸	83%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	1.99%
Average Loss in Down Months	-2.12%
Annual Volatility	8.82%
Index Volatility	9.82%

Top three alpha contributors¹⁰ (bps)



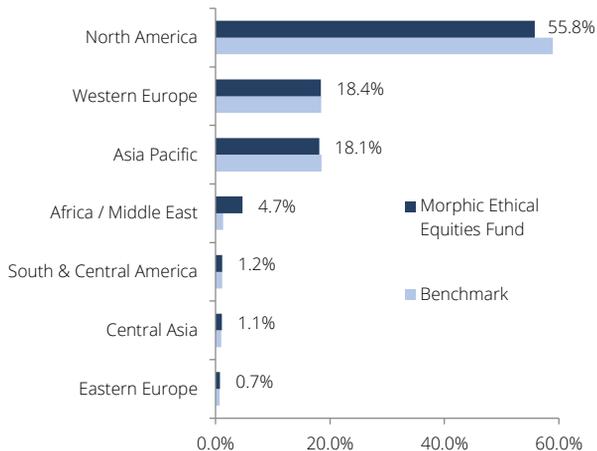
Top three alpha detractors¹⁰ (bps)



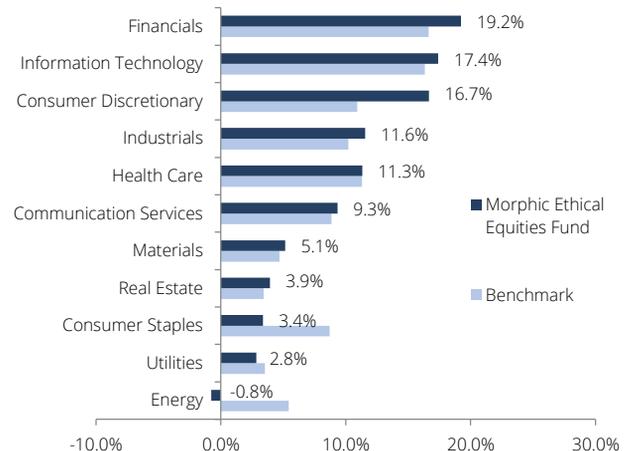
Hedge Positions	Risk Limit Utilisation (%) ⁹
Long S&P 500 Puts	0.3%

Key Facts	
ASX code / share price	MEC / 0.895
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.