

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
April 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 ¹	1.76%	-7.40%	-0.43%	1.12%	5.03%
Index ²	3.50%	-9.99%	-2.85%	2.18%	9.21%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Despite the almost 100% focus on COVID-19, another large bank in Australia, Westpac, announced that they would be [exiting all support](#) for lending to the thermal coal industry by 2030. This builds on prior commitments from other lenders and Insurers who are increasingly worried about the financial viability of lending to those investments.

As a reminder, your Fund does not buy shares in any fossil fuel producing company

Portfolio review

The Fund rose 1.8% in April, underperforming global markets which rose 3.5% in AUD terms. Global equities rose 10.6% in USD terms, as the market had the strongest rally in 32 years, bouncing back on hopes that the worst of COVID-19 had passed quicker than first feared. The strong rise in the AUD dampened returns. Nearly all the underperformance came from the Fund carrying cash, which helped in March, but was a headwind in April.

The USA market performed best (+13%) with Europe (+5.7%) and Japan (+5.4%) lagging. Despite the oil price briefly trading below \$0, Energy was the best performing sector (+15.7%) as hopes of reduced supply and better demand combined. Banks (+5.7%) was the laggard as fears of higher loan losses weighed on the sector.

Ping An Healthcare was the largest positive contributor over the month. The company has been leading the development of online medical advice in China, and with COVID-19, the Chinese government has given the "stamp of approval" for the company. With the stock up over 50% in a month, we have taken profit and will look to add on pullbacks.

The largest detractor for the month was Service Corp, our funeral home provider. The company pulled guidance and provided downbeat commentary, which was disappointing as it was expected that demand for services should be higher in the current environment.

Outlook

Whilst the Fund was of the view that the market bounce could continue, and was prepared for it, the largest bounce in 30 plus years still came as some surprise. "Unprecedented" is becoming "precedented" in both directions it seems.

Cash weightings had been increased as we sold into the bounce, but markets have now gone to levels where we had set our "walk away" points. As such cash weightings finished the month lower than where it averaged for the month. The Fund has some call options which will further lower cash levels if markets rise a lot further, but still provide us with a cash buffer in falls.

Net Tangible Assets (NTA)

NTA value before tax ³	\$ 1.1165
NTA value after tax ³	\$ 1.1040

Investment Returns since inception⁴



Past Performance is not an indication of future performance.

The Fund finished the month with 9.3% cash and 1.1% of AUM in call options.

Our base case remains that markets re-test lows, but time is not a friend here, because with each passing week, the world moves closer to returning to normal and markets rarely sell off on "old news" – bad data isn't going to surprise anyone. Markets appear to be moving to price a reflationary outcome (better growth and falling unemployment). Time will tell if this is too optimistic.

All things considered, we see the market stuck in a large range – making new highs seems highly unlikely, but, for now, new lows look increasingly unlikely. In this environment we are looking to add back stock risk and focus efforts there.

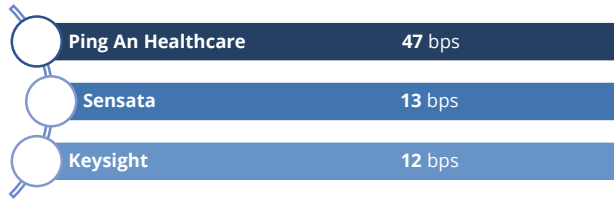
Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Tencent	Information Technology	Asia Pacific	3.4%
Service Corp	Consumer Staples	North America	3.2%
Cellnex	Telecom	Europe	3.0%
Alstom	Industrials	Europe	2.8%
Logitech	Information Technology	Europe	2.3%
Keysight Technologies	Industrials	North America	2.2%
Graphic Packaging	Industrials	North America	2.0%
Fujitsu	Information Technology	Asia Pacific	1.7%
Liveramp	Information Technology	North America	1.4%
Ciena	Information Technology	North America	1.2%

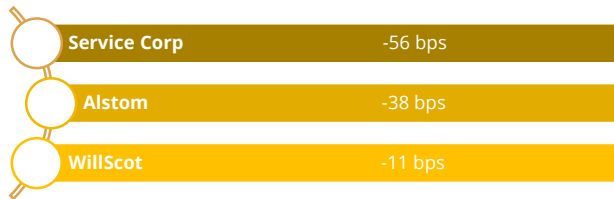
Risk Measures	
Net Exposure ⁵	91%
Gross Exposure ⁶	108%
VAR ⁷	2.21%
Upside Capture ⁸	68%
Downside Capture ⁸	79%
Best Month	5.51%
Worst Month	-6.31%
Average Gain in Up Months	2.16%
Average Loss in Down Months	-2.24%
Annual Volatility	9.57%
Index Volatility	11.41%

Hedge Positions	Risk Limit Utilisation (%) ⁹
None	

Top three alpha contributors¹⁰ (bps)

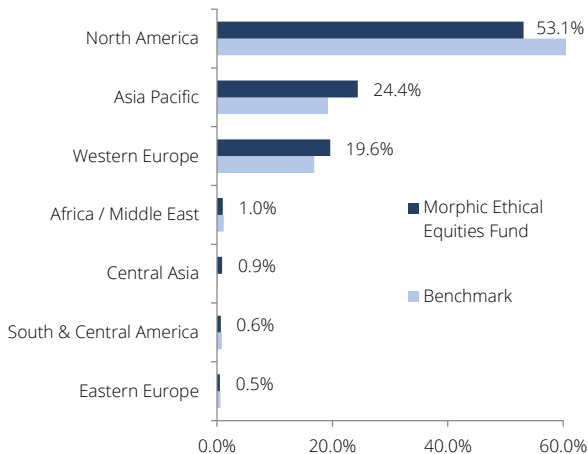


Top three alpha detractors¹⁰ (bps)

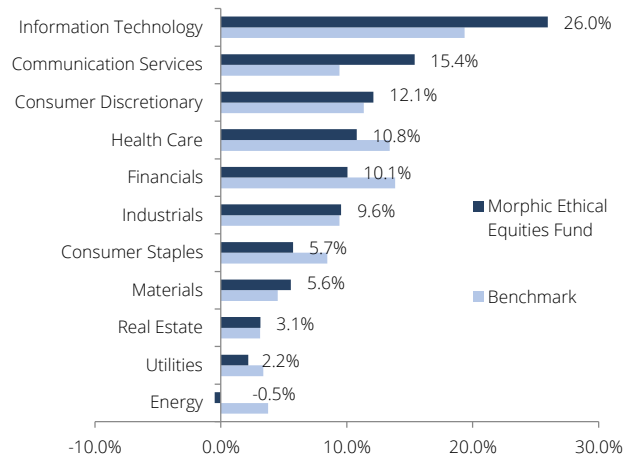


Key Facts	
ASX code / share price	MEC / 0.825
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee ¹¹	15%
Market Capitalisation	\$ 44m
Shares Outstanding	52,829,432
Dividend per share ¹²	\$ 0.02

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.