

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
September 2017



Signatory of:



## Fund Objective

The Morhic 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 For the period to the 29<sup>th</sup> September 2017

	1 Month	3 Months	ITD p.a.
Morphic Ethical Equities Fund <sup>1</sup>	3.37%	1.91%	1.07%
Index <sup>2</sup>	3.04%	2.82%	2.93%

## Ethical Investing in Focus

It's a big few weeks coming up for those interested in learning more about ethical investing. [Ethical Investment Week](#) runs from the 8th to the 14th of October and is a chance for investors to learn more about investing in line with their ethics. Morhic's Head of Research, James Tayler, is presenting a [short video](#) as part of the Ethical Investment Week discussing "Making an Impact" via investing.

There are a number of presentations on in cities all around Australia. Special thanks to the [Ethical Advisers Co-Op](#) who organise the event each year.

## Portfolio review

The Fund rebounded from August, strongly outperforming the market over the month taking performance to positive YTD. Long stock selection was the primary driver of outperformance over the month, with hedges also contributing positively. The Fund's mandated zero exposure negatively screened stocks detracted from performance over the month (-0.2%).

The Fund's largest position, French-listed train manufacturer Alstom, was the largest contributor after it was announced they would be merging with Siemens train division. Whilst nominally a merger, it is essentially a bid for Alstom from Siemens, as they are paying up to €8 of cash in dividends and bidders premium to Alstom shareholders. With completion not slated until late 2018, markets are discounting the price below the implied fair value, which we put at €42-45, as markets are wary of the deal being blocked. We believe this deal has been "greenlighted" by the French and German governments to create a "European champion".

The second largest contributor came from our position in Open House, the Japanese property developer, which is paired against a short in Iida Group. Open House reported excellent results over the course of the month and has led the sector higher on renewed optimism that Japan may indeed not be in a property bubble. Perhaps a trip to Australia is in order for local analysts. A P/E of 8x earnings – earnings which we don't believe to be the peak of the cycle - is not an onerous valuation.

The largest detractor for the month was Power Grid of India. As a regulated utility, it undergoes periodic resets in its regulated rate of return. With interest rates having fallen substantially since the last reset, there is a concern that the regulated return hurdle could be set rather low this time. We have trimmed the position.

## Outlook

The US Federal Reserve's announcement of "Quantitative Tightening" came and went, in much the same way each of their other steps towards policy normalisation have been and gone, with markets higher after each one. At some point the cumulative effect of draining liquidity will cause financial conditions to tighten, but thus far that would appear to be a 2018 problem.

So we approach the seasonally most strong quarter of the year (historically most equity returns of a year happen late in the year) with credit spreads on their lows; Emerging Markets on their highs; and global data printing the best for over 13 years in some cases.

With rates remaining low and financial conditions loose, the Fund remains fully invested. With data reaccelerating of late, interest rates may have bottomed in the USA, and hence the USD may find some support after a torrid year. Hedges are minimal reflecting this ambiguity.

## Key Facts

ASX code / share price	MEC / 1.06
ASX code / option price	MECO / 0.022
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>3</sup>	15%
Market Capitalisation	\$ 51m
Shares Outstanding	45,456,227
Options Outstanding	43,425,026
Options Exercise price	\$ 1.10
Options Expire	30 November 2018

## Net Tangible Assets (NTA)

Net tangible asset value before tax <sup>4</sup>	\$ 1.0736
Net tangible asset value after tax <sup>4</sup>	\$ 1.0805

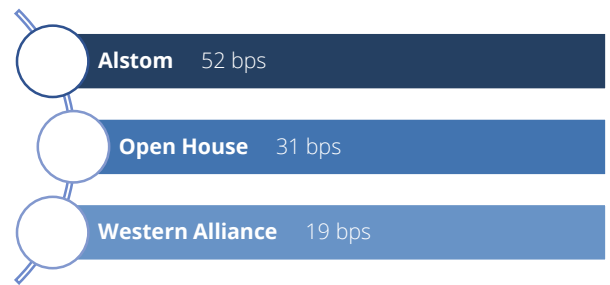
## Top 10 Holdings As at September 2017

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.0%
Panalpina	Global Freighters	Europe	(3.2%)
Open House	Japanese Homebuilders	Asia Pacific	2.8%
Iida Group	Japanese Homebuilders	Asia Pacific	(2.6%)
Wells Fargo	US Quality Banks	North America	(2.6%)
Western Alliance	US Quality Banks	North America	2.6%
Samsung Electronics	Global Tech	Asia Pacific	2.6%
Macromill	Global Research	Asia Pacific	2.5%
Service Corp	US Deathcare	North America	2.5%
DSV	Global Freighters	North America	2.5%

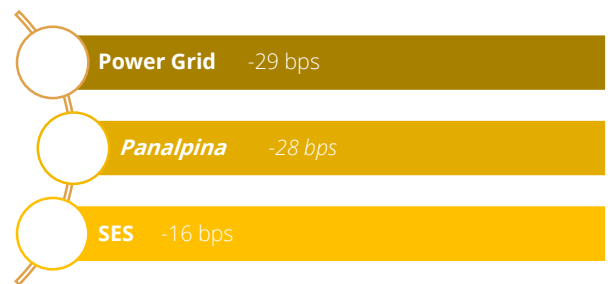
## Hedge Positions

Name	Risk Limit Utilisation (%) <sup>6</sup>
Long Volatility (VIX)	0.2%

## Top three contributors<sup>5</sup> (bps)

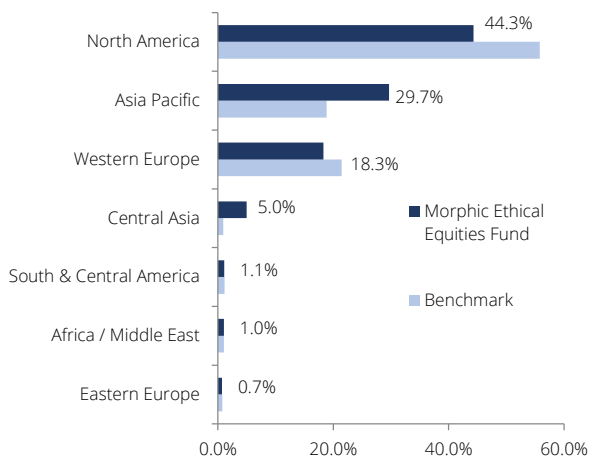


## Top three detractors<sup>5</sup> (bps)

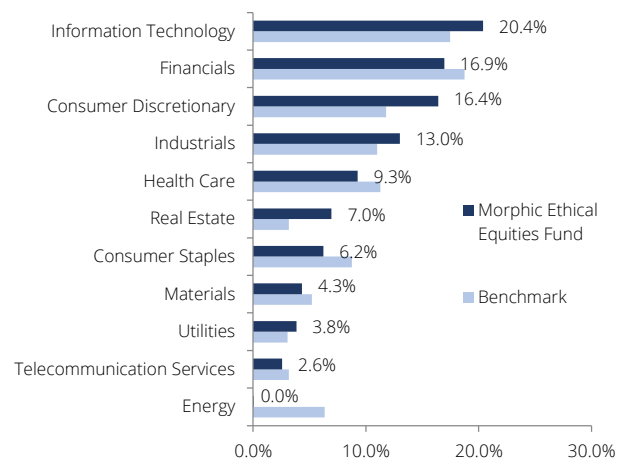


Risk Measures	
Net Exposure <sup>7</sup>	103%
Gross Exposure <sup>8</sup>	150%
VAR <sup>9</sup>	1.03%

## Fund Equity Exposure Summary By region



## Fund 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 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>4</sup> The figures are unaudited; <sup>5</sup> Attribution; relative returns against the Index excluding the effect of hedges; <sup>6</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>7</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>8</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>9</sup> VAR is Value at Risk based upon the 95<sup>th</sup> percentile with a 1 day holding period using a 1 year look back.