

## APPENDIX 4E PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2019

### DETAILS OF REPORTING PERIOD

**Current:** Year ended 30 September 2019

**Previous:** Year ended 30 September 2018

<b>RESULTS FOR ANNOUNCEMENT TO THE MARKET</b>	<b>\$</b>	<b>MOVEMENT (UP/DOWN)</b>	<b>MOVEMENT (%)</b>
Revenue from ordinary activities	4,777,268	down	-37%
Profit from ordinary activities before tax attributable to members	1,955,297	down	-63%
Profit from ordinary activities after tax attributable to members	1,407,789	down	-63%

<b>DIVIDEND INFORMATION</b>	<b>CENTS PER SHARE</b>	<b>FRANKED AMOUNT PER SHARE</b>	<b>TAX RATE FOR FRANKING</b>
2019 Final dividend (cents per share)	1.0	1.0	27.5%
2019 Interim dividend (cents per share)	1.0	1.0	30.0%
2018 Interim dividend (cents per share)	1.0	1.0	30.0%
2018 Final dividend (cents per share)	1.0	1.0	30.0%

### FINAL DIVIDEND DATES

Ex-dividend date	2 December 2019
Record date	3 December 2019
Last election date for the Dividend Reinvestment Plan (DRP)	13 December 2019
Announcement of DRP issue price	9 December 2019
Payment date	17 December 2019
Date for issue of shares under DRP	17 December 2019

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<b>NET TANGIBLE ASSETS</b>	<b>30 SEPTEMBER 2019</b>	<b>30 SEPTEMBER 2018</b>
Net Tangible Assets (per share) before tax	1.1491	1.1746
Net Tangible Assets (per share) after tax	1.1299	1.1543

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#### **DIVIDEND REINVESTMENT PLAN (DRP)**

The DRP is in operation and the recommended fully franked final dividend of 1.0 cent per share qualifies. Participating shareholders will be entitled to be allotted the number of shares (rounded to the nearest whole number) which the cash dividend would purchase at the issue price. The relevant issue price will be the volume weighted average price (VWAP) of shares sold on the ASX (on an ex-dividend basis) five days from the ex- dividend date inclusive of the ex-dividend date.

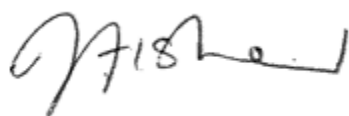
#### **AUDIT**

This report is based on the financial report which has been audited. All the documents comprise the information required by Listing Rule 4.3A.

#### **ANNUAL GENERAL MEETING (AGM)**

The AGM is to be held on 29 November 2019.

Signed on behalf of Morhic Ethical Equities Fund Limited.



JoAnna Fisher  
Chairman

Sydney  
1 November 2019



Annual Report

# MORPHIC ETHICAL EQUITIES FUND

Year ended  
30 September 2019

## MORPHIC ETHICAL EQUITIES FUND LIMITED

ABN 52 617 345 123

## ANNUAL REPORT

For the period from 1 October 2018 to 30 September 2019

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Morphic Ethical Equities Fund Limited  
Level 11  
179 Elizabeth Street  
Sydney NSW 2000  
P: (02) 9021 7797  
[www.morphiccasset.com](http://www.morphiccasset.com)





A scenic landscape featuring snow-capped mountains, a glacier, and a fjord filled with icebergs. The foreground shows a dark body of water with numerous icebergs of various sizes. The middle ground consists of steep, rocky cliffs with patches of green vegetation. In the background, a large glacier flows down a mountain slope, and several snow-covered peaks rise against a blue sky with scattered white clouds. A large, semi-transparent white circle is overlaid on the center of the image, containing the text 'TABLE OF CONTENTS'.

# TABLE OF CONTENTS



## CONTENTS

## PAGE

CHAIRMAN'S LETTER TO SHAREHOLDERS	4
INVESTMENT MANAGER'S REPORT	7
DIRECTORS' REPORT	12
AUDITOR'S INDEPENDENCE DECLARATION	25
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	26
STATEMENT OF FINANCIAL POSITION	27
STATEMENT OF CHANGES IN EQUITY	28
STATEMENT OF CASH FLOWS	29
NOTES TO THE FINANCIAL STATEMENTS	30
DIRECTORS' DECLARATION	55
INDEPENDENT AUDIT REPORT TO THE MEMBERS	56
SHAREHOLDER INFORMATION	61
CORPORATE DIRECTORY	63



## CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear fellow shareholder,

I am pleased to share the Company's second annual results, which is for our second full year since our Australian Securities Exchange listing on May 2<sup>nd</sup>, 2017, and covers the period from October 1<sup>st</sup>, 2018 to our financial year end of September 30<sup>th</sup>, 2019.

I again thank all shareholders for their support of the Company and welcome shareholders who have joined us over the last year. We are pleased at how many members join us in our semi-annual presentations around mainland Australia – and look forward to seeing old and new faces at our Annual General Meeting (AGM) in Sydney next month and the other meetings we will be holding in later this year, and early next year, in Canberra, Melbourne, Adelaide, Perth and Brisbane, as well as an increasing number of regional centres.

In the Prospectus for our listing in mid-2017, we foreshadowed our intention to commence paying dividends, subject to availability of distributable profits, after the end of our first full year of operation. It gave us great pleasure that after starting dividend payments six months earlier than expected last year, we have continued to pay semi-annual one cent dividends each half ever since. The record date for the final dividend for the 2018/19 year will be 3 December 2019 and the payment date will be 17 December 2019.

Our long-term ability to pay dividends will always be dependent on having distributable profits, but our intention is to slowly raise the dividend per share over time, while retaining some profits to make payments in future years. At this stage we still have enough profits in our reserves to maintain the current level of semi-annual dividends for at least another two years.

The Company continues to advocate for a framework where financial outcomes are achieved while being cognisant of their impact on the world around us. We provide shareholders with the opportunity to benefit from an actively managed portfolio of global securities that have been screened to exclude companies involved in environmentally damaging activities including coal and uranium mining, oil and gas, animal cruelty, tobacco, armaments, alcohol and gambling.

Investors globally are moving capital into socially responsible investments. Sustainable, responsible and impact investing has continued to grow, with investor concerns and actions on climate change providing one of the important drivers on this growth.

Requirements to integrate Environmental Social and Governance (ESG) considerations into the investment process continue to intensify. We congratulate the Responsible Investment Association Australasia (RIAA) and the Principles for Responsible Investment (PRI (formerly UNPRI)) for steadily improving codification, and making it harder for either companies or fund managers to “greenwash” their way into the ESG category for marketing purposes without showing real commitment to ESG into processes and risk management.

Much thought went into designing the Company's screening rules to ensure that the Fund's shareholders could be confident their investments are managed to maximise returns whilst doing this in an ethical manner. As a result the Company remains certified by the RIAA, and Morpnic Asset Management (Morpnic), the Manager, remains a signatory to PRI. In July 2019 we were pleased to see Morpnic's approach to ESG integration was validated by it being rated A+ (the highest rating) for all its relevant modules, including Investment Strategy, and Governance from PRI 2019, a rating substantially higher than the bulk of its peers. A copy of the PRI 2019 Assessment Report can be found on Morpnic's website.

In June 2019 Ellerston Capital Limited (Ellerston) acquired a controlling interest in Morpnic Asset Management. Ellerston is a specialist investment manager providing a range of innovative equity and alternative strategies, including separately managed accounts (SMAs), wholesale funds and retail offerings. Morpnic's founders, Jack Lowenstein and Chad Slater continue to run the Morpnic Funds, but with access to Ellerston's wider analyst pool and infrastructure.

### COMPANY PERFORMANCE

During the year to September 30<sup>th</sup>, 2019, the Company achieved a pre-tax operating profit of \$1,955,297 and a post-tax operating profit of \$1,407,789. We consider it is also useful to consider performance for a listed investment Company from the following perspectives:

#### 1. INVESTMENT PERFORMANCE

The Company's investment portfolio performance shows how the Manager has performed before deducting management fees and taxes, as compared to the Company's investment benchmark, the MSCI All Countries Total Return Daily Index.

In its second full year of performance, the portfolio achieved pre-fee and taxes returns of 4.34% compared to the benchmark which rose 9.37% in gross terms.

## 2. NTA PERFORMANCE

From a shareholder perspective, it is also useful to consider movements in the Company's NTA per share, which adjusts for the impact of management fees of 1.25% and other Company related expenses.

At September 30<sup>th</sup>, 2019, MEC's pre-tax NTA was \$1.1491 and its post-tax NTA was \$1.1299 per share. Please note that these NTA figures are after deducting two cents per share from the NTA paid as dividends over the year.

For reference, at September 30<sup>th</sup>, 2018 MEC's pre-tax NTA was \$1.1746 and its post-tax NTA was \$1.1543 per share. This compares to the pre-tax NTA of \$1.0623 and post-tax NTA of \$1.0736 at listing.

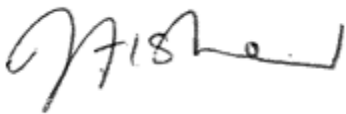
As at September 30<sup>th</sup>, 2019 MEC's shares closed at \$0.895. We are disappointed to note the decline in the value of the Company's shares from the \$1.03 level at which they closed a year earlier.

## ANNUAL GENERAL MEETING

The third Annual General Meeting will be held at 11.00am on 29 November 2019 at the Royal Automobile Club of Australia, 89 Macquarie Street in Sydney CBD. The Directors encourage you to attend the meeting.

At the meeting, key personnel of the Manager Morphic Asset Management will be in attendance to discuss investment activity since the Company's listing, and their views for the year ahead. For more on these issues, I encourage you to visit the Company's website ([www.morphicasset.com](http://www.morphicasset.com)) where you can download the Manager's Monthly Performance Reports for the Company, as well as its regular Half Year Reports, including the report for the half-year to 30 June 2019.

Regards,



**JOANNA FISHER**

Chairman



The background of the image shows a close-up of dark, rich soil with several small, vibrant green seedlings sprouting from it. The seedlings are at various stages of growth, with some having two leaves and others just starting to emerge. The lighting is soft, highlighting the texture of the soil and the freshness of the plants. A large, semi-transparent white circle is centered in the upper half of the image, containing the title text.

**INVESTMENT  
MANAGER'S  
REPORT**

## INVESTMENT MANAGER'S REPORT

The Fund ended its financial year with its NTA per share at \$1.1491 (pre tax).

Performance since inception is as follows:

PERFORMANCE SINCE INCEPTION (P.A.)	2018/19 YEAR		RETURNS SINCE INCEPTION (P.A.)	
	Gross	Net	Gross	Net
Morphic Ethical Equities Fund	4.34%	3.06%	7.69%	6.70%
MSCI All Countries Total Return Daily Index	9.37%	8.76%	13.26%	12.64%

Gross return is before fees and taxes

Net return is net of investment management fees, before Company admin costs and taxes

Morphic Asset Management, the Manager of the Morpheic Ethical Equities Fund (the Fund), publishes detailed reports on the performance of the Fund every six months in July and January. The latest of these was sent to shareholders in July 2019, and contained commentary on actions taken by the Manager since January 1<sup>st</sup> 2019 and our views on the investment outlook for the six months ahead. A copy of this report can be downloaded at [www.morphicasset.com](http://www.morphicasset.com).

Looking at the Fund's performance, while absolute returns to our investors were adequate over the whole period, in terms of relative performance against our benchmark, it was a disappointing year, with most of the damage done by poor stock selection in India and China. The Fund also suffered from being overweight emerging markets stocks in Asia and underweight developed markets, especially the US, for much of the year. A secondary problem was that the kind of lower priced middle-sized companies 'value' stocks that the Fund tends to focus on once again underperformed what seemed to us to be overly highly priced mega- cap growth.

The top five performers and detractors for the full twelve months were:

### TOP 5 CONTRIBUTORS (BPS - 2018/19 FINANCIAL YEAR)

1 Panalpina Welttransport	120.7
2 Rural Electrification Corp	49.0
3 Service Corp International	44.3
4 <i>Platinum Asset Management</i>	<i>40.6</i>
5 JB HI-FI	39.1

### TOP 5 DETRACTORS (BPS - 2018/19 FINANCIAL YEAR)

1 IRB Infrastructure Developer	-86.1
2 YES Bank Ltd	-85.4
3 China Water Affairs Group	-83.6
4 Axos Financial	-53.9
5 <i>Coca-Cola Amatil</i>	<i>-46.3</i>

Please note that the stocks in *gold italics* were short positions.

Last year, our third biggest winner was a short position in Swiss listed global freight forwarder, Panalpina. This year we managed to make a long position in the same stock our biggest contributor. We are pleased that we had the flexibility to recognise early signs of radical changes in corporate governance at the firm, such that our previous reasons to short had reversed and created a long side opportunity. Ensuring we made this a winner wasn't easy however, and involved intense engagement with both the company and Swiss regulators as we battled to get the reluctant board and management to accept a bid from Danish competitor DSV.

Amid a difficult year for us in emerging markets stocks, Indian non-bank infrastructure connectivity lender Rural Electrification was a rare success. As the company is now a subsidiary of fossil fuel power station lender Power Finance Corporation, we will not be investing in it again.

Our successful short position in Platinum reflects the legacy nature of its business, and a perceived overhang from the residual holdings of the founder and his family. Nevertheless, we now believe it is oversold and have covered our position. Our gains on the Platinum short were augmented by gains on a hedging long leg in Magellan.

The other short in our top winners and losers, Coca Cola Amatil, was less successful. We are persisting with the position because we believe the stock is fundamentally over-valued given its lack of growth. We believe the company will face relentless pressure from regulators and customers over its impact on society from its use of plastic and reliance on sugar. We also believe the way the company reports its results has the effect of hiding issues in some markets, especially Indonesia.

While our losses in US branchless bank Axos are frustrating, especially as our offsetting hedge short position against the US bank index proved ineffective, we have only trimmed the position, not cut it altogether, and also maintained our hedge. Fundamentally we expect the Axos business model to be a winner even in a potentially relatively tough US banking environment.

Our worst losses were in India and China. Our expectation that Indian Road builder IRB would get a lift from the re-election of the Modi government in Delhi proved misplaced. With China Water, we underestimated market negativity about an acquisition it made in June. In the case of Yes Bank poor analysis was compounded by poor trading. We were enjoying substantial gains on our entry to Yes, as the market came to our initial view that new management, would see a successful turnaround. However instead of taking profits we held on too long and were blindsided when the bank announced a radical change in strategy and massive additional provisioning.

At year end our top ten active positions were:

	STOCKS (SHORTS)	THEME	REGION	% OF NET ASSETS
1	Service Corp International	US Deathcare	North America	5.4%
2	Alstom	Global Rail Equipment	Europe	4.9%
3	<i>Coca - Cola Amatil</i>	<i>Beverages</i>	<i>Asia Pacific</i>	<i>(4.1%)</i>
4	Bank Leumi Le- Israel	Israeli bank	Middle East	3.2%
5	<i>Kion Group</i>	<i>Industrial Equipment</i>	<i>Europe</i>	<i>(2.8%)</i>
6	<i>Kuehne + Nagel</i>	<i>Global Freighters</i>	<i>Europe</i>	<i>(2.7%)</i>
7	Jungheinrich	Industrial Equipment	Europe	2.6%
8	Kering	Luxury Retailers	Europe	2.4%
9	<i>Qantas Airways</i>	<i>Australian Airline</i>	<i>Asia Pacific</i>	<i>(2.2%)</i>
10	<i>Prada</i>	<i>Luxury Retailers</i>	<i>Europe</i>	<i>(2.2%)</i>

Including a number of short positions just outside the top ten, we are pleased to note nearly 15% of the Fund's gross positions represents either long positions in firms that are working to make the world a better place or short positions in firms we regard as having negative ESG effects.

US funeral parlour operator Service Corporation continues to be a steady compounder, with reasonable bottom line growth augmented by continuous share buybacks. Alstom continues to justify our faith, and proved a successful investment for the year despite initial market disappointment that a planned merger with German competitor Siemens mobility was blocked by the European competition regulator.



Alstom is one of the world's three largest companies building railways and trams, thereby reducing carbon pollution and improving the lives of commuters. Its order book continues to grow as both developing and developed cities rush to build both inter-city and metro public transport.

Bank Leumi, Israel's largest and oldest financial institution is benefiting from being based in one of the strongest developed economies. While loan growth is modest, interest margins are improving and asset quality is pristine. Meanwhile the company is steadily removing costs from operations. We also expect to steadily capture unrecognised gains on its extensive real estate portfolio, much of which is carried at valuations going back to the country's foundation in 1948. As the company also has excess capital, rewards to shareholders should come from steady rises in dividends and share buybacks.

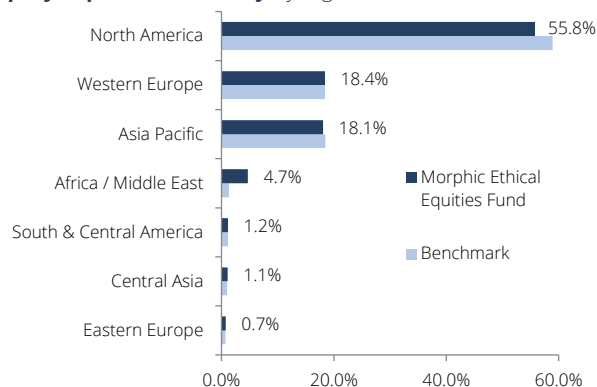
Our short position in Swiss global freight forwarder Kuhne and Nagel reflects our view the stock is over-priced and the sector vulnerable to a weakening global economy and a poor outlook for world trade. We also believe Qantas to be over-priced given the outlook for tourism and its need for a major fleet replacement program.

Pairs trades, where we are long one stock and short another in the same sector continue to be an important part of our strategy. In the case of German fork lift makers Jungheinrich and Kion, our view is that the former has now become quite undervalued versus the latter. In the case of the long position in high end fashion company Kering, owner of Gucci, we believe that not only is it cheaper than Prada, we also believe the latter has a challenging business model and poor governance.

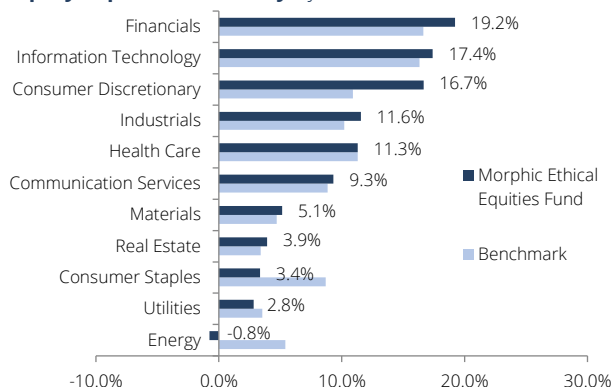
All our positions are subject to an ESG audit, looking at the material risks and opportunities the stock we hold expose us to from the way they conduct themselves in terms of Environmental, Social and Governance issues.

Our portfolio positioning at year end was as follows:

**Equity Exposure Summary** By region



**Equity Exposure Summary** By sector



Given the pressures building up against China from rising US tariffs and other pushback against its geopolitical objectives. We have trimmed back our exposure to the country. We are also pessimistic about prospects in India and other emerging markets.

Equities still look attractive especially when compared to bonds, so we remain fully invested.

**JACK LOWENSTEIN**

Joint Chief Investment Officer

**CHAD SLATER**

Joint Chief Investment Officer

## PORTFOLIO COMPOSITION

## INVESTMENT PORTFOLIO AT 30 SEPTEMBER 2019

EQUITIES ( <i>SHORTS</i> )	FAIR VALUE (\$)
Service Corp International	3,304,912
Alstom	2,967,044
Bank Leumi Le - Isreal	1,969,140
Vaneck Vectors Australian Equal Weight	1,883,213
Jungheinrich - Prfd	1,578,024
Kering	1,432,167
Kurita Water Industries Limited	877,134
China Everbright International Ltd	836,999
Logitech International SA	730,295
Axos Financial Inc	571,079
Entertainment One	293,636
WillScot Corporation	255,258
Wizz Air Holdings Plc	247,689
<i>Mobile Mini Inc</i>	<i>(303,318)</i>
<i>Pendal Group Ltd</i>	<i>(457,293)</i>
<i>Prada SPA</i>	<i>(1,324,718)</i>
<i>Qantas Airways Limited</i>	<i>(1,332,769)</i>
<i>Kuehne + Nagel International AG</i>	<i>(1,652,670)</i>
<i>KION Group AG</i>	<i>(1,720,753)</i>
<i>Coca-Cola Amatil Limited</i>	<i>(2,508,160)</i>
	<b>7,646,909</b>
<b>ETFs (<i>SHORTS</i>)</b>	
iShares Core S&P500 ETF	20,006,085
Vanguard FTSE Developed ETF	18,495,045
Ishares MSCI ACWI ETF	9,527,522
SPDR S&P 500 ETF Trust	8,777,915
Vanguard FTSE Emerging Markets ETF	5,897,677
<i>Energy Select Sector ETF</i>	<i>(807,532)</i>
<i>SPDR Bank ETF</i>	<i>(780,713)</i>
<i>MS MOWRLD Index</i>	<i>(5,424,778)</i>
	<b>55,691,221</b>
Equity Swaps, FX, Futures and Options	5,223,871
<b>Total Portfolio</b>	<b>68,562,001</b>





**DIRECTORS'  
REPORT**



## DIRECTORS' REPORT

The Directors present their Report together with the Financial Report of Morphic Ethical Equities Fund Limited ("Company") for the year ended 30 September 2019.

### INFORMATION ON DIRECTORS

The following persons were directors of the Company from registration date and up to the date of this report (unless otherwise indicated):

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#### JOANNA FISHER | INDEPENDENT CHAIRMAN

##### EXPERIENCE AND EXPERTISE

JoAnna has a long-standing and international career in the financial sector in investment management, wholesale banking and capital markets. Her more than 20 years of experience encompasses business performance improvement, governance, compliance and risk management.

JoAnna spent 12 years at Bankers Trust Corporation in the USA, Japan, the UK and Australia, managing funds and developing the institutional funds management businesses. She is also a former General Manager - Strategy and Marketing for the Commonwealth Bank. JoAnna is a graduate of the Australian Institute of Company Directors and holds a Bachelor of Arts (Asian Studies) and a Bachelor of Economics from The Australian National University.

JoAnna is currently a Non-Executive Director of Mainstream Group Holdings Ltd and is a Member of the Investment Committee at the Australian Catholic Superannuation and Retirement Fund and a Member of the Finance Audit and Risk Committee of the Australian Chamber Orchestra.

##### OTHER CURRENT DIRECTORSHIPS

Other than acting as Non-Executive Director of Mainstream Group Holdings, JoAnna is not currently serving a directorship for any other listed companies.

##### FORMER DIRECTORSHIPS IN THE LAST 3 YEARS

Nil.

##### SPECIAL RESPONSIBILITIES

Chairman of the Board and member of the Audit & Risk Committee.

##### INTERESTS IN SHARES AND OPTIONS

Details of JoAnna's interests in shares of the Company are included later in this report.

##### INTEREST IN CONTRACTS

JoAnna has no interests in contracts of the Company.

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**JACK LOWENSTEIN | NON-INDEPENDENT DIRECTOR****EXPERIENCE AND EXPERTISE**

Jack had careers in corporate finance and as an international financial journalist and has been involved in the research and investment of global equities and other Securities for more than 30 years. Jack has a BA and a MA from Oxford University and in 2009 he completed the three year part time Owner/President Management Course at Harvard Business School.

He was the Deputy Chief Investment Officer at Hunter Hall, responsible for risk management and portfolio construction. He joined Hunter Hall when it had just \$13m under management in 1997 and played a key role in building it to a peak of just under \$3 billion in FUM. In his ten years as a Portfolio Manager with Hunter Hall he generated substantial out-performance.

**OTHER CURRENT DIRECTORSHIPS**

Jack is the Joint CIO and Managing Director of Morpnic Asset Management (Morpnic), the Investment Manager of the Company.

**FORMER DIRECTORSHIPS IN THE LAST 3 YEARS**

Nil.

**SPECIAL RESPONSIBILITIES**

Nil.

**INTERESTS IN SHARES AND OPTIONS**

Details of Jack's interests in shares of the Company are included later in this report.

**INTEREST IN CONTRACTS**

Jack has no interests in contracts of the Company other than as disclosed in his capacity as director and shareholder of the Investment Manager.

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**MARK FORSTMANN | INDEPENDENT DIRECTOR****EXPERIENCE AND EXPERTISE**

Mark has 28 years' experience in investment markets including equities, currencies and fixed interest. His career spans investment markets and film and television production. He holds a B.Sc. from Sydney University, a Graduate Diploma from AFTRS, and has studied B.A.Communications at University of Technology Sydney.

Mark worked at BankAmerica in Sydney, Banque Indosuez in both Sydney and Paris. He was also a director at Hunter Hall International for 15 years. Mark served on the Board of the Nature Conservation Trust of NSW between December 2009 and May 2015.

**OTHER CURRENT DIRECTORSHIPS**

None.

**FORMER DIRECTORSHIPS IN THE LAST 3 YEARS**

Nil.

**SPECIAL RESPONSIBILITIES**

Mark is a member of the Audit & Risk Committee.

**INTERESTS IN SHARES AND OPTIONS**

Details of Mark's interests in shares of the Company are included later in this report.

**INTEREST IN CONTRACTS**

Mark has no interests in contracts of the Company.

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**VIRGINIA MALLEY | INDEPENDENT DIRECTOR****EXPERIENCE AND EXPERTISE**

Virginia has worked in the financial services sector for 31 years. Virginia is a Fellow of the Australian Institute of Company Directors and completed the Company Director Course in 2007. She holds a Bachelor of Arts and a Master of Applied Finance from Macquarie University, a Juris Doctor from the University of Technology Sydney, and a Graduate Diploma of Environmental Law and a Master of Law from the University of Sydney. In November 2016, she was recognised with a Faculty Award for excellence and ongoing contribution to the gold standard in governance education by the Australian Institute of Company Directors.

In 1987, she joined Macquarie Bank as a credit analyst and became Chief Risk Officer of the Funds Management Group in 2003. During this period, she developed and implemented risk management frameworks for the domestic and Asian joint venture funds management businesses. Following her executive career at Macquarie, Virginia served as a non-executive director on a number of subsidiary boards including Macquarie Investment Management Limited until 2012.

**OTHER CURRENT DIRECTORSHIPS**

Virginia is currently a director of Perpetual Superannuation Limited and Perpetual Equity Investment Company Limited, and is a member of the Clean Energy Regulator and the Deputy Chair of the Biodiversity Conservation Trust of NSW.

**FORMER DIRECTORSHIPS IN THE LAST 3 YEARS**

1 Page Limited.

**SPECIAL RESPONSIBILITIES**

Chairman of the Audit & Risk Committee.

**INTERESTS IN SHARES AND OPTIONS**

Details of Virginia's interests in shares of the Company are included later in this report.

**INTEREST IN CONTRACTS**

Virginia has no interests in contracts of the Company.

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**CHAD SLATER | ALTERNATE DIRECTOR****EXPERIENCE AND EXPERTISE**

Chad is the Joint Chief Investment Officer of Morphic which he co-founded in 2012.

Chad was previously a Portfolio Manager and Head of Currency and Macroeconomics at Hunter Hall for five years. Prior to this, he was an Investment analyst at BT Financial Group including a secondment to Putnam Investments in Boston. He began his career as an Economist at Australian Federal Treasury.

Chad holds a B.Comm and a B.Econ (Hons) from the University of Queensland and has completed the Chartered Financial Analyst (CFA) program and been awarded the CFA Charter.

**FORMER DIRECTORSHIPS IN THE LAST 3 YEARS**

Nil.

**SPECIAL RESPONSIBILITIES**

Nil.

**INTERESTS IN SHARES AND OPTIONS**

Details of Chad's interests in shares of the Company are included later in this report.

**INTEREST IN CONTRACTS**

Chad has no interests in contracts of the Company.

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**COMPANY SECRETARY**

The following person held the position of Company Secretary at the end of the year:

**JACK LOWENSTEIN**

Jack Lowenstein is also a non-independent director. Please refer to page 13 of the Director's Report for details of Jack's experience and qualifications.

## ATTENDANCE AT MEETINGS

### BOARD OF DIRECTORS MEETINGS

DIRECTOR	MEETINGS HELD AND ENTITLED TO ATTEND	MEETINGS ATTENDED
JoAnna Fisher	6	6
Jack Lowenstein	6	5
Mark Forstmann	6	6
Virginia Malley	6	6
Chad Slater*	1	-

\* As alternative director to Jack Lowenstein, Chad attends meetings in Jack's absence.

### AUDIT & RISK COMMITTEE MEETINGS

DIRECTOR	MEETINGS HELD AND ENTITLED TO ATTEND	MEETINGS ATTENDED
JoAnna Fisher	4	4
Mark Forstmann	4	4
Virginia Malley	4	4

### PRINCIPAL ACTIVITY

The Company's principal activity is investing in global listed securities screened to exclude entities involved in environmentally damaging activities (including coal and uranium mining and oil and gas), intensive farming and aquaculture, tobacco, armaments, alcohol and gambling.

The Company's investment objectives are to: deliver investors an ethically screened portfolio; generate superior risk adjusted returns; and provide capital growth and consistent income. No change in this activity took place during the year or is likely to in the future.

**REVIEW OF OPERATIONS**

The Company's investments during the year resulted in operating profit of \$1,955,297 before tax and \$1,407,789 after tax. This reflects the performance of the investment portfolio over the year as outlined below.

**INVESTMENT RETURNS**

	RETURNS OVER THE PERIOD 1 OCTOBER 2018 TO 30 SEPTEMBER 2019		RETURNS SINCE INCEPTION 3 MAY 2017 TO 30 SEPTEMBER 2019	
	Gross	Net	Gross	Net
Investment Portfolio	4.34%	3.06%	7.69%	6.70%
MSCI All Countries Total Return Daily Index	9.37%	8.76%	13.26%	12.64%

Gross return is before fees and taxes.

Net return is net of investment management fees, before Company administration costs and taxes

From a shareholder perspective it is useful to consider movement in the Company's Net Tangible Asset Value (NTA) per share, which adjusts for impact of management fees and other company costs. The NTA changes over the year and since inception are outlined below.

NTA PERFORMANCE	30 SEPTEMBER 2019	30 SEPTEMBER 2018	2 MAY 2017 (LISTING)	RETURN OVER PERIOD	RETURNS SINCE INCEPTION (PA)
Pre-tax NTA per share	1.1491	1.1746	1.0623	(2.17%)	3.31%
Post-tax NTA per share	1.1299	1.1543	1.0736	(2.11%)	2.14%

The NTA returns exclude dividends. Since inception MEC has paid total dividends of 3.00 cents per share.

Further details on the Company's operations, financial position, and business strategies and prospects for future financial years is disclosed in the Investment Manager's Report on page 7.



### **DIVIDENDS PAID OR RECOMMENDED**

Since the end of the year, the Directors declared a fully franked final dividend of 1.0 cents per share. This with the fully franked interim dividend of 1.0 cents per share paid to shareholders on 17 July 2019 brings the Company's fully franked full year dividend to 2.0 cents per share. The final dividend is to be paid on 17 December 2019.

The Board is committed to paying fully franked dividends to shareholders and raising the dividend over time, provided the Company has distributable profits, franking credits and it is within prudent business practices.

### **NET ASSETS**

As at 30 September 2019 the net assets of the Company were \$59,579,544. Please refer to the Statement of Financial Position for further details.

### **STATE OF AFFAIRS**

During the year there was no significant change in the state of affairs of the Company.

### **EVENTS SUBSEQUENT TO BALANCE DATE**

Since the end of the year, the Directors declared a fully franked final dividend of 1.0 cents per share fully franked to be paid on 17 December 2019.

No other matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in subsequent financial years.

### **LIKELY DEVELOPMENTS**

The Company will be managed in accordance with the Constitution and investment objectives as detailed in the Prospectus dated 13 March 2017.

### **INSURANCE OF OFFICERS**

During the financial year, the Company paid a premium for an insurance policy insuring all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

### **ENVIRONMENTAL REGULATIONS**

The Company's operations are not subject to any significant environmental regulations.

### **ROUNDING OF AMOUNTS TO NEAREST DOLLAR**

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the Directors' report and in the financial report have been rounded to the nearest dollar, unless otherwise indicated.

**REMUNERATION REPORT**

This remuneration report sets out information about the remuneration of the Company's directors for the year ended 30 September 2019, under the requirements of Section 300A of the Corporations Act.

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**KEY MANAGEMENT PERSONNEL**

The directors and other key management personnel of the Company during the whole of the financial year, and up to the date of this report are (unless otherwise indicated):

**JOANNA FISHER**

**JACK LOWENSTEIN**

**MARK FORSTMANN**

**VIRGINIA MALLEY**

**CHAD SLATER**

**REMUNERATION REPORT**

This report details the nature and amount of remuneration for each Director of the Company in accordance with the Corporations Act and the Company's Constitution.

The Company's board comprises of four Directors of which three are Independent Directors and one is a Non-Independent Director. An Alternate Director represents the Non-Independent Director from time to time. The Board from time to time determines remuneration of Directors within the maximum amount approved by the Company at general meetings.

The Directors' Remuneration reflects the demands that are made on them and their responsibilities. The performance of Directors is reviewed by the Board annually. The Board determines the remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced directors.

The maximum total remuneration of the Directors has been set at \$140,000 per annum. The amount paid for financial year ended 30 September 2019 was \$140,000 (30 September 2018: \$140,000).

Directors do not receive bonuses nor are they issued options on securities as part of their remuneration. Directors' fees cover all main Board activities and membership of committees.

Directors' remuneration is not directly linked to the Company's performance.

The following table shows details of the remuneration received or receivable by the Directors of the Company for the current year.

YEAR ENDED 30 SEPTEMBER 2019		SHORT-TERM EMPLOYEE BENEFITS	POST- EMPLOYMENT BENEFITS	
DIRECTOR	POSITION	CASH SALARY (\$)	SUPERANNUATION (\$)	TOTAL (\$)
JoAnna Fisher	Independent Chairman	54,795	5,205	60,000
Jack Lowenstein	Non-Independent Director	-	-	-
Mark Forstmann	Independent Director	36,530	3,470	40,000
Virginia Malley	Independent Director	36,530	3,470	40,000
Chad Slater	Alternate Director	-	-	-
		<b>127,855</b>	<b>12,145</b>	<b>140,000</b>

YEAR ENDED 30 SEPTEMBER 2018		SHORT-TERM EMPLOYEE BENEFITS	POST- EMPLOYMENT BENEFITS	
DIRECTOR	POSITION	CASH SALARY (\$)	SUPERANNUATION (\$)	TOTAL (\$)
JoAnna Fisher	Independent Chairman	54,795	5,205	60,000
Jack Lowenstein	Non-Independent Director	-	-	-
Mark Forstmann	Independent Director	36,530	3,470	40,000
Virginia Malley	Independent Director	36,530	3,470	40,000
Chad Slater	Alternate Director	-	-	-
		<b>127,855</b>	<b>12,145</b>	<b>140,000</b>

The Company has no employees other than the Directors and therefore does not have a remuneration policy for employees.

The Directors are the only people considered to be key management personnel of the Company.

#### **DIRECTOR RELATED ENTITY REMUNERATION**

Morphic Asset Management Pty Limited (Morphic) (ABN 33 155 937 901, AFSL 419916) has been appointed as the Investment Manager of the Company. The Manager is privately owned and incorporated in 2012. Jack Lowenstein is the Managing Director of the Manager.

a) **Management fee**

The Manager is entitled to be paid monthly a Management Fee equal to 1.25% (plus GST) per annum of the Value of the Portfolio (payable monthly in arrears and calculated on the last business day of each month).

b) **Performance fee**

The Manager is entitled to be paid by the Company a fee (Performance Fee) equal to 15% (plus GST) of the Portfolio's outperformance relative to the MSCI All Countries Total Return Daily Index ("the Index") in Australian dollars (Benchmark) over



the 12-month period, subject to the Portfolio generating absolute gains since inception and the recoupment of prior underperformance.

Management and performance fees paid to the Manager during the year were as follows:

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
Management fees paid and payable during the year	729,917	674,384
Management fees payable at year end	63,343	56,693

There were no performance fees earned or paid during the year.

#### **EQUITY INSTRUMENT DISCLOSURES RELATING TO DIRECTORS**

The relevant interests of the Directors and their related entities in the Securities of the Company were:

##### **SHARES AS AT 30 SEPTEMBER 2019**

DIRECTOR	OPENING BALANCE	ACQUISITIONS/ OPTIONS EXERCISED	DISPOSALS	NUMBER OF SHARES
JoAnna Fisher	100,920	2,243	-	103,163
Jack Lowenstein	535,703	44,134	-	579,837
Mark Forstmann	40,368	898	-	41,266
Virginia Malley	52,780	1,174	-	53,954
Chad Slater	55,341	1,188	-	56,529

##### **SHARES AS AT 30 SEPTEMBER 2018**

DIRECTOR	OPENING BALANCE	ACQUISITIONS/ OPTIONS EXERCISED	DISPOSALS	NUMBER OF SHARES
JoAnna Fisher	100,000	920	-	100,920
Jack Lowenstein*	524,001	29,702	(18,000)	535,703
Mark Forstmann	40,000	368	-	40,368
Virginia Malley	52,300	480	-	52,780
Chad Slater*	46,709	26,632	(18,000)	55,341

\* The disposal of 18,000 shares from Jack Lowenstein and Chad Slater's holdings reflect 18,000 shares held by Morpnic Asset Management, which were transferred to Morpnic staff under Morpnic's remuneration arrangements.

**OPTIONS AS AT 30 SEPTEMBER 2018**

<b>DIRECTOR</b>	<b>OPENING BALANCE</b>	<b>ACQUISITIONS</b>	<b>DISPOSALS</b>	<b>NUMBER OF OPTIONS</b>
JoAnna Fisher	100,000	-	-	100,000
Jack Lowenstein	724,000	100,000	(20,000)	804,000
Mark Forstmann	40,000	120,000	-	160,000
Virginia Malley	52,300	-	-	52,300
Chad Slater	130,454	-	(20,000)	110,454

--- END OF REMUNERATION REPORT ---

**PROCEEDINGS ON BEHALF OF THE COMPANY**

There are no proceedings that the Directors have brought, or intervened in, on behalf of the Company.

**NON-AUDIT SERVICES**

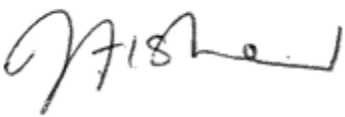
The Board of Directors, in accordance with Advice from the Audit and Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed in Note 13 did not compromise the external auditor's independence for the following reasons:

1. all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor;
2. none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

**AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 25.

Signed in accordance with a resolution of the Directors.

**JOANNA FISHER**

Chairman  
Morphic Ethical Equities Fund Limited

Sydney, 1 November 2019

**AUDITOR'S INDEPENDENCE DECLARATION**

Level 16, Tower 2 Darling Park  
201 Sussex Street  
Sydney NSW 2000

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GPO Box 1615  
Sydney NSW 2001

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**e.** [sydneypartners@pitcher.com.au](mailto:sydneypartners@pitcher.com.au)

**Auditor's Independence Declaration  
To the Directors of Morphic Ethical Equities Fund Limited  
ABN 52 617 345 123**

In relation to the independent audit of Morphic Ethical Equities Fund Limited for the year ended 30 September 2019, I declare that to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct.

This declaration is in respect of Morphic Ethical Equities Fund Limited.

A handwritten signature in black ink, appearing to read 'S M Whiddett'.

**S M WHIDDETT**  
Partner

**PITCHER PARTNERS**  
Sydney

1 November 2019

Adelaide Brisbane Melbourne Newcastle Perth Sydney

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The Baker Tilly logo, consisting of a stylized 'b' inside a circle, followed by the text 'bakertilly' in a bold, sans-serif font, and 'NETWORK MEMBER' in a smaller font below it.  
NETWORK MEMBER

[pitcher.com.au](http://pitcher.com.au)



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	NOTE	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
<b>Investment income</b>			
Interest income		758	2,024
Dividend income		1,990,465	1,398,759
Net gains on financial instruments at fair value through profit or loss		2,764,391	6,021,323
Net gains on foreign exchange		12,133	149,235
Other income		9,521	2,662
<b>Total investment income</b>		<b>4,777,268</b>	<b>7,574,003</b>
<b>Expenses</b>			
Audit and tax		57,573	61,026
Administration and middle office fees		159,842	190,970
Directors' fees	15 (b)	140,000	140,000
Dividends on borrowed stock		534,584	260,917
Interest expense (including on borrowed stock)		328,913	300,022
Management fees		729,917	674,384
Transaction costs		331,514	270,002
Withholding tax expense		353,499	173,765
Other operating expenses		186,129	215,660
<b>Total expenses</b>		<b>2,821,971</b>	<b>2,286,746</b>
<b>Profit for the year before income tax expense</b>		<b>1,955,297</b>	<b>5,287,257</b>
Income tax expense	4(a)	547,508	1,475,032
<b>Profit for the year</b>		<b>1,407,789</b>	<b>3,812,225</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>1,407,789</b>	<b>3,812,225</b>
<b>Basic earnings per share</b>	5	<b>2.75 cents</b>	<b>8.38 cents</b>
<b>Diluted earnings per share</b>	5	<b>2.75 cents</b>	<b>8.38 cents</b>

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements which follow.

## STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019

	NOTE	AS AT 30 SEPTEMBER 2019 (\$)	AS AT 30 SEPTEMBER 2018 (\$)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	14(a)	15,287,804	10,299,591
Receivables	6	76,902	534,308
Prepayments		21,982	16,486
Investments	7	85,831,190	60,806,780
<b>Total current assets</b>		<b>101,217,878</b>	<b>71,657,165</b>
<b>Non-current assets</b>			
Deferred tax asset	4(c)	1,183,733	926,933
<b>Total non-current assets</b>		<b>1,183,733</b>	<b>926,933</b>
<b>Total assets</b>		<b>102,401,611</b>	<b>72,584,098</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	14(a)	23,160,333	10,392,308
Payables	10	198,237	141,310
Investments	7	17,269,189	7,652,057
Current tax liability	4(b)	-	590,361
<b>Total current liabilities</b>		<b>40,627,759</b>	<b>18,776,036</b>
<b>Non-current liabilities</b>			
Deferred tax liability	4(c)	2,194,308	1,260,834
<b>Total non-current liabilities</b>		<b>2,194,308</b>	<b>1,260,834</b>
<b>Total liabilities</b>		<b>42,822,067</b>	<b>20,036,870</b>
<b>Net assets</b>		<b>59,579,544</b>	<b>52,547,228</b>
<b>Equity</b>			
Issued capital	11(a)	55,510,102	48,903,901
Retained losses	12(a)	(1,003,827)	(827,095)
Profits reserve	12(b)	5,073,269	4,470,422
<b>Total equity</b>		<b>59,579,544</b>	<b>52,547,228</b>

The above Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements which follow.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	NOTE	ISSUED CAPITAL (\$)	RETAINED EARNINGS/ (LOSSES) (\$)	PROFITS RESERVED (\$)	TOTAL EQUITY (\$)
<b>Balance at 30 September 2017</b>		<b>48,828,646</b>	<b>(422,299)</b>	<b>708,393</b>	<b>49,114,740</b>
Profit for the year		-	3,812,225	-	3,812,225
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>3,812,225</b>	<b>-</b>	<b>3,812,225</b>
<b>Other</b>					
Transfer to profits reserve	12(a)(b)	-	(4,217,021)	4,217,021	-
		-	(4,217,021)	4,217,021	-
<b>Transactions with owners in their capacity as owners</b>					
Shares issued during the year	11(a)	27,955	-	-	27,955
Options exercised during the year	11(a)	47,300	-	-	47,300
Dividends provided for or paid	12(b)	-	-	(454,992)	(454,992)
		<b>75,255</b>	<b>-</b>	<b>(454,992)</b>	<b>(379,737)</b>
<b>Balance at 30 September 2018</b>		<b>48,903,901</b>	<b>(827,095)</b>	<b>4,470,422</b>	<b>52,547,228</b>
Profit for the year		-	1,407,789	-	1,407,789
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>1,407,789</b>	<b>-</b>	<b>1,407,789</b>
<b>Other</b>					
Transfer to profits reserve	12(a)(b)	-	(1,584,521)	1,584,521	-
		-	(1,584,521)	1,584,521	-
<b>Transactions with owners in their capacity as owners</b>					
Shares issued during the year	11(a)	6,672,602	-	-	6,672,602
Options exercised during the year	11(a)	24,750	-	-	24,750
Dividends provided for or paid	12(b)	-	-	(981,674)	(981,674)
Cost of issued capital, net of tax	11(a)	(91,151)	-	-	(91,151)
		<b>6,606,201</b>	<b>-</b>	<b>(981,674)</b>	<b>5,624,527</b>
<b>Balance at 30 September 2019</b>		<b>55,510,102</b>	<b>(1,003,827)</b>	<b>5,073,269</b>	<b>59,579,544</b>

The above Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements which follow.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	NOTE	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
<b>Cash flows from operating activities</b>			
Dividends received		2,144,962	1,265,939
Interest received		758	-
Other income received		9,521	2,662
Interest paid		(316,689)	(290,486)
Dividends on borrowed stock		(476,460)	(260,164)
Management fees paid		(723,267)	(667,695)
Directors' fees paid		(146,835)	(133,165)
Withholding tax paid		(353,499)	(173,765)
Other operating expenses paid		(423,250)	(417,149)
Transaction costs paid		(331,514)	(270,002)
Income tax paid		(484,413)	(200,013)
<b>Net cash outflow from operating activities</b>	14(b)	<b>(1,100,686)</b>	<b>(1,143,838)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		6,740,886	52,662,183
Payments for purchase of investments		(19,133,772)	(47,528,261)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(12,392,886)</b>	<b>5,133,922</b>
<b>Cash flows from financing activities</b>			
Dividends paid net of dividend reinvestment		(850,932)	(427,037)
Net proceeds from shares issued under Share Purchase Plan	11(a)	188,100	-
Net proceeds from shares issued - placement	11(a)	6,353,760	-
Net proceeds from exercise of options	11(a)	24,750	47,300
Cost of issued capital paid	11(a)	(67,933)	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>5,647,745</b>	<b>(379,737)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(7,845,827)</b>	<b>3,610,347</b>
Effect of exchange rate fluctuations on cash		66,015	(142,756)
Cash and cash equivalents at beginning of the financial year		(92,717)	(3,560,308)
<b>Cash and cash equivalents at end of the financial year</b>	14(a)	<b>(7,872,529)</b>	<b>(92,717)</b>
<b>Non-cash financing activities</b>			
Ordinary shares issued under dividend reinvestment plan	14(c)	130,742	27,955

The above Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements which follow.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

### 1. GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Morphic Ethical Equities Fund Limited ("the Company") is a publicly listed company, incorporated and domiciled in Australia. The Company was incorporated with the Australian Securities and Investments Commission ("ASIC") on 13 February 2017. The registered office and principal place of business of the Company is Level 11, 179 Elizabeth Street, Sydney NSW 2000.

These general purpose financial statements are for the year ended 30 September 2019, and were authorised for issue by the Directors on 1 November 2019.

The Company's principal objectives are to:

- deliver investors an ethically screened portfolio;
- deliver investors superior risk adjusted returns; and
- provide capital growth and consistent income.

The Manager achieves this through a long and short equity strategy focusing on global securities.

The Company primarily invests in global listed securities. It may also invest in cash, unlisted global securities, fixed interest instruments, commodities, credit instruments and currencies through assets, exchange traded funds or other derivatives, including futures, options, forwards and swaps.

The material accounting policies adopted by the Company in the preparation of the financial statements is set out below:

#### a) Basis of preparation

These general-purpose financial statements have been prepared in accordance with the Australian Accounting Standards, issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standard.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement of fair value of selected assets and liabilities.

The financial statements present reclassified comparative information where required for consistency with the current year's presentation.

#### b) Statement of Compliance

The financial statements and notes thereto comply with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

#### c) Investments

##### i. Recognition/derecognition

The Company recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

##### ii. Classification and Measurement

The Company's investments are classified as held at fair value through profit or loss. They comprise:

*Financial instruments held at fair value through profit or loss (financial instruments held for trading)*

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of profit or loss.

Derivative financial instruments such as futures, foreign exchange forward contracts, options and interest rates swaps are included under this classification. The Company does not designate any derivatives as hedges against any specific assets or liabilities.

*Financial instruments designated at fair value through profit or loss upon initial recognition*

These include financial assets and liabilities that are not held for trading purposes and which may be sold. These are investments in listed equity securities. The fair value through profit or loss classification is available for the majority of financial assets held by the Company and the financial liabilities arising from the units must be fair valued.

Financial assets and liabilities designated at fair value through profit or loss at inception are those managed, and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy as outlined in the Prospectus. The Company's policy is for the Investment Manager to evaluate information about these financial instruments on a fair value basis together with other related financial information.

iii. **Fair Value**

When a financial asset is measured at fair value for recognition or disclosure purposes the fair value is based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset, assuming they act in their economic best interests. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets measured at fair value are classified into 3 levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Shares that are listed or traded on an exchange are fair valued using last sale prices, as at the close of business on the day the shares are being valued.

If a quoted market price is not available on a recognised stock exchange, the fair value of the instruments are estimated using valuation techniques, which include the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

iv. **Offsetting financial instruments**

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**d) Foreign currency translation**

i. **Functional and presentation currency**

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Company competes for funds and is regulated. The Australian dollar is also the Company's presentation currency.

ii. **Transactions and balances**

Transactions during the period denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Overseas investments and currency, together with any accrued income, are translated at the exchange rate prevailing at the balance date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at balance date exchange rates of monetary assets and liabilities denominated in

foreign currencies, are recognised in profit or loss. Net exchange gains and losses arising on the revaluation of investments are included in gains on investments.

**e) Income tax**

The charge for current income tax expense is based on the taxable income for the period. It is calculated using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Current and deferred taxes are recognised in profit or loss except where they relate to items that may be recognised directly in equity, such as unrealised gains and losses on long-term equity, in which case they are adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

**f) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as being part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**g) Income**

Revenue is measured at the fair value of the consideration received or receivable.

Dividend income is recognised in profit or loss on the day on which the relevant investment is first quoted on an "ex-dividend" basis.

Interest revenue is recognised as it accrues using the effective interest method, taking into account the effective yield on the financial asset.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. This may also include foreign exchange gains and losses when applicable.

**h) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

**i) Margin accounts**

Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls.

**j) Receivables**

Receivables may include amounts for dividends, interest and securities sold. Dividends are receivable when they have been declared and are legally payable. Interest is accrued at the balance date from the time of last payment. Amounts receivable for securities sold are recorded when a sale has occurred.

**k) Payables**

These amounts represent liabilities for amounts owing by the Company at year end which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Amounts payable for securities purchased are recorded when the purchase has occurred.

**l) Derivative financial instruments**

The Company may invest in financial derivatives. Derivative financial instruments are accounted for on the same basis as the underlying investment exposure. Gains and losses relating to financial derivatives are included in profit or loss as part of gains/(losses) on investments.

**m) Amounts due/to from brokers**

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by year end. Trades are recorded on trade date, and normally settled within two business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Company will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, and the probability that the broker will enter into bankruptcy or financial reorganisation and default in payments.

**n) Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**o) Earnings per share****i. Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

**ii. Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share or decrease the loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise or other issue of potential ordinary shares that would have an anti-dilutive effect on earnings per share.

**p) Dividends**

Provisions for dividends payable are recognised in the reporting period in which they are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

**q) Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, management of the Company is required to make judgements, estimates and assumptions about the carrying amounts of some assets and liabilities that are not readily apparent from other sources. The



estimates and associated assumptions are based on historical experience and various other factors that are considered to be relevant, and reasonable under the circumstance. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. The methods used in the valuation of investments are set out in Note 1(c) to these financial statements.

**r) New and revised accounting requirements applicable to the current reporting period**

A number of new or amended standards became applicable for the current reporting period, however, the Company did not have to make retrospective adjustments as a result of adopting these standards.

- AASB 9: Financial Instruments (effective 1 October 2018)

AASB 9 contains requirements in relation to the classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 Financial instruments: Recognition and Measurement. Under the new requirements the four current categories of financial assets are replaced with three measurement categories: fair value through profit or loss, fair value through other comprehensive income, and amortised cost. Financial assets can only be measured at amortised cost where very specific conditions are met.

AASB 9 introduces new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged, and disclosures.

AASB 9 has been applied retrospectively by the Company without the use of hindsight and it has determined that adoption did not result in a change to the classification or measurement of financial instruments in either the current or prior periods. There was no impact on the Company upon adoption of AASB 9 as the Company currently classifies financial assets and financial liabilities at fair value through profit or loss or amortised cost, and the Company does not apply hedge accounting.

AASB 9 also introduces a new impairment model. The Company's receivables include dividend and settlement of share trade. As the settlement period is short, the change in impairment rules did not have a material impact.

- AASB 15: Revenue From Contracts With Customers (effective 1 October 2018)

AASB 15 superseded AASB 18 Revenue and AASB 111 Construction Contracts. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates as revenue is recognised when control of a good or service transfers to a customer, or on satisfaction of performance obligations under contracts, which replaces the existing notion of risk and rewards.

There was no impact on the Company upon the adoption of AASB 15 as the Company's revenue recognition of interest, dividends, investment gains/(losses) and foreign exchange gains/(losses) were unaffected as these items are excluded from the scope of AASB 15.

There are no other standards that are not yet effective and that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

**s) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 October 2019, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

**t) Rounding of amounts to nearest dollar**

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar, unless otherwise indicated.

## 2. FINANCIAL RISK MANAGEMENT

### a) Objectives, strategies, policies and processes

The Company's Investment Strategy is to construct a portfolio of ethically screened global Securities and Derivatives, designed to provide superior risk adjusted returns to Shareholders. This return will comprise a combination of capital growth and income, thus allowing franked dividends to be paid to Shareholders when prudent, and provided the Company has sufficient profit reserves and franking credits available.

The Company will primarily invest in global listed Securities and Derivatives. The Company may also invest in unlisted Securities, fixed interest instruments, commodities, credit instruments and currencies, all of which may be invested through assets, Exchange Traded Funds or other Derivatives, including futures, options, forwards and swaps.

The portfolio 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. A minimum of 5% of the portfolio will be invested in the Securities of entities that the Manager believes are working to make a positive future for the world we live in.

The Company is managed from an Australian investor's perspective with tax and currency exposures forming important considerations in the daily management of the Company, whilst complying with the Company's Prospectus dated 13 March 2017. Financial risk management is carried out by the Investment Manager under the guidance of its Chief Investment Officer.

The Company's activities are exposed to different types of financial risks. These risks include credit risk, liquidity risk and market risk (including price risk, foreign currency risk and interest rate risk). The Company may employ derivative financial instruments to hedge these risk exposures in order to minimise the effects of these risks.

### b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market prices generally incorporate credit risk assessments into valuations and risk of loss is implicitly provided for in the carrying value of assets and liabilities as they are marked to market at balance date.

The total credit risk for assets is therefore limited to the amount carried in the Statement of Financial Position.

The Manager is responsible for ensuring there is appropriate diversification across counterparties and that they are of a sufficient quality rating. The Manager minimises the Company's concentration of credit risk by undertaking transactions in global listed securities with a number of approved brokers. Payment is only made once a broker has received securities and delivery of securities only occurs once the broker received payment.

#### *Cash*

The majority of the Company's cash balances are held with financial institutions that have a Standard and Poor's credit rating of BBB+. The majority of maturities are within three months. The weighted average interest rate of the Company's cash and cash equivalents at 30 September 2019 is (0.26%) (30 September 2018: (0.17%)).

### c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Company's investment in financial instruments, which under market conditions are readily convertible to cash. In addition, the Company maintains sufficient cash and cash equivalents to meet normal operating requirements.

#### *Maturity analysis for financial liabilities*

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

<b>AS AT 30 SEPTEMBER 2019</b>	<b>LESS THAN 1 MONTH (\$)</b>	<b>1-6 MONTHS (\$)</b>	<b>6-12 MONTHS (\$)</b>	<b>OVER 12 MONTHS (\$)</b>	<b>TOTAL (\$)</b>
Borrowings	23,160,333	-	-	-	23,160,333
Payables	198,237	-	-	-	198,237
Financial liabilities at fair value through profit or loss	10,887,927	-	-	-	10,887,927
<b>Contractual cash flows (excluding gross settled derivatives)</b>	<b>34,246,497</b>	-	-	-	<b>34,246,497</b>
<b>AS AT 30 SEPTEMBER 2018</b>					
Borrowings	10,392,308	-	-	-	10,392,308
Payables	141,310	-	-	-	141,310
Financial liabilities at fair value through profit or loss	2,609,321	-	-	-	2,609,321
Current tax liability	-	590,361	-	-	590,361
<b>Contractual cash flows (excluding gross settled derivatives)</b>	<b>13,142,939</b>	<b>590,361</b>	-	-	<b>13,733,300</b>

The table below analyses the Fund's derivative financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	<b>LESS THAN 1 MONTH (\$)</b>	<b>1-6 MONTHS (\$)</b>	<b>6-12 MONTHS (\$)</b>	<b>OVER 12 MONTHS (\$)</b>	<b>TOTAL (\$)</b>
<b>AS AT 30 SEPTEMBER 2019</b>					
Futures	(1,727,250)	-	-	-	(1,727,250)
<b>Total</b>	<b>(1,727,250)</b>	-	-	-	<b>(1,727,250)</b>
<b>AS AT 30 SEPTEMBER 2018</b>					
Foreign currency forward contracts	-	(2,275,000)	-	-	(2,275,000)
Futures	(7,839,619)	-	-	-	(7,839,619)
<b>Total</b>	<b>(7,839,619)</b>	<b>(2,275,000)</b>	-	-	<b>(10,114,619)</b>

**d) Market risk**

Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Company is exposed to market risk. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets and liabilities at fair value through profit or loss.

The Company employs qualitative and quantitative methods to manage the level of risk in the Company. The following investment guidelines are used as part of the risk management process:

- Maximum exposure limits to single security positions.
- Stop-loss guidelines which set maximum loss tolerance for each individual position.
- Internal limits for aggregate exposures to individual countries, industries and asset classes.
- Value at Risk (VAR) calculations.

VAR calculations are monitored daily by the Manager to ensure compliance with set limits. The Manager will also conduct stress and scenario analysis of price movements of the Portfolio to monitor the impact of such movements on the Portfolio valuation. Portfolio risk limits are monitored daily and any breaches are to be fixed as soon as possible by adjusting the interests in the Portfolio.

**i. Interest rate risk**

The Company's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows, the risk is measured using sensitivity analysis on page 40.

The table below summarises the Company's exposure to interest rates risk. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity date.

AS AT 30 SEPTEMBER 2019	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE (%)	FLOATING INTEREST RATE (\$)	FIXED INTEREST RATE (\$)	NON INTEREST BEARING (\$)	TOTAL (\$)
<b>Financial Assets</b>					
Cash and cash equivalents	0.26%	15,287,804	-	-	15,287,804
Receivables		-	-	76,902	76,902
Prepayments		-	-	21,982	21,982
Financial assets at fair value through profit or loss		-	-	85,831,190	85,831,190
<b>Total Financial Assets</b>		<b>15,287,804</b>	<b>-</b>	<b>85,930,074</b>	<b>101,217,878</b>
<b>Financial Liabilities</b>					
Borrowings	2.16%	23,160,333	-	-	23,160,333
Payables		-	-	198,237	198,237
Financial liabilities at fair value through profit or loss		-	-	17,269,189	17,269,189
<b>Total Financial Liabilities</b>		<b>23,160,333</b>	<b>-</b>	<b>17,467,426</b>	<b>40,627,759</b>



AS AT 30 SEPTEMBER 2018	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE (%)	FLOATING INTEREST RATE (\$)	FIXED INTEREST RATE (\$)	NON INTEREST BEARING (\$)	TOTAL (\$)
<b>Financial Assets</b>					
Cash and cash equivalents	0.17%	10,299,591	-	-	10,299,591
Receivables		-	-	534,308	534,308
Prepayments		-	-	16,486	16,486
Financial assets at fair value through profit or loss		-	-	60,806,780	60,806,780
<b>Total Financial Assets</b>		<b>10,299,591</b>	<b>-</b>	<b>61,357,574</b>	<b>71,657,165</b>
<b>Financial Liabilities</b>					
Borrowings	3.51%	10,392,308	-	-	10,392,308
Payables		-	-	141,310	141,310
Financial liabilities at fair value through profit or loss		-	-	7,652,057	7,652,057
<b>Total Financial Liabilities</b>		<b>10,392,308</b>	<b>-</b>	<b>7,793,367</b>	<b>18,185,675</b>

ii. **Other Price Risk**

Other Price Risk is the risk that fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting the broader market. Other price risk exposure arises from the Company's investment portfolio.

iii. **Foreign currency risk**

Foreign currency risk is the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates.

The Company holds assets denominated in currencies other than the Australian dollar (being the functional currency) and is therefore exposed to foreign currency risk when the value of assets denominated in other currencies fluctuates due to movements in exchange rates.

The Company may enter into foreign exchange forward contracts both to hedge the foreign exchange risk implicit in the value of portfolio securities denominated in foreign currency and to secure a particular exchange rate for a planned purchase or sale of securities.

The Company uses forward foreign exchange contracts to reduce currency risk on specific investments within the portfolio.

The following table summarises the Fund's assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Australian dollar as per below.

<b>AS AT 30 SEPTEMBER 2019</b>	<b>USD (\$)</b>	<b>JPY (\$)</b>	<b>EURO (\$)</b>	<b>DKK (\$)</b>	<b>OTHER CURRENCIES (\$)</b>	<b>TOTAL (\$)</b>
Cash and cash equivalents	1,211,866	594,332	12,807	-	1,369,509	3,188,514
Receivables	28,119	9,399	-	-	18,015	55,533
Investments	66,879,210	877,134	5,977,236	-	4,077,759	77,811,339
Borrowings	(951,848)	(654,494)	(708,560)	(90)	(1,383,788)	(3,698,780)
Investments	(1,880,414)	-	(1,732,633)	-	(2,977,389)	(6,590,436)
	65,286,933	826,371	3,548,850	(90)	1,104,106	70,766,170
Net increase/(decrease) in exposure from foreign currency forward contracts - sell foreign currency	-	-	-	-	-	-
<b>Net exposure</b>	<b>65,286,933</b>	<b>826,371</b>	<b>3,548,850</b>	<b>(90)</b>	<b>1,104,106</b>	<b>70,766,170</b>

<b>AS AT 30 SEPTEMBER 2018</b>	<b>USD (\$)</b>	<b>JPY (\$)</b>	<b>EURO (\$)</b>	<b>DKK (\$)</b>	<b>OTHER CURRENCIES (\$)</b>	<b>TOTAL (\$)</b>
Cash and cash equivalents	8,245,599	20,550	570,770	1,013	812,090	9,650,022
Receivables	178,678	304,633	-	-	28,457	511,768
Investments	50,938,680	2,551,030	1,763,653	-	4,386,738	59,640,101
Borrowings	(5,992,689)	(639,364)	(90,909)	-	(2,508,846)	(9,231,808)
Payables	-	(753)	-	-	-	(753)
Investments	(5,221,898)	(1,606,233)	-	-	-	(6,828,131)
	48,148,370	629,863	2,243,514	1,013	2,718,439	53,741,199
Net increase/(decrease) in exposure from foreign currency forward contracts - sell foreign currency	1,883,291	-	-	-	-	1,883,291
<b>Net exposure</b>	<b>50,031,661</b>	<b>629,863</b>	<b>2,243,514</b>	<b>1,013</b>	<b>2,718,439</b>	<b>55,624,490</b>

iv. **Sensitivity analysis**

The following tables show the sensitivity of the Company's operating profit/(loss) to price risk, interest rate risk and foreign exchange risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation of the Company's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the securities in which the Company invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	PRICE RISK		INTEREST RATE RISK		FOREIGN EXCHANGE RISK	
	Impact on operating profit/(loss)		Impact on operating profit/(loss)		Impact on operating profit/(loss)	
	-10%	+10%	-100 bps	+100 bps	-10%	+10%
<b>30 September 2019</b>	(6,856,200)	6,856,200	4,600	(4,600)	(7,076,617)	7,076,617
<b>30 September 2018</b>	(5,315,472)	5,315,472	3,478	(3,478)	(5,562,449)	5,562,449

**3. FAIR VALUE MEASUREMENT**

The Company measures and recognises financial assets and liabilities held at fair value through profit or loss on a recurring basis. The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

**FAIR VALUE HIERARCHY**

AASB 13: Fair value measurement requires disclosure of fair value measurements by level of the fair value hierarchy:

- Level 1 - measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - measurements based on inputs other than quoted prices included in level 1 that are observable for the asset or liability; and
- Level 3 - measurements based on unobservable inputs from the asset or liability.

i. **Recognised fair value measurements**

The following table presents the Company's assets measured and recognised at fair value as at 30 September 2019.

<b>AS AT 30 SEPTEMBER 2019</b>	<b>LEVEL 1 (\$)</b>	<b>LEVEL 2 (\$)</b>	<b>LEVEL 3 (\$)</b>	<b>TOTAL (\$)</b>
<b>Financial assets</b>				
Listed equities	16,946,590	-	-	16,946,590
Listed unit trusts	62,704,244	-	-	62,704,244
Options	43,716	-	-	43,716
Swap contracts	-	6,136,640	-	6,136,640
<b>Total financial assets at fair value through profit or loss</b>	<b>79,694,550</b>	<b>6,136,640</b>	<b>-</b>	<b>85,831,190</b>
<b>Financial liabilities</b>				
Listed equities	9,299,682	-	-	9,299,682
Listed unit trusts	1,588,245	-	-	1,588,245
Futures	731	-	-	731
Swap contracts	-	6,380,531	-	6,380,531
<b>Total financial liabilities liabilities at fair value through profit or loss</b>	<b>10,888,658</b>	<b>6,380,531</b>	<b>-</b>	<b>17,269,189</b>
<b>AS AT 30 SEPTEMBER 2018</b>				
	<b>LEVEL 1 (\$)</b>	<b>LEVEL 2 (\$)</b>	<b>LEVEL 3 (\$)</b>	<b>TOTAL (\$)</b>
<b>Financial assets</b>				
Listed equities	11,544,549	-	-	11,544,549
Listed unit trusts	44,481,291	-	-	44,481,291
Futures	21,102	-	-	21,102
Options	20,821	-	-	20,821
Forward currency contracts	-	8,291	-	8,291
Swap contracts	-	4,730,726	-	4,730,726
<b>Total financial assets at fair value through profit or loss</b>	<b>56,067,763</b>	<b>4,739,017</b>	<b>-</b>	<b>60,806,780</b>
<b>Financial liabilities</b>				
Listed equities	2,169,399	-	-	2,169,399
Listed unit trusts	439,922	-	-	439,922
Swap contracts	-	5,042,736	-	5,042,736
<b>Total financial liabilities at fair value through profit or loss</b>	<b>2,609,321</b>	<b>5,042,736</b>	<b>-</b>	<b>7,652,057</b>

ii. **Transfer between levels**

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels in the fair value hierarchy at the end of the reporting period.

iii. **Fair value of financial instruments not carried at fair value**

The carrying value of trade receivables and trade payables approximate their fair value because of the short-term nature of the instruments and low credit risk.

#### 4. TAXATION

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
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**a) Numerical reconciliation of income tax (benefit)/expense**

Prima facie tax payable on profit before income tax at 27.5%

Adjusted for tax effect of amounts which are not deductible (taxable) in calculating taxable income:

	537,707	1,586,177
- Imputation gross up on dividends received	1,110	1,271
- Franking credits on dividends received	(6,415)	(4,236)
- Withholding tax on dividends received	97,212	(121,635)
- Other differences	(82,106)	13,455
<b>Income tax expense</b>	<b>547,508</b>	<b>1,475,032</b>

Applicable weighted average effective tax rate	28.0%	27.9%
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The income tax expense results in a:

- Current tax liability	(115,361)	790,374
- Deferred tax asset	(270,605)	17,315
- Deferred tax liability	933,474	667,343
<b>Income tax expense</b>	<b>547,508</b>	<b>1,475,032</b>

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
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**b) Movement in current tax liability**

Opening balance	590,361	-
Income tax payment made	(475,000)	(200,013)
Charged/credited to profit or loss	(115,361)	790,374
<b>Closing balance</b>	<b>-</b>	<b>590,361</b>



	AS AT 30 SEPTEMBER 2019 (\$)	AS AT 30 SEPTEMBER 2018 (\$)
<b>c) Net deferred tax assets/(liabilities)</b>		
<b>Deferred tax liabilities</b>		
Deferred income tax comprises the estimated tax payable at the current income tax rate of 27.5% on the following items:		
Tax on unrealised gains on investment portfolio	(2,175,826)	(1,194,355)
Dividends receivable	-	(66,479)
Other	(18,482)	-
<b>Net deferred tax liabilities</b>	<b>(2,194,308)</b>	<b>(1,260,834)</b>
<b>Movements</b>		
Opening balance	(1,260,834)	(593,491)
Charged/credited to profit or loss	(933,474)	(667,343)
<b>Closing balance</b>	<b>(2,194,308)</b>	<b>(1,260,834)</b>
<b>Deferred tax assets</b>		
Deferred tax assets comprise the estimated tax deductible at the current income tax rate of 27.5% on the following items:		
Transaction costs on equity issue	479,583	502,802
Reduction in transaction costs on equity issue	(280,277)	(201,120)
Other	139,450	127,572
Tax losses for the year	844,977	497,679
<b>Net deferred tax assets</b>	<b>1,183,733</b>	<b>926,933</b>
<b>Movements</b>		
Opening balance	926,933	944,248
Charged/credited		
- to profit or loss	359,176	83,245
- to equity	(102,376)	(100,560)
<b>Closing balance</b>	<b>1,183,733</b>	<b>926,933</b>

## 5. EARNINGS PER SHARE

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
<b>Basic earnings per share</b>	<b>2.75 cents</b>	<b>8.38 cents</b>
<b>Diluted earnings per share</b>	<b>2.75 cents</b>	<b>8.38 cents</b>
Profit used in calculating basic earnings per share	1,407,789	3,812,225
Profit used in calculating diluted earnings per share	1,407,789	3,812,225
Weighted average number of ordinary shares used in the calculation of basic earnings per share	51,194,540	45,480,574
Weighted average number of shares used in the calculation of diluted earnings per share	51,194,540	45,480,574

The weighted average number of shares used as a denominator in calculating basic and diluted earnings per share is based on the weighted average number of shares from 1 October 2018 to 30 September 2019.

Basic and diluted earnings per share is the same as there are no potentially dilutive securities outstanding as at balance date.

## 6. RECEIVABLES

	AS AT 30 SEPTEMBER 2019 (\$)	AS AT 30 SEPTEMBER 2018 (\$)
Dividends receivable	55,533	210,030
GST receivable	21,369	20,395
Due from brokers - receivable for securities sold	-	303,883
<b>Total receivables</b>	<b>76,902</b>	<b>534,308</b>

## 7. INVESTMENTS

	AS AT 30 SEPTEMBER 2019 (\$)	AS AT 30 SEPTEMBER 2018 (\$)
<b>Financial assets</b>		
Listed equities	16,946,590	11,544,549
Listed unit trusts	62,704,244	44,481,291
Futures	-	21,102
Options	43,716	20,821
Forward currency exchange contracts	-	8,291
Swap contracts	6,136,640	4,730,726
<b>Total financial assets at fair value through profit or loss</b>	<b>85,831,190</b>	<b>60,806,780</b>
<b>Financial liabilities</b>		
Listed equities	9,299,682	2,169,399
Listed unit trusts	1,588,245	439,922
Futures	731	-
Swap contracts	6,380,531	5,042,736
<b>Total financial liabilities at fair value through profit or loss</b>	<b>17,269,189</b>	<b>7,652,057</b>

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Company's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Company against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

The Company holds the following derivative instruments:

### (a) Forward currency contracts

Forward currency contracts are primarily used by the Company to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Company agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing closing price at the end of each reporting period. The Company recognises a gain or loss equal to the change in fair value at the end of each reporting period.

### (b) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts values are usually settled net daily with the exchange.

### (c) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the

obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. Options held by the Company are exchange-traded. The Fund is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

**(d) Swaps**

The fair value of interest rate swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

The Company's derivative financial instruments at 30 September 2019 are detailed below.

AS AT 30 SEPTEMBER 2019	CONTRACTUAL / NOTIONAL VALUE	FAIR VALUES	
		Assets (\$)	(Liabilities) (\$)
Futures	(1,727,250)	-	(731)
Options	49,196	43,716	-
Swap contracts	-	6,136,640	(6,380,531)
	<b>(1,678,054)</b>	<b>6,180,356</b>	<b>(6,381,262)</b>

**AS AT 30 SEPTEMBER 2018**

Futures	(7,839,619)	21,102	-
Options	8,501,449	20,821	-
Forward currency contracts	2,275,000	8,291	-
Swap contracts	-	4,730,726	(5,042,736)
	<b>2,936,830</b>	<b>4,780,940</b>	<b>(5,042,736)</b>

## 9. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the following table:

	EFFECTS OF OFFSETTING ON THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET	
	Gross amount of financial instrument (\$)	Gross amounts set off in the statement of financial position (\$)	Net amount of financial assets/(liabilities) presented in the statement of financial position (\$)	Amounts subject to master netting arrangement (\$)	Net amount (\$)
<b>AS AT 30 SEPTEMBER 2019</b>					
<b>Financial assets</b>					
Futures	11,150	11,150	-	-	-
Swap contracts	6,122,330	512,772	5,609,558	-	5,609,558
Options	58,617	14,901	43,716	-	43,716
<b>Total</b>	<b>6,192,097</b>	<b>538,823</b>	<b>5,653,274</b>	-	<b>5,653,274</b>
<b>Financial liabilities</b>					
Futures	(11,881)	(11,150)	(731)	-	(731)
Swap contracts	(512,772)	(512,772)	-	-	-
Options	(14,901)	(14,901)	-	-	-
<b>Total</b>	<b>(539,554)</b>	<b>(538,823)</b>	<b>(731)</b>	-	<b>(731)</b>
<b>AS AT 30 SEPTEMBER 2018</b>					
<b>Financial assets</b>					
Forward currency contracts	2,283,843	2,275,552	8,291	-	8,291
Futures	22,506	1,404	21,102	-	21,102
Swap contracts	4,929,978	2,226,582	2,703,396	-	2,703,396
Options	20,821	-	20,821	-	20,821
<b>Total</b>	<b>7,257,148</b>	<b>4,503,538</b>	<b>2,753,610</b>	-	<b>2,753,610</b>
<b>Financial liabilities</b>					
Forward currency contracts	(2,275,552)	(2,275,552)	-	-	-
Futures	(1,404)	(1,404)	-	-	-
Swap contracts	(2,226,582)	(2,226,582)	-	-	-
<b>Total</b>	<b>(4,503,538)</b>	<b>(4,503,538)</b>	-	-	-



**10. PAYABLES**

	AS AT 30 SEPTEMBER 2019 (\$)	AS AT 30 SEPTEMBER 2018 (\$)
Other accruals	39,625	51,356
Management fees payable	63,343	56,693
Administration fees payable	24,168	25,673
Directors fees payable	-	6,835
Interest payable	12,224	-
Dividends payable on short positions	58,877	753
	<b>198,237</b>	<b>141,310</b>

**11. ISSUED CAPITAL***Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

During the year 22,500 options issued pursuant to the terms contained in the Company's Prospectus dated 13 March 2017 were exercised in line with the exercise terms. Options not exercised lapsed on 30 November 2018.

*Capital risk management*

The Company's policy is to maintain a strong capital base so as to maintain investor and market confidence. The overall strategy remains unchanged. To achieve this, the Board of Directors regularly monitor NTA results, investment performance and share price movements. The Board is focused on maximising returns to shareholders with capital management a key objective of the Company. The Company is not subject to any externally imposed capital requirements.

	YEAR ENDED 30 SEPTEMBER 2019		YEAR ENDED 30 SEPTEMBER 2018	
(a) Movements in ordinary share capital	Shares	\$	Shares	\$
Opening balance	45,524,927	48,903,901	45,456,227	48,828,646
Ordinary shares issued - placement	6,832,000	6,353,760	-	-
Ordinary shares issued under Share Purchase Plan (SPP)	202,251	188,100	-	-
Ordinary shares issued under dividend reinvestment plan	146,841	130,742	25,700	27,955
Options exercised - issue of shares	22,500	24,750	43,000	47,300
Costs of issued capital, net of tax	-	(91,151)	-	-
Closing balance	<b>52,728,519</b>	<b>55,510,102</b>	<b>45,524,927</b>	<b>48,903,901</b>

On 5 December 2018, the Company announced its Share Purchase Plan (SPP) and capital raising through a placement of shares to sophisticated and professional investors (Placement) to raise additional funds for capital growth.

On 13 December 2018, 6,832,000 ASX placement shares were issued which raised \$6,353,760. On 29 January 2019, 202,251 ASX fully paid ordinary shares were issued under the SPP at \$0.93 per share, raising \$188,100.

The placement shares and shares issued under the SPP rank equally with existing ordinary shares.

	YEAR ENDED 30 SEPTEMBER 2019		YEAR ENDED 30 SEPTEMBER 2018	
	Options	\$	Options	\$
<b>(b) Movements in options</b>				
Opening balance	43,382,026	-	43,425,026	-
Options exercised, and related transfer to share capital	(22,500)	-	(43,000)	-
Options lapsed	(43,359,526)	-	-	-
Closing balance	-	-	<b>43,382,026</b>	-

## 12. RESERVES AND RETAINED LOSSES

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
<b>(A) RETAINED LOSSES</b>		
Balance at the beginning of the year	(827,095)	(422,299)
Net profit attributable to members of the Company	1,407,789	3,812,225
Transfer to profit reserve	(1,584,521)	(4,217,021)
<b>Balance at 30 September</b>	<b>(1,003,827)</b>	<b>(827,095)</b>
<b>(B) PROFITS RESERVE</b>		
The reserve is made of amounts transferred from current and retained earnings that are preserved for future dividend payments.		
Balance at the beginning of the year	4,470,422	708,393
Transfer from retained earnings/(losses)	1,584,521	4,217,021
Dividends provided for or paid	(981,674)	(454,992)
<b>Balance at 30 September</b>	<b>5,073,269</b>	<b>4,470,422</b>

### 13. AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
<b>Pitcher Partners</b>		
<i>Audit and other assurance services</i>		
Audit of financial statements	49,000	52,026
Total remuneration for audit and other assurance services	49,000	52,026
<i>Taxation services</i>		
Taxation services	9,800	9,000
<b>Total remuneration of Pitcher Partners</b>	<b>58,800</b>	<b>61,026</b>

The Company's Audit Risk Committee oversees the relationship with the Company's External Auditors. The Audit Risk Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit-related tax compliance services provided by the audit firm, to ensure that they do no compromise independence.

### 14. CASH FLOW INFORMATION

	AS AT 30 SEPTEMBER 2019 (\$)	AS AT 30 SEPTEMBER 2018 (\$)
<b>(A) COMPONENTS OF CASH AND CASH EQUIVALENTS</b>		
Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash at bank	15,287,804	10,299,591
Prime broker funding facility	(23,160,333)	(10,392,308)
	<b>(7,872,529)</b>	<b>(92,717)</b>
<b>(B) RECONCILIATION OF NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE COMPANY TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>		
	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
Profit/(loss) attributable to members of the Company	1,407,789	3,812,225
Net (gains)/losses on financial instruments held at fair value through profit or loss	(2,764,391)	(6,021,323)
Net (gains)/losses on foreign exchange	(12,133)	(149,235)
Net change in prepayments	(5,496)	28,291
Net change in receivables	153,523	(129,165)
(Increase)/decrease in deferred tax assets	(256,800)	17,315
Tax effect on listing costs	(23,218)	-
Increase in deferred tax liabilities	933,474	667,343
(Decrease)/increase in current tax liabilities	(590,361)	590,361
Net change in payables	56,927	40,350
<b>Net cash outflow from operating activities</b>	<b>(1,100,686)</b>	<b>(1,143,838)</b>

	AS AT 30 SEPTEMBER 2019 (\$)	AS AT 30 SEPTEMBER 2018 (\$)
<b>(C) NON-CASH FINANCING ACTIVITIES</b>		
During the year, the following dividend payments were satisfied by the issue of shares under the dividend reinvestment plan	130,742	27,955

## 15. RELATED PARTY TRANSACTIONS

All transactions with related entities were made on normal commercial terms and conditions no more favourable than transactions with other parties unless otherwise stated.

### a) Management and Performance Fees

Morphic Asset Management Pty Limited (Morphic) (ABN 33 155 937 901, AFSL 419916) has been appointed as the Investment Manager of the Company. The Manager is privately owned and was incorporated in 2012. Jack Lowenstein is the Managing Director of the Manager.

#### i. Management fee

the Manager is entitled to be paid monthly a Management Fee equal to 1.25% (plus GST) per annum of the Value of the Portfolio (payable monthly in arrears and calculated on the last business day of each month).

#### ii. Performance fee

the Manager is entitled to be paid by the Company a fee (Performance Fee) equal to 15% (plus GST) of the Portfolio's outperformance relative to the MSCI All Countries Total Return Daily Index ("the Index") in Australian dollars (Benchmark) over the 12-month period, subject to the Portfolio generating absolute gains since inception and the recoupment of prior underperformance.

Management fees paid to the Manager during the year were as follows:

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
Management fees paid and payable during the year	729,917	674,384
Management fees payable at year end	63,343	56,693

There were no performance fees earned or paid during the year.

### b) Remuneration of Directors and Other Key Management Personnel

In accordance with Section 300A of the *Corporations Act 2001*, all detailed information regarding the remuneration of Directors and other key management personnel has been included in the Remuneration Report in the Directors' Report of the Annual Report.

A summary of the remuneration of Directors and other key management personnel for the year is set out below:

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
Cash salary, fees and commissions	127,855	127,855
<b>Short-term employee benefits</b>	<b>127,855</b>	<b>127,855</b>
Superannuation	12,145	12,145
<b>Post-employment benefits</b>	<b>12,145</b>	<b>12,145</b>
<b>Total employment benefits</b>	<b>140,000</b>	<b>140,000</b>

## c) Shareholdings

2019	OPENING BALANCE	ACQUISITIONS/ OPTIONS EXERCISED	DISPOSALS	BALANCE AT 30 SEPTEMBER 2019
<b>Ordinary Shares</b>				
JoAnna Fisher	100,920	2,243	-	103,163
Jack Lowenstein	535,703	44,134	-	579,837
Mark Forstmann	40,368	898	-	41,266
Virginia Malley	52,780	1,174	-	53,954
Chad Slater	55,341	1,188	-	56,529

2018	OPENING BALANCE	ACQUISITIONS/ OPTIONS EXERCISED	DISPOSALS	BALANCE AT 30 SEPTEMBER 2018
<b>Ordinary Shares</b>				
JoAnna Fisher	100,000	920	-	100,920
Jack Lowenstein*	524,001	29,702	(18,000)	535,703
Mark Forstmann	40,000	368	-	40,368
Virginia Malley	52,300	480	-	52,780
Chad Slater*	46,709	26,632	(18,000)	55,341

\* The disposal of 18,000 shares from Jack Lowenstein and Chad Slater's holdings reflect 18,000 shares held by Morpnic Asset Management, which were transferred to Morpnic staff under Morpnic's remuneration arrangements.



**d) Options to acquire shares**

2019	OPENING BALANCE	ACQUISITIONS	LAPSES/DISPOSALS	BALANCE AT 30 SEPTEMBER 2019
<b>Options</b>				
JoAnna Fisher	100,000	-	(100,000)	-
Jack Lowenstein	804,000	-	(804,000)	-
Mark Forstmann	160,000	-	(160,000)	-
Virginia Malley	52,300	-	(52,300)	-
Chad Slater	110,454	-	(110,454)	-
2018	OPENING BALANCE	ACQUISITIONS	LAPSES/DISPOSALS	BALANCE AT 30 SEPTEMBER 2018
<b>Options</b>				
JoAnna Fisher	100,000	-	-	100,000
Jack Lowenstein	724,000	100,000	(20,000)	804,000
Mark Forstmann	40,000	120,000	-	160,000
Virginia Malley	52,300	-	-	52,300
Chad Slater	130,454	-	(20,000)	110,454

**16. CONTINGENT LIABILITIES AND COMMITMENTS**

As at 30 September 2019, the Company had no contingent liabilities or commitments.

**17. DIVIDENDS**

On 31 October 2018, the Directors declared a fully franked final dividend of 1.00 cent per share which amounted to \$455,474 and was paid on 12 December 2018.

On 28 May 2019, the Directors declared a fully franked interim dividend of 1.00 cent per share which amounted to \$526,200 and was paid on 19 July 2019.

	YEAR ENDED 30 SEPTEMBER 2019 (\$)	YEAR ENDED 30 SEPTEMBER 2018 (\$)
<b>DIVIDEND FRANKING ACCOUNT</b>		
Opening balance of franking account	10,103	847
Prior year adjustment	(567)	-
Franking credits on dividends received	6,415	4,240
Franking credits on dividends paid	(420,717)	(194,997)
Tax (refunds)/payments made	475,000	200,013
<b>Closing balance of franking account</b>	<b>70,234</b>	<b>10,103</b>

The Company's ability to pay franked dividends is dependent upon the receipt of franked dividends from investments and the payment of tax.

**18. SEGMENT INFORMATION**

The Company has only one reportable segment and one industry. It operates predominantly in Australia and in the securities industry. It earns revenue from dividend income, interest income and other returns from the investment portfolio. The Company invests in different types of securities, as detailed at Note 7 Investments, and Note 3 Fair Value Measurement.

**19. EVENTS SUBSEQUENT TO REPORTING DATE**

Since the end of the year, the Directors declared a fully franked final dividend of 1.0 cents per share fully franked to be paid on 17 December 2019.

No other matters or circumstances have arisen since the end of the year which significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

## DIRECTORS' DECLARATION

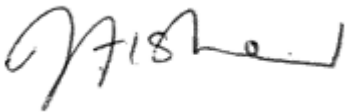
FOR THE YEAR ENDED 30 SEPTEMBER 2019

### THE DIRECTORS DECLARE THAT:

- a) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Accounting Standards, and giving a true and fair view of the financial position as at 30 September 2019 and performance of the Company, for the year ended 30 September 2019;
- b) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- c) In the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated on Note 1(b) of the financial statements;
- d) The Directors have been given the declarations required by S.295A of the *Corporations Act 2001*; and
- e) The remuneration disclosures contained in the Remuneration Report comply with S300A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors made pursuant to S.295(5) of the *Corporations Act 2001*.

On behalf of the Directors



### JOANNA FISHER

Chairman  
Morphic Ethical Equities Fund Limited

Sydney, 1 November 2019

## INDEPENDENT AUDIT REPORT TO THE MEMBERS



**Independent Auditor's Report  
to the Members of Morphic Ethical Equities Fund Limited  
ABN 52 617 345 123**

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of Morphic Ethical Equities Fund Limited (the Company), which comprises the statement of financial position as at 30 September 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended 30 September 2019, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Morphic Ethical Equities Fund Limited is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Company's financial position as at 30 September 2019 and of its financial performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*

#### *Basis of Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Adelaide Brisbane Melbourne Newcastle Perth Sydney

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**Independent Auditor’s Report  
to the Members of Morphic Ethical Equities Fund Limited  
ABN 52 617 345 123**

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key audit matter</b>	<b>How our audit addressed the matter</b>
<p><b>Valuation, Existence and Completeness of Financial Assets and Liabilities</b> <b>Refer to Note 7: Investments</b></p>	
<p>We focused our audit effort on the existence, completeness and valuation of the Company’s financial assets and financial liabilities as they are its largest assets and liabilities and represent the most significant driver of the Company’s Net Tangible Assets and profits.</p> <p>Investments mostly consist of listed Global and Australian securities and some unlisted securities. Investments are valued by multiplying the quantity held by the respective market price, cost or estimated value per security for unlisted investments. All foreign investments are valued in presentation currency (Australian dollars) utilising the period end rates.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>▪ Obtaining an understanding of the investment management process and controls;</li> <li>▪ Reviewing and evaluating the independent audit reports on internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the Custodians;</li> <li>▪ Reviewing and evaluating the independent audit report on internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the Administrator;</li> <li>▪ Making enquiries as to whether there have been any changes to these controls or their effectiveness from the periods to which the audit reports relate and where necessary performing additional procedures;</li> <li>▪ Obtaining confirmations of the investment holdings directly from the Custodians;</li> <li>▪ Recalculating and assessing the Company’s valuation of individual investment holdings to independent sources;</li> <li>▪ Evaluating the accounting treatment of revaluations of financial assets and financial liabilities for current/deferred tax and unrealised gains or losses; and</li> <li>▪ Assessing the adequacy of disclosures in the financial statements.</li> </ul>

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**Independent Auditor's Report  
to the Members of Morphic Ethical Equities Fund Limited  
ABN 52 617 345 123**

<b>Key audit matter</b>	<b>How our audit addressed the matter</b>
<b>Accuracy and Completeness of Management and Performance Fees</b>	
<b>Refer to Note 10: Trade and other payables, Note 15: Related party transactions</b>	
<p>We focused our audit effort on the accuracy of management and performance fees as they are significant expenses of the Company and their calculation requires adjustments for major events such as payment of company dividends and taxes, capital raisings and capital reductions in accordance with the Investment Management Agreement between the Company and the Investment Manager.</p> <p>In addition, to their quantum, as these transactions are made with related parties, there are additional inherent risks associated with these transactions, including the potential for these transactions to be made on terms and conditions more favourable than if they had been with an independent third-party.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>▪ Making enquiries with the Investment Manager and Those Charged with Governance with respect to any significant events during the period and associated adjustments made as a result, in addition to reviewing ASX announcements;</li> <li>▪ Testing of adjustments such as company dividends, tax payments, capital raisings, capital reductions as well as any other relevant expenses used in the calculation of management and performance fees;</li> <li>▪ Testing key inputs used in the calculation of management and performance fees and recalculation in accordance with our understanding of the Investment Management Agreement;</li> <li>▪ Assessing the adequacy of disclosures made in the financial statements.</li> </ul>

**Other Information**

*The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Report for the year ended 30 September 2019, but does not include the financial report and our auditor's report thereon.*

*Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.*

*In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.*

*If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.*

**Responsibilities of the Directors for the Financial Report**

*The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.*

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**Independent Auditor's Report  
to the Members of Morphic Ethical Equities Fund Limited  
ABN 52 617 345 123**

*In preparing the financial report, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.*

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw

attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 20 to 23 of the Directors' report for the year ended 30 September 2019. In our opinion, the Remuneration Report of Morphic Ethical Equities Fund Limited for the year ended 30 September 2019, complies with section 300A of the Corporations Act 2001.

**Responsibilities**

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards

A handwritten signature in black ink, appearing to read "S M Whiddett".

**S M WHIDDETT**  
Partner

1 November 2019

A handwritten signature in black ink, appearing to read "Pitcher Partners".

**PITCHER PARTNERS**  
Sydney

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## SHAREHOLDER INFORMATION

FOR THE YEAR ENDED 30 SEPTEMBER 2019

The Shareholder information set out below was applicable at 30 September 2019.

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report, is listed below.

### A. DISTRIBUTION OF SECURITIES

#### DISTRIBUTION OF EQUITY SECURITIES

Holding Ranges	INVESTORS	SHARES	PERCENTAGE (%)
1 to 1000	53	29,287	0.06
1001 to 5000	301	968,596	1.84
5001 to 10000	214	1,842,227	3.49
10001 to 100000	666	23,367,878	44.31
100001 and Over	77	26,520,531	50.30
<b>Total</b>	<b>1,311</b>	<b>52,728,519</b>	<b>100.00</b>

### B. EQUITY SECURITY HOLDERS

#### TWENTY LARGEST EQUITY SECURITY HOLDERS

Name	Shares	%
FUTURE GENERATION GLOBAL INVESTMENT COMPANY LIMITED	5,288,500	10.03
SYSHA PTY LTD <SYDNEY GOODMAN FAMILY A/C>	2,000,000	3.79
LEKK PTY LTD <HILTON GORDON FAMILY A/C>	1,800,000	3.41
JORLYN PTY LTD <ROBERT JORDAN FAMILY A/C>	900,000	1.71
JAMES & DIANA RAMSAY FOUNDATION PTY LTD <J & D RAMSAY FOUNDATION A/C>	754,545	1.43
NATIONAL NOMINEES LIMITED	605,081	1.15
FAY FULLER FOUNDATION PTY LTD <FAY FULLER FOUNDATION A/C>	604,545	1.15
MRS CATHERINE ANNE MARSON + MR JOSEPH MARSON <THE MARSON FAMILY S/F A/C>	543,895	1.03
MR JACK THESEUS LOWENSTEIN	515,818	0.98
GEAT INCORPORATED <GEAT-PRESERVATION FUND A/C>	480,000	0.91
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	437,859	0.83
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	404,867	0.77
PW AND VJ COOPER PTY LIMITED <P W & V J COOPER S/F A/C>	398,013	0.75
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	381,399	0.72
G W HOLDINGS PTY LTD <EDWINA A/C>	376,365	0.71
CITICORP NOMINEES PTY LIMITED	345,055	0.65
SAXON ACQUISITIONS PTY LTD <DON'T PANIC DISC A/C>	338,589	0.64
RELLIM HOLDINGS NO 2 PTY LIMITED	327,298	0.62
MR JAMES WILLIAM TAYLER	326,272	0.62
MR ROBERT RAYMOND JAMES + MRS MARGARET HELEN JAMES <RR & MH JAMES FAMILY A/C>	320,000	0.61
LIC INVESTMENTS PTY LTD <LIC INVESTMENTS UNIT A/C>	320,000	0.61

**C. SUBSTANTIAL SHAREHOLDERS**

Future Generation Global Investment Company Limited and its associated entities 10.03%

**D. VOTING RIGHTS**

The voting rights attaching to each class of equity security are set out below:

Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands. Options do not have any voting rights until they vest and are exercised.

**E. STOCK EXCHANGE LISTING**

Quotation has been granted for all of the ordinary shares and options of the Company on all Member exchanges of the ASX Limited.

**F. UNQUOTED SECURITIES**

There are no unquoted securities.

**G. SECURITIES SUBJECT TO VOLUNTARY ESCROW**

18,000 shares subject to voluntary escrow until 8 August 2021.

**H. INVESTMENT TRANSACTIONS**

There were 1,636 investment transactions during the year, total brokerage paid on these transactions was \$240,134.

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## CORPORATE DIRECTORY

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<b>DIRECTORS</b>	JoAnna Fisher (Chairman) Jack Lowenstein Mark Forstmann Virginia Malley Chad Slater (Alternate Director)
<b>COMPANY SECRETARY</b>	Jack Lowenstein
<b>REGISTERED OFFICE</b>	Level 11 179 Macquarie Street Sydney NSW 2000
<b>CONTACT DETAILS</b>	P: (02) 9021 7797 <a href="http://www.morphicasset.com">www.morphicasset.com</a>
<b>SHARE REGISTRY</b>	Computershare Level 4, 60 Carrington Street, Sydney NSW 2000 P: (02) 8234 5000 F: (02) 8234 5050
<b>AUDITOR</b>	Pitcher Partners Level 16, Tower 2 Darling Park 201 Sussex Street Sydney NSW 2000 P: (02) 9221 2099
<b>STOCK EXCHANGE LISTINGS</b>	Morphic Ethical Equities Limited securities are listed on the Australian Stock Exchange under the following exchange codes:  Shares MEC

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The Australian bush is a place of outback wonders and rugged beauty. Bush Heritage is an independent not-for-profit that buys and manages land, and partners with Aboriginal people, so we can protect our unique landscapes and magnificent native species forever. Morpic Asset Management is supporting our work to return the Australian bush to good health by choosing to donate a percentage of management fees for the Morpic Ethical Equities Fund to Bush Heritage every year.

In this way, investors are helping to protect 8.86 million hectares of land and almost 6000 native plant and animal species. In the past year alone, some of the key projects you have helped to make possible include: a research program to better understand the breeding habits and whereabouts of the cryptic Night Parrot on our Pullen Pullen Reserve in Queensland; the revegetation of grassy woodlands on our Scottsdale Reserve, just south of Canberra; and the development of a plan to help the Arafura Swamp Rangers manage threats to their country in northern Arnhem Land.



**BUSH HERITAGE**  
AUSTRALIA

*Red-capped Robin by Rob Drummond*