

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
September 2018

## 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	6 Months	1 Year	ITD (p.a.)
Morphic Ethical Equities Fund <sup>1</sup>	-1.14%	2.42%	2.80%	11.87%	9.34%
Index <sup>2</sup>	0.39%	6.48%	11.14%	19.04%	15.47%

## Ethical Investing in Focus

Morphic is pleased to announce that the Global Opportunities Fund and the Morpic Ethical Equities Fund have been nominated in the AsiaHedge awards for best Global Equity fund and New Fund of the year respectively.

Morphic's recently launched Fund, the Trium Morpic ESG L/S Fund, has been nominated in the category of Award for Innovation (Funds), in the 2018 Sustainable and ESG Investment Awards. Client feedback through the year has been that the fund fills an important role in expanding ESG investing to alternative investments, so it is gratifying to see this recognised.

Morphic is supporting the [RIAA's 2018 conference](#) on 31 October & 1 November in Melbourne which focuses on rediscovering purpose in finance. Please come and see us if you are attending.

## Portfolio review

The Fund fell 1.1% in September, trailing global markets for the month (0.4%). Global markets were up 0.3% in USD terms, with a small fall in the Australian dollar providing the difference.

Global equities had a mixed month, with fears of Emerging Markets contagion offsetting the positives from stronger US macro data. Japan (+2.3%) outperformed while the US (+0.3%) and Europe (+0.3%) performed in line with global markets. Emerging markets were the laggard. Year to date, the US (+9.1%) remains the best performing region, while Emerging Markets (-9.5%) are down the most.

The largest detractor for the month was our position in Indian Bank which was stopped out towards the end of the month. A continuous weakening rupee and the government's announcement proposing to merge three public sector banks in an attempt to consolidate the banking sector in India came as a negative surprise to the market. All previous commentary from the government had said that consolidation would be determined by the banks themselves, not imposed. Indian financials were weak in general as the Reserve Bank of India has started a crackdown on governance issues related to private sector banks.

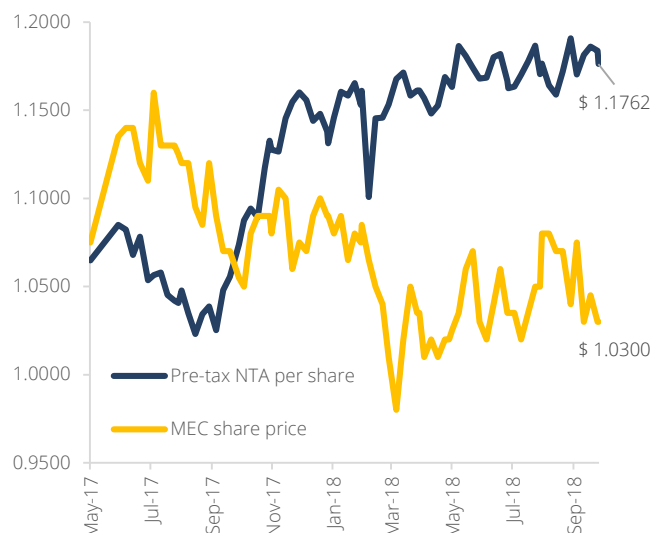
On the positive side, the Fund's largest contributor was the position in China Everbright International following our participation in the company's rights issue. The share price tumbled in the first half of August following the announcement of this rights issue where the company raised HK\$10bn. The company can easily fund any future growth prospects going forward, and this removes any funding risk for the foreseeable future. We re-entered the stock following the announcement and have been able to capitalise on the subsequent share price rise seen during September.

## Net Tangible Assets (NTA)

NTA value before tax<sup>3</sup> \$ 1.1762

NTA value after tax<sup>3</sup> \$ 1.1570

## MEC share price and Pre-tax NTA performance<sup>4</sup>



## Outlook

The good news for markets is that seasonally, markets move into the time of year that is traditionally associated with the highest returns for equity investors. The bad news is that increasing US interest rates are showing little signs of abating as the US Federal Reserve sees a tight labour market and good growth. As such, we expect continued downward pressure on Emerging Markets' currencies -i.e. upwards pressure on the US dollar - to carry on.

The divergence between a strong oil price, higher commodities, higher expected growth, yet weaker Emerging Markets (which normally do better into this backdrop) does not exactly follow what we thought would be a 1998/99 US-led growth playbook, as commodities were falling back then.

For now, hedges that increase the Fund's exposure to the US Dollar strength remain in place, whilst retaining a long bias to equity markets. The US market closing at all-time highs, not lows, suggests that calls for an overall bear market remain premature.

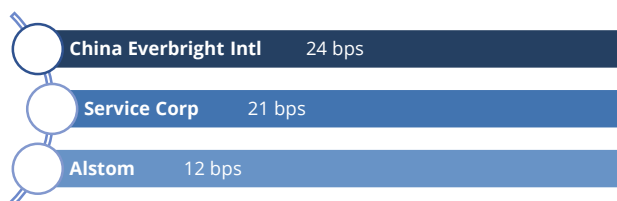
## Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	3.3%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.2%
Service Corp	US Deathcare	North America	3.2%
Open House	Japanese Homebuilders	Asia Pacific	3.0%
China Water Affairs	Chinese Water Utilities	Asia Pacific	2.7%
Bank Leumi	Israeli Quality Banks	Middle East	2.3%
<i>Iida</i>	<i>Japanese Homebuilders</i>	<i>Asia Pacific</i>	<i>(2.0%)</i>
Haseko	Japanese Homebuilders	Asia Pacific	1.7%
Rural Electrification	Indian Infrastructure	Central Asia	1.7%
Power Grid	Indian Infrastructure	Central Asia	1.4%

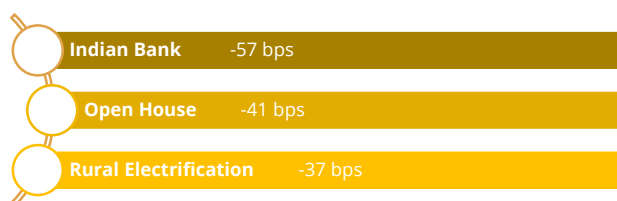
Risk Measures	
Net Exposure <sup>5</sup>	104%
Gross Exposure <sup>6</sup>	123%
VAR <sup>7</sup>	1.10%
Upside Capture <sup>8</sup>	66%
Downside Capture <sup>8</sup>	77%
Best Month	5.51%
Worst Month	-2.78%
Average Gain in Up Months	1.92%
Average Loss in Down Months	-1.34%
Annual Volatility	7.45%
Index Volatility	6.93%

Hedge Positions	Risk Limit Utilisation (%) <sup>9</sup>
Short Bonds	0.6%
Short AUD vs USD	0.6%

## Top three alpha contributors<sup>10</sup> (bps)

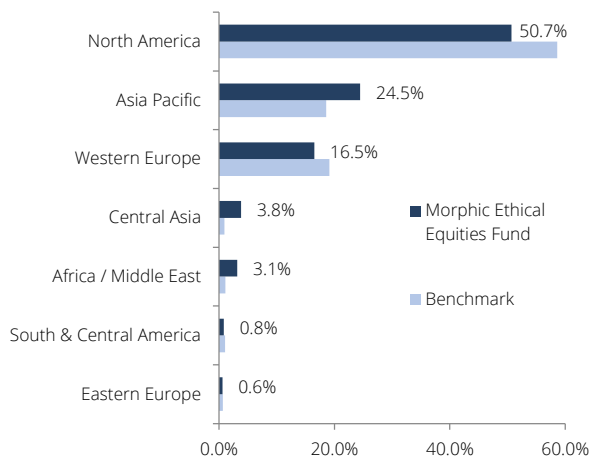


## Top three alpha detractors<sup>10</sup> (bps)

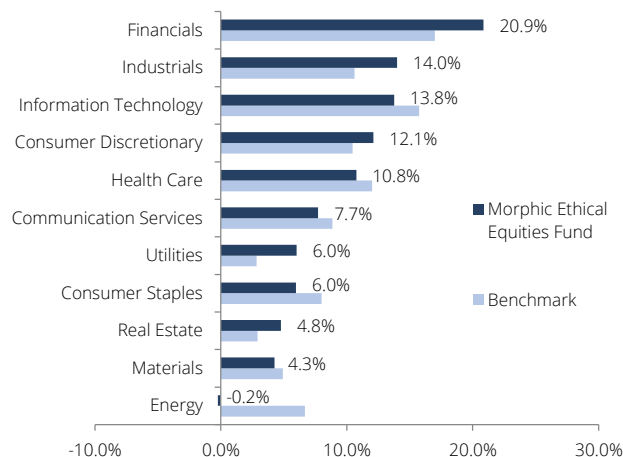


Key Facts	
ASX code / share price	MEC / 1.030
ASX code / option price	MECO / 0.001
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>11</sup>	15%
Market Capitalisation	\$ 47m
Shares Outstanding	45,524,927
Options Outstanding	43,382,026
Options Exercise price	\$ 1.10
Options Expire	30 November 2018

## Equity Exposure Summary By region



## Equity Exposure Summary By sector



## Contact us

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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 NDUEACWF) in AUD; <sup>3</sup> The figures are unaudited; <sup>4</sup> The pre-tax net tangible asset value is after the deduction of fees and costs. Fund listing on the ASX 3 May 2017. Past performance is not an indication of future performance; <sup>5</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>6</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>7</sup> Based on gross returns since Fund's inception; <sup>8</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>9</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>10</sup> Attribution; relative returns against the Index excluding the effect of hedges; <sup>11</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.