MORPHIC ETHICAL EQUITIES FUND

Monthly Report
November 2018

AsiaHedge 2018 Finalist "New Fund of the Year"

CERTIFIED BY RIAA

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

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	CYTD	ITD (p.a.)
Morphic Ethical Equities Fund[1]	-0.15%	-6.62%	-3.64%	0.05%	4.47%
Index[2]	-1.52%	-6.64%	0.86%	4.38%	8.62%

Ethical Investing in Focus

November saw the team out meeting investors around Australia and as always it is great to hear from those who are interested in Responsible Investing. Morphic was lucky enough to have Nicolette Boele from the Responsible Investment Association of Australasia (RIAA) address our Sydney event. For those that couldn't attend, a video of the Sydney presentation and a soft copy of the material presented can be found on our website.

One of Morphic's differentiating features is our ability to short companies that we believe have poor ESG practices. We spoke about our short position in Coca-Cola Amatil (CCL) before, and on the last day of November, the firm announced that earnings would not meet market expectations in 2019, whereupon the stock fell 14% on the day. We still don't believe CCL is adjusting quickly enough to changes in consumer preferences against sugar, and it shows investors how ESG views can be incorporated profitably into their personal values on the short side.

Portfolio review

The Fund fell 0.2%, outperforming global shares over the month by 1.4% in AUD terms. The fall was despite markets rebounding by 1.3% in USD, as the rise in the AUD offset the increase in markets.

The bounce was led by the more cyclically sensitive markets. Asia was up 4.3% in US dollars and Emerging Markets more generally were up 4.1%. Europe (-1.1%) and Japan (+0.4%) were the laggards. In contrast to cyclical regions, the leading sectors were more defensive – Healthcare (5.3%) and Real Estate (+4.8%).

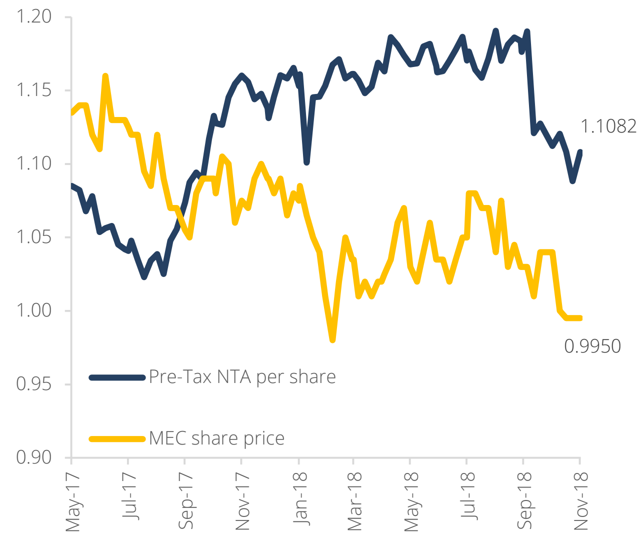
China Water Affairs Group (CWAG) was the Fund's best contributor over the month, reversing the sharp sell-off in September and October. Company earnings reported at the end of the month suggest business growth remains on track at over 20% a year. CWAG continues to look for ways to monetise legacy non-core assets. It also plans an IPO for its sewerage treatment business to free up capital to focus on water distribution. On nine times next year's earnings, we think the stock is still cheap and it remains in our top five active positions.

The largest detractor for the month was our position in Japanese condominium builder, Haseko. The company continues to post record profits, but our ownership period has been a frustrating experience, due to the company's refusal to share these benefits with shareholders through adequate dividends and share buybacks. We have made a number of unsuccessful attempts to engage with the management on capital management plans. The falls over the month took the position to our stop loss, where we exited. We will continue to engage with other shareholders on ways to unlock value in the business.

Net Tangible Assets (NTA)

NTA value before tax[3]	$ 1.1082
NTA value after tax[3]	$ 1.0969

MEC share price and Pre-tax NTA performance[4]



Outlook

After the shock of October, markets found a floor in a volatile November. Investors may recall the proximate cause for the sell-off in October was higher interest rates and fears the Federal Reserve would raise the interest rate by three or more times in 2018. Both higher rates and expectations of three interest rate hikes have been unwound now. When coupled with the large fall in oil prices, it is difficult to see imminent inflation threats in 2019.

Against this, economic data outside the USA has softened and some lead indicators in the USA, such as unemployment claims are creeping higher. With the Trump-Xi summit seeing the "Trade war" put on hold for the next three months at least, the question for 2019, is whether the Federal Reserve engineers a controlled slowdown in the economy like 1995, or whether it has already over-tightened, more like 2007.

Historical records say pauses in Fed hiking cycles are often good for equities and risk assets – but concerns over whether there have already been too many hikes will be the key focus as we move into 2019.

Top 10 Active Positions

Stocks (*Shorts*)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	3.9%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.4%
China Water Affairs	Chinese Water Utilities	Asia Pacific	2.9%
Service Corp	US Deathcare	North America	2.5%
Bank Leumi	Israeli Quality Banks	Middle East	2.4%
Orix Corporation	Japanese Financial Services	Asia Pacific	2.0%
Axos Financial	US Quality Banks	North America	1.5%
Power Grid	Indian Infrastructure	Central Asia	1.4%
Panalpina	Global Freighters Europe	Europe	1.1%
Kuehne + Nagel	*Global Freighters Europe*	*Europe*	*(1.0%)*

Risk Measures	
Net Exposure[5]	100%
Gross Exposure[6]	127%
VAR[7]	1.21%
Upside Capture[8]	66%
Downside Capture[8]	78%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	1.92%
Average Loss in Down Months	-1.70%
Annual Volatility	8.55%
Index Volatility	8.67%

Top three alpha contributors[10] (bps)

- **China Water Affairs** 33 bps
- **China Everbright Intl** 16 bps
- **Service Corp** 14 bps

Hedge Positions	Risk Limit Utilisation (%)[9]
Long USD vs EUR	0.5%
Long JPY and CNH volatility	0.3%
US 5/30 Steepener	0.3%
Long Soybeans	0.2%

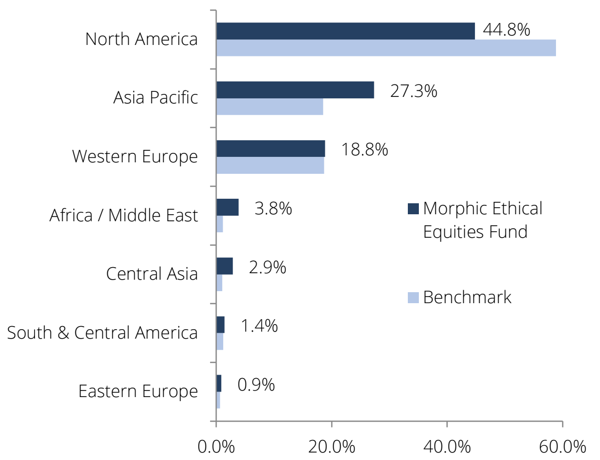
Top three alpha detractors[10] (bps)

- **Haseko** -13 bps
- ***Qantas Airways*** *-7 bps*
- ***Platinum Asset Management*** *-5 bps*

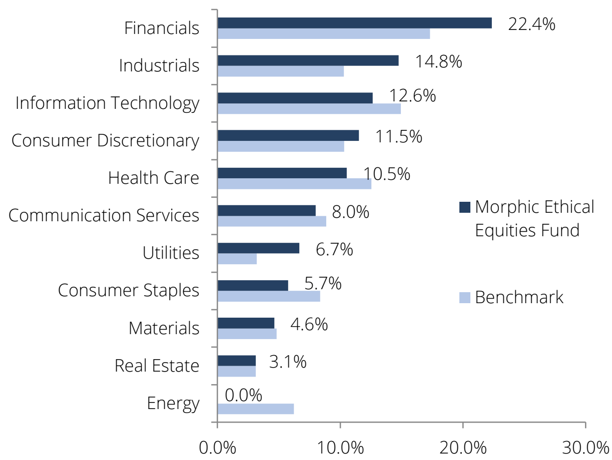
Key Facts	
ASX code / share price	MEC / 0.995
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee[11]	15%
Market Capitalisation	$ 45m
Shares Outstanding	45,547,427
Dividend per share*	$ 0.02

** Dividend per share includes the final dividend for FY18 payable on 12 December 2018.*

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 unaudited; [4] 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; [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.