

MORPHIC ETHICAL EQUITIES FUND

Monthly Report April 2018



Signatory of:



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	ITD p.a.
Morphic Ethical Equities Fund ¹	0.43%	1.41%	3.59%	10.84%
Index ²	2.59%	1.53%	5.20%	13.11%

Ethical Investing in Focus

As Investors know, the Morphic Ethical Equities Fund does not invest their money in any oil and gas stocks. Investors, quite rightly, believe that funding rising carbon emissions is not in alignment with the world keeping temperatures to below 2D of warming. But what this means is that in months like April, where the oil price and oil stocks rise dramatically, not owning those stocks will affect performance versus other funds who own oil and gas companies.

Keeping to the theme of global warming, Mother Earth Day occurred on the 22nd of April. This has become one of the largest civic action days in the world and this year's focus was on plastic reductions. For the occasion, the manager [blogged](#) on how you can both alter your behaviour and use capitalism to improve the world.

Portfolio review

The Fund rose 0.4% in April, trailing global markets for the month (+2.6%). Global markets rose 0.8% in USD terms, with a falling Australian dollar (-1.8%) assisting Australian investors.

April saw a continuation of 2018's theme of higher volatility but ultimately settled with a small increase over the month. Markets remain trapped in a large range, with both bulls and bears seeing enough to confirm their views, yet neither able to drive the market one way or the other.

Europe was the best performing region over the month (+2.2%), with Emerging Markets (-0.6%) the worst. April saw oil prices rise on the back of fears of increasing tensions with Iran, leading to the Energy Sector (+8.2%) being the best performing. Tech hardware (-0.4%) was the worst.

The Fund's largest contributor for the month was the combined returns from our short Prada / long Kering (Gucci) idea. Kering reported excellent operating results, which saw the stock rally strongly over the month. With the imminent spin-off of their Puma stake, the stock is re-rating as a pure-play on luxury goods, with their Gucci brand growing strongly.

The largest detractor over the month was the Fund's long position in Philips Lighting. The company reported earnings which fell short of expectations, as one of their largest customers in the USA failed to take delivery of orders, leaving them with higher inventories and lower sales. The Fund has decided to exit the position as this was a previously unidentified risk, suggesting that there are issues that both us and the market are unaware of that will take time to work through.

Net Tangible Assets (NTA)

Net tangible asset value before tax ³	\$ 1.1657
Net tangible asset value after tax ³	\$ 1.1472

Key Facts

ASX code / share price	MEC / 1.02
ASX code / option price	MECO / 0.003
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee ⁴	15%
Market Capitalisation	\$ 46m
Shares Outstanding	45,479,227
Options Outstanding	43,402,026
Options Exercise price	\$ 1.10
Options Expire	30 November 2018

Outlook

[Last month](#), we outlined why we remained bullish, highlighting earnings revisions and indicators of economic growth.

It should be noted that earnings revision rates for April have fallen from elevated levels and the post March-end forward indicators of economic growth have softened for several regions of the world. Whilst both are still at elevated levels compared to history, the saw is "markets are made at the margin".

The Fund will be watching for whether there is a continuation of these trends, particularly the recent strength in the USD, which affects the Fund's Asian holdings. At this stage, the view continues to be that this is more like the softening of the 2005-06 period that accompanied good equity returns.

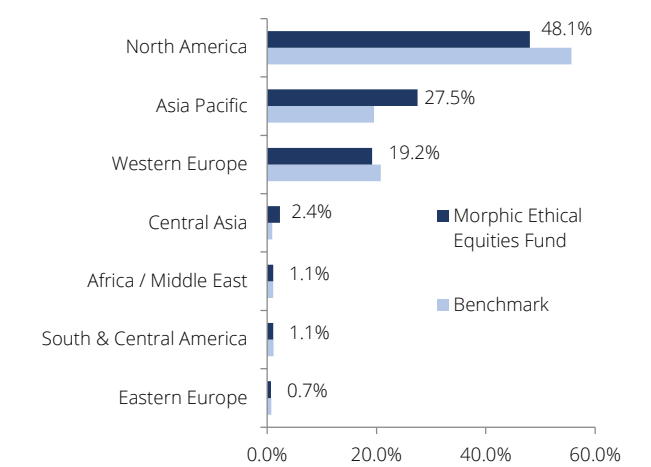
The Fund has unwound its hedges on its USD long positions against the AUD and closed its hedges against rising interest rates. Softening data will see rates struggle to move higher from here. Regional positioning remains unchanged from last month.

Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	3.3%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.0%
Western Alliance	US Quality Banks	North America	2.7%
Service Corp	US Deathcare	North America	2.6%
Macromill	Global Research	Asia Pacific	2.5%
Open House	Japanese Homebuilders	Asia Pacific	2.2%
Coca-Cola Amatil	Beverages	Asia Pacific	(2.2%)
Haseko	Japanese Homebuilders	Asia Pacific	2.1%
Bank of Internet	US Quality Banks	North America	1.9%
Eagle Bancorp	US Quality Banks	North America	1.9%

Hedge Positions	Risk Limit Utilisation (%) ⁶
Short AUD against USD	1.4%
Short Bonds	0.1%

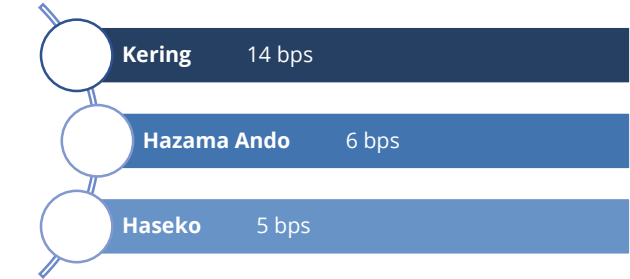
Equity Exposure Summary By region



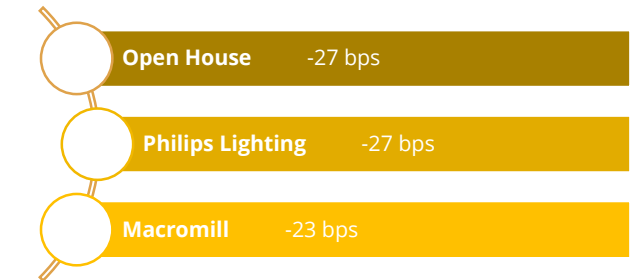
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¹ Performance is net of investment management fees, before company admin costs and taxes; ² The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUEACWF) in AUD; ³ The figures are unaudited; ⁴ The Performance Fee 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; 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.

Top three alpha contributors⁵ (bps)



Top three alpha detractors⁵ (bps)



Risk Measures	
Net Exposure ⁷	102%
Gross Exposure ⁸	126%
VAR ⁹	1.18%

Equity Exposure Summary By sector

