

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
January 2020



## 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	1 Year	ITD (p.a.)
Morphic Ethical Equities Fund <sup>1</sup>	4.52%	7.53%	8.36%	17.15%	8.48%
Index <sup>2</sup>	3.84%	7.93%	10.58%	26.38%	14.37%

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

## Ethical Investing in Focus

Just how much consideration should guardians of your pensions and savings put on ethical and environmental concerns, if any at all? What responsibility do they have to consider climate change in investment decisions?

There is a landmark court case winding its way through the Australian courts that will have momentous consequences for how these questions are considered. [Mark McVeigh](#) is suing his Super Fund in the Federal Court for not acting in his best interests as he won't be able to access his savings until 2055, and argues that climate risks for that date should affect decisions now.

This shows the increasingly engaged stance from investors and members as the effects of Climate change become more severe and are demanding more action for those entrusted with running their money.

## Portfolio review

The Morphic Ethical Equities Fund ("Fund") rose 4.5% in January, outperforming global markets which rose 3.8% in AUD terms. Global equities fell 1.2% in USD terms, as fears of the contagion effects from the Coronavirus drove markets down. A falling Australian dollar versus the US dollar offset this.

As markets went into "risk-off" mode, the US (+0.1%) performed best, with the worst hit being Emerging Markets (-4.7%), with Europe (-2.6%) also lagging. Bond-like sectors, such as Utilities (+4.7%) were the primary beneficiaries of the flight to safety, with Energy being the worst (-9.1%).

Our long held position in French train manufacturer Alstom performed best, despite being a cyclical stock, as rumours of a merger with competitor Bombardier circulated. Bombardier is struggling as a business and the market senses a chance for Alstom to acquire the assets at a good price.

Also contributing was our position in Spanish listed Mobile phone tower operator, Cellnex. Investors flocked to the certainty of earnings provided by these stable cashflow businesses.

The largest detractor of performance was Sensata Technologies. As a provider of sensor equipment into trucks and autos, the stock was sold off, particularly with some changes in senior management announced.

## Net Tangible Assets (NTA)

NTA value before tax <sup>3</sup>	\$ 1.2126
NTA value after tax <sup>3</sup>	\$ 1.1711

## Investment Returns since inception<sup>4</sup>



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## Outlook

Markets appeared to be overbought in early January after a bout of early year enthusiasm left them vulnerable to the shocks of the Coronavirus. What is interesting is the speed at which they are recovering.

Despite talk that Chinese GDP may slow to well less than 5% this year and large scale manufacturing shutdowns, markets are prepared to look through this and focus on the backdrop of fiscal and monetary easing. Whether this can be sustained in coming months remains to be seen.

The Fund finished the month carrying some cash to reflect the uncertainties, but this is being re-deployed into some Asian focused names that had sold off more heavily.

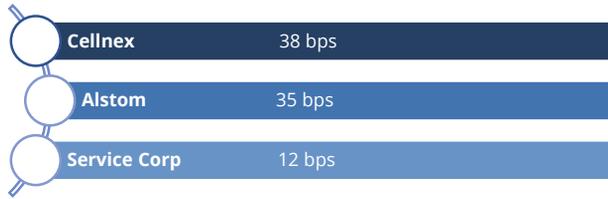
## Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Service Corp	US Deathcare	North America	5.2%
Sensata Technologies	Industrials	North America	3.2%
Bank Leumi	Financials	Middle East	3.1%
Cellnex	Telecom	Europe	2.6%
Logitech	Information Technology	Europe	2.6%
Alstom	Industrials	Europe	2.3%
Tencent	Information Technology	Asia Pacific	2.2%
Graphic Packaging	Industrials	North America	1.9%
Fujitsu	Information Technology	Asia Pacific	1.9%
WillScot Corp	Industrials	North America	1.8%

Risk Measures	
Net Exposure <sup>5</sup>	92%
Gross Exposure <sup>6</sup>	106%
VAR <sup>7</sup>	1.14%
Upside Capture <sup>8</sup>	69%
Downside Capture <sup>8</sup>	84%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.18%
Average Loss in Down Months	-1.85%
Annual Volatility	8.80%
Index Volatility	9.60%

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

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

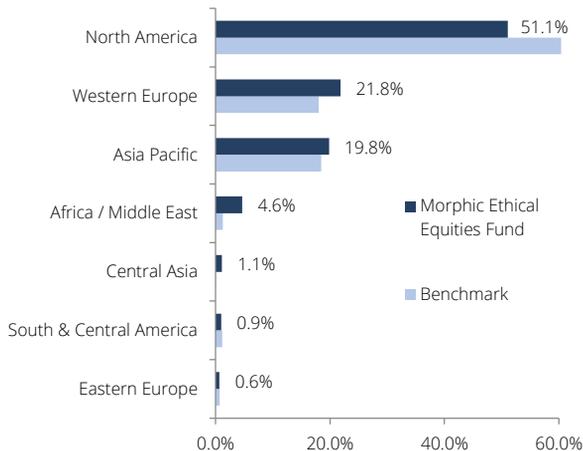


## Top three alpha detractors<sup>10</sup> (bps)

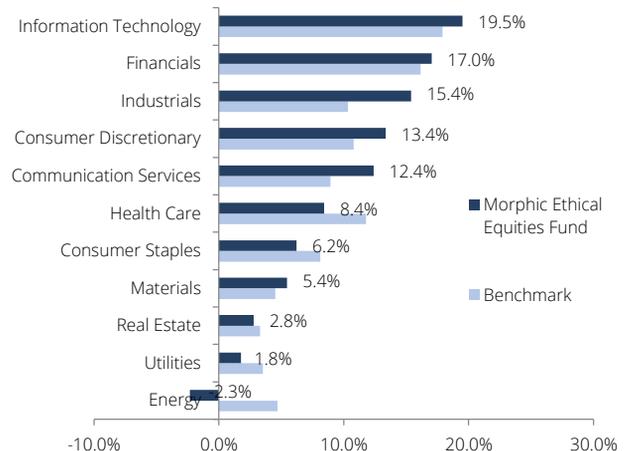


Key Facts	
ASX code / share price	MEC / 0.96
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>11</sup>	15%
Market Capitalisation	\$ 51m
Shares Outstanding	52,849,432
Dividend per share <sup>12</sup>	\$ 0.02

## 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 NDUJACWF) in AUD; <sup>3</sup> The figures are unaudited; <sup>4</sup> Performance is net of investment management fees, before dividends, company admin costs and taxes. 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> Annual dividend per share.