

Morphic Ethical Equities Fund

Monthly Report
November 2017



Signatory of:



Fund Objective

The Morpic 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	ITD p.a.
Morphic Ethical Equities Fund¹	2.65%	12.03%	9.83%
Index²	2.96%	10.81%	10.70%

Ethical Investing in Focus

Morphic's Joint CIO, Chad Slater, and Head of Research, James Tayler, were in Berlin last week for the Expert Investor ESG Congress. Over 60 allocators from across Europe, representing billions of dollars of assets, gathered for two days to hear updates on ethical and sustainable investing. Topics ranged from impact investing for change in the third world through to carbon reduction winners and losers. Morpic was one of only five institutions invited to talk at the event.

ESG investing is at the forefront of many portfolio construction strategies, with clients demanding their advisors to consider more offerings. One statistic stood out: 80% of millennials change advisors when they inherit money, suggesting a deep dissatisfaction with the lack of ESG funds for them to invest in that align with their personal values.

Portfolio review

The Fund's year to date gains continued in November, rising by 2.65% over the month. Global markets were up 1.8% in USD terms and a falling AUD was a tailwind again.

Japan and the USA were the best performing regions as opposed to Europe and Emerging Markets which were the worst.

The Fund lagged global equity markets somewhat over the month. Market hedges were the largest detractors, with stock selection a small detractor. Market neutral pairs trades provided a positive offset.

Whilst we have written at length about our long position in Open House, our Japanese condo builder, we haven't done so about the short leg against it (Iida Group). Over the month, Iida Group missed earnings at the same time Open House beat earnings expectations, leading to the rare, but profitable, outcome of both legs working. By month end, we had closed the short in Iida out, whilst staying long Open House.

Macromill, which was last month's largest positive contributor, gave back some gains after it reported earnings that whilst still good, lagged the markets lofty expectations. The other detractor of note was Samsung electronics, which sold off later in the month on general weakness in the Technology sector as some market participants reacted to sell side research suggesting the cycle may be ending. We remain holders having reduced position size on valuation concerns last month.

Outlook

The assertion that calendar returns favour the market late in the year managed to hold true over November. As such we would reiterate that if this is to hold true again, then December should be positive, though not as good as November. The looming tax cuts proposed in the USA could be the catalyst. We'll see.

Economic data globally remained elevated in November, continuing the run of good data we have seen all year. What has been remarkable is that global interest rate markets have preferred to focus on the weak wage data, thus enabling equities to re-rate with better earnings and powering this year's gains.

Hedges remain minimal. Some hedges have been added over the month to protect the Fund against rises in the AUD from this level. With economic data globally strong of late and commodity prices rising, we see the risk that local data improves rather than deteriorate from here, taking the AUD with it.

We are currently finalising our 2018 outlook thoughts for publication next month in which we will update investors on where we think the risks and rewards for 2018 lie.

Key Facts

ASX code / share price	MEC / 1.08
ASX code / option price	MECO / 0.035
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee ³	15%
Market Capitalisation	\$ 49m
Shares Outstanding	45,470,227
Options Outstanding	43,411,026
Options Exercise price	\$ 1.10
Options Expire	30 November 2018

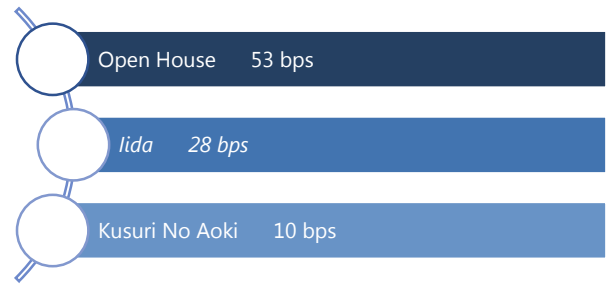
Net Tangible Assets (NTA)

Net tangible asset value before tax ⁴	\$ 1.1602
Net tangible asset value after tax ⁴	\$ 1.1421

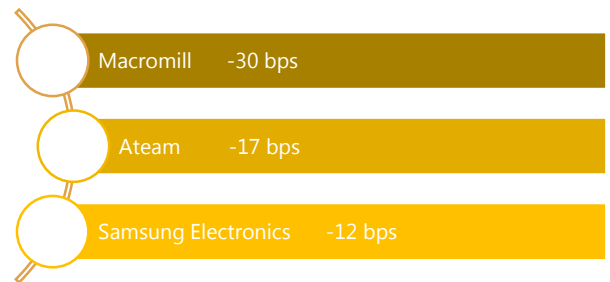
Top 10 Holdings

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.1%
Service Corp	US Deathcare	North America	3.1%
Western Alliance	US Quality Banks	North America	2.7%
Ateam	Japanese E-Commerce	Asia Pacific	2.6%
Wells Fargo	US Quality Banks	North America	(2.1%)
Hazama Ando	Engineering & Construction	Asia Pacific	1.9%
Bank of Internet	US Quality Banks	North America	1.8%
Macromill	Global Research	Asia Pacific	1.7%
Power Grid	Indian Infrastructure	Central Asia	1.7%
Open House	Japanese Homebuilders	Asia Pacific	1.7%

Top three contributors⁵ (bps)



Top three detractors⁵ (bps)

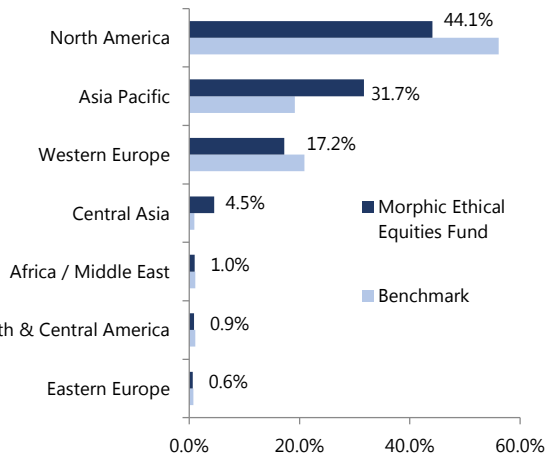


Hedge Positions

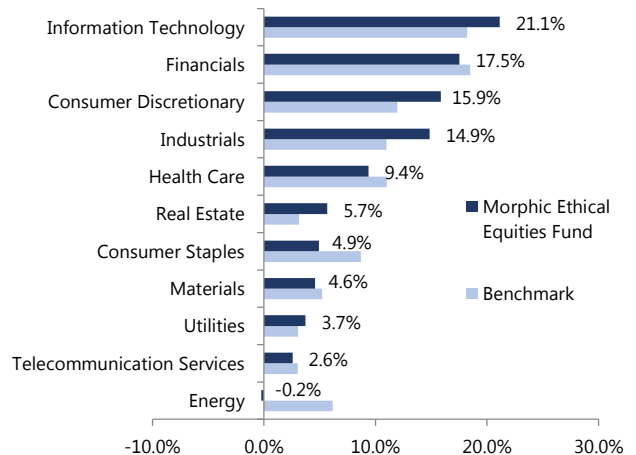
Name	Risk Limit Utilisation (%) ⁶
Long AUD	0.9%
US Curve Flattening	0.2%

Risk Measures	
Net Exposure ⁷	104%
Gross Exposure ⁸	139%
VAR ⁹	0.96%

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