MORPHIC ETHICAL EQUITIES FUND

Monthly Report
March 2020

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

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[1]	-6.31%	-4.88%	-2.64%	2.34%	4.55%
Index[2]	-8.88%	-9.69%	-5.59%	3.00%	8.20%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Should ethical and ESG investing be discarded in a crisis? There is a school of thought that believes ethical investing is a “fair-weather friend”, a bull market luxury. That when markets turn investors discard their ethics to focus on returns. Bank Of America looked at this topic and concluded the opposite – it's a bear market necessity. Firstly on performance, from the peak to the 25th of March, top ranked ESG outperformed the broader US market by 5%, even adjusting for them not owning oil stocks. In Europe the top 50 ESG stocks have outperformed by over 10%.

Looking at client flows, Ethical funds are tracking with inflows, despite record outflows in other equities. We'd conclude that an ethical framework is not just ‘nice to have’, it is ‘need to have’ for clients.

Portfolio review

The Fund fell 6.3% in March, outperforming global markets which fell 8.9% in AUD terms. Global equities fell 13.7% in USD terms, as the contagion effects from the Coronavirus drove share markets down. March was a once in a lifetime event that broke many records: part of the worst quarter on record for global equities; the second highest volatility in 90 years; and the biggest rebound. A falling Australian dollar versus the US dollar cushioned the losses for Australian clients.

Unusually, Japan was the best performing region (-8%, USD), whilst Asia Ex-Japan (-14%) was the worst. With the collapse in oil prices, energy stocks (-29%) and banks (-25%) were the worst performers, with health care (-4%) the best.

Reversing declines seen in February, Logitech was the Fund's best performing stock as demand for devices to assist Working from Home led to a re-rating of the stock as investors anticipate a sustained change in working habits post COVID-19 crisis. Yonghui Superstores, a Chinese supermarket chain, was the other strong performer over the month. China as a lead indicator for post crisis shows people continue to not eat out in restaurants even after the lifting of restrictions.

The largest detractor for the month was the Fund's market neutral trade in Japanese homebuilders, Open House and Iida Group. Iida carries more debt and is more expensive than Open House, but it has a higher weighting in the ETF's that the Bank of Japan is buying as part of its QE programme. On the other, hand more foreigners own Open House, who sold their positon to reduce risk. We exited but will likely look to revisit when volatility calms down.

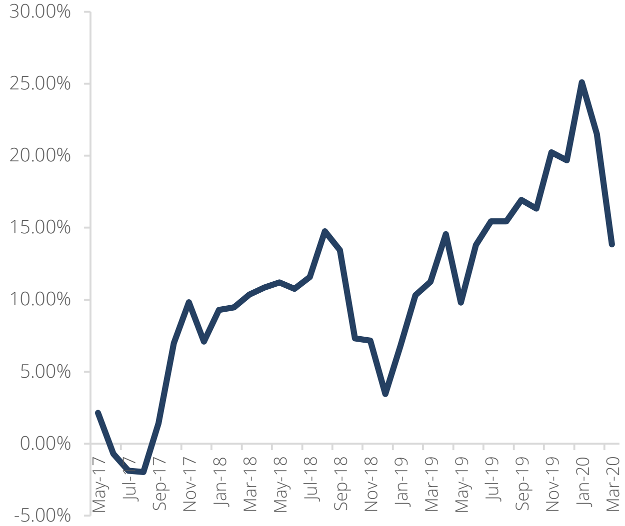
Outlook

At the start of the March our working hypothesis, and therefore positioning, was that the world would see a recession and bounce back later this year. We underestimated the ineptitude on the US response which has led to much larger outbreak of COVID-19 in the world's largest economy. Reflecting this, markets fell further at their lows to a more “traditional” recession level of -35% peak to trough.

Net Tangible Assets (NTA)

NTA value before tax[3]	$ 1.0989
NTA value after tax[3]	$ 1.0912

Investment Returns since inception[4]



Past Performance is not an indication of future performance.

Countering this, the policy response has been nothing short of enormous. Rules have been thrown out the window. The total size of the US response, including Fed response may amount to 40% of GDP. The latter half of March saw this tension in markets as they grapple with the competing forces of lockdown/bad data vs. a tsunami of money. In our blog, we discussed how volatility needs to top out first, so markets can find a trough. This appears to be playing out.

Our working hypothesis currently is that with Italian (and Australian) new infection rates peaked, in April the market starts to look at what the other side looks like. If China is the lead indicator, it is locked borders and a slow return to “people based” consumption – eating out, buying in department stores etc with a generally recovering stockmarket.

The Fund finished the month with a cash weighting of 13%, having ranged up to 18% over the month. This will be managed actively over the coming months.

Top 10 Active Positions

Stocks (*Shorts*)	Industry	Region	Position Weighting
Service Corp	US Deathcare	North America	3.7%
Tencent	Information Technology	Asia Pacific	3.4%
Alstom	Industrials	Europe	3.1%
Keysight Technologies	Electrical Equipment	North America	3.1%
Cellnex	Telecom	Europe	2.8%
Fujitsu	Information Technology	Asia Pacific	2.5%
Logitech	Information Technology	Europe	2.3%
Graphic Packaging	Industrials	North America	2.0%
Yonghui Superstores	Retail	Asia Pacific	1.8%
Ping An Healthcare	Healthcare	Asia Pacific	1.4%

Risk Measures	
Net Exposure[5]	87%
Gross Exposure[6]	90%
VAR[7]	1.97%
Upside Capture[8]	69%
Downside Capture[8]	79%
Best Month	5.51%
Worst Month	-6.31%
Average Gain in Up Months	2.18%
Average Loss in Down Months	-2.24%
Annual Volatility	9.68%
Index Volatility	11.46%

Hedge Positions	Risk Limit Utilisation (%)[9]
None	

Top three alpha contributors[10] (bps)

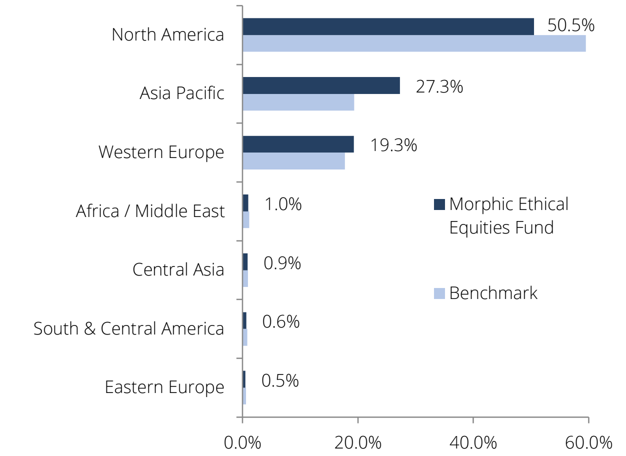
Logitech	**65** bps
Easyjet	**44** bps
Yonghui Superstores	**38** bps

Top three alpha detractors[10] (bps)

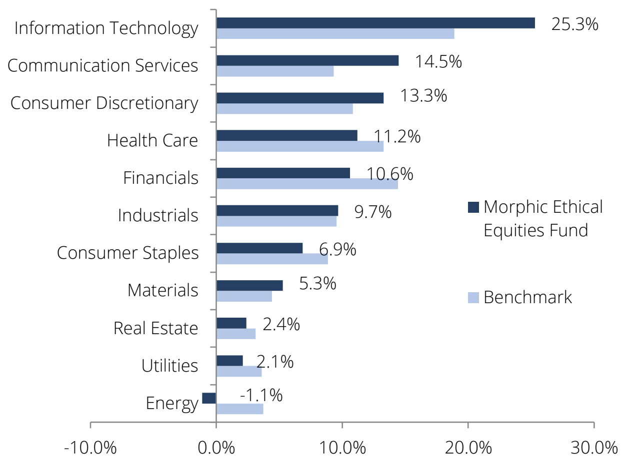
Bank Leumi	-50 bps
WillScot	-44 bps
Wizz Air	-40 bps

Key Facts	
ASX code / share price	MEC / 0.81
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee[11]	15%
Market Capitalisation	$ 43m
Shares Outstanding	52,829,432
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 estimated and unaudited; [4] 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; [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.