

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
October 2019



## Fund Objective

The Morphic Ethical Equities Fund Limited (the Fund) seeks to provide investors a way to grow their wealth and feel confident they do so without investing in businesses that harm the environment, people, and society.

The Fund excludes direct investments in entities involved in environmental destruction, including coal and uranium mining, oil and gas, intensive animal farming and aquaculture, tobacco and alcohol, armaments, gambling and rainforest and old growth logging.

## Investment returns\*

	1 Month	3 Months	6 Months	CYTD	ITD (p.a.)
Morphic Ethical Equities Fund <sup>1</sup>	-0.50%	0.78%	1.55%	12.46%	6.25%
Index <sup>2</sup>	0.57%	2.45%	5.17%	21.99%	12.45%

\* Past Performance is not an indication of future performance.

## Ethical Investing in Focus

In October each year we celebrate Ethical Investment Week. Ethical Investment Week is an opportunity for Australians to learn more about investing in line with their ethics. Morphic's Head of Research James Taylor [discussed](#) five important questions you need to ask your ethical fund manager as a simple checklist.

As an active investor and a signatory of the Principles of Responsible Investment we are committed to engage with the companies in which we invest. In October we released the [Morphic Stewardship Report](#), the first of what will be an annual update on our stewardship activities over the preceding twelve months.

## Portfolio review

The Fund fell 0.5% in October, underperforming global markets which rose 0.6% in AUD terms. Global equities rallied +2.6% in USD terms fuelled by the third Fed easing in this cycle; progress on "Phase 1" of the US-China trade deal; and a US reporting season that began stronger than consensus was expecting. In October, Japan (+4.8%) and Emerging Markets (+4.1%) led regional performance while the earnings-stable US market (+2.1%) was the worst performing major region despite strong performance from the US Tech sector.

The largest contributor to performance this month was our position in German forklift manufacturer Jungheinrich. The Company is well positioned for two key structural growth drivers. The replacement cycle driving the switch from diesel to electric forklifts remains strong, as does investment into modern warehouses and related logistics infrastructure to serve the growing e-commerce providers. Acknowledging the cyclical nature of industrial demand, we believe this is reflected in the current valuation which remains attractive.

After a strong contribution in the previous month, our position in Service Corp, the largest funeral care provider in the US, was the Fund's largest detractor. We remain confident that the Company has had a solid quarter and expect the forthcoming and subsequent results to continue to confirm the long-term appeal of what is a stable and moderately growing business.

## Net Tangible Assets (NTA)

NTA value before tax <sup>3</sup>	\$ 1.1436
NTA value after tax <sup>3</sup>	\$ 1.1263

## Investment Returns since inception<sup>4</sup>



Past Performance is not an indication of future performance.

## Outlook

Last month we wrote that the market approached "decision time": go with the weakening trade data or look through and believe the rate cuts will be enough. For now, it appears to have been decided - look through and buy. Reflecting the binary nature of these choices, the Fund carried put options, which dragged on performance, but less than the approach of carrying a large cash weighting.

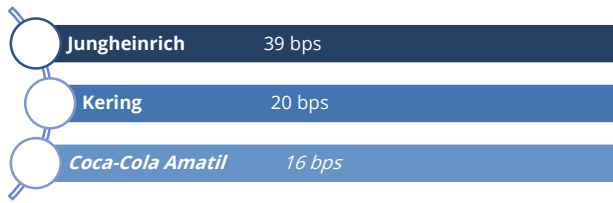
Despite markets at highs, market positioning isn't yet bullish and if this is a mid-cycle soft landing, history says markets keep rallying for some time. The Fund has exposure to interest rates and hedges in place that offers exposure to this effect, along with some FX hedging in place.

## Top 10 Active Positions

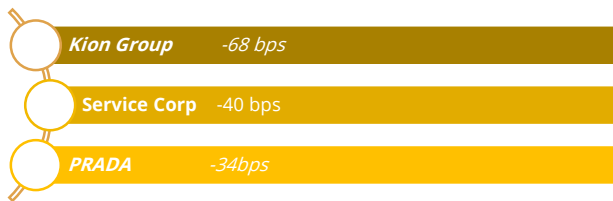
Stocks (Shorts)	Industry	Region	Position Weighting
Service Corp	US Deathcare	North America	5.1%
Alstom	Global Rail Equipment	Europe	5.0%
Qantas	Australian Airline	Asia Pacific	(3.6%)
Bank Leumi	Israeli Bank	Middle East	3.3%
Kering	Luxury Retailers	Europe	2.6%
Coca-Cola Amatil	Beverages	Asia Pacific	(2.6%)
Prada	Luxury Retailers	Asia Pacific	(2.5%)
Kion Group	Industrial Equipment	Europe	(2.5%)
Logitech	Information Technology	Europe	2.4%
Jungheinrich	Industrial Equipment	Europe	2.3%

Risk Measures	
Net Exposure <sup>5</sup>	100%
Gross Exposure <sup>6</sup>	138%
VAR <sup>7</sup>	1.48%
Upside Capture <sup>8</sup>	65%
Downside Capture <sup>8</sup>	83%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	1.99%
Average Loss in Down Months	-1.98%
Annual Volatility	8.69%
Index Volatility	9.66%

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



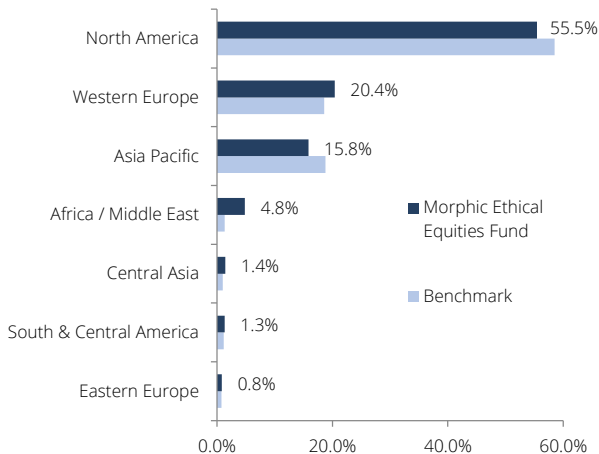
## Top three alpha detractors<sup>10</sup> (bps)



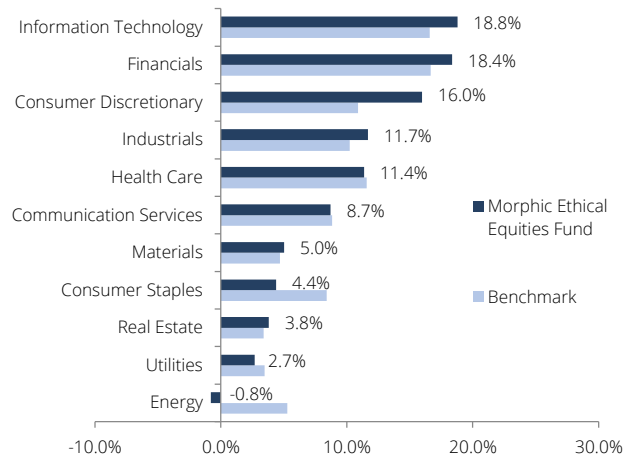
Hedge Positions	Risk Limit Utilisation (%) <sup>9</sup>
Short USD vs AUD and CNH	2.5%
Short US Bonds	1.6%
Long S&P 500 Puts	0.2%

Key Facts	
ASX code / share price	MEC / 0.875
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>11</sup>	15%
Market Capitalisation	\$ 47m
Shares Outstanding	52,728,519
Dividend per share <sup>12</sup>	\$ 0.02

## Equity Exposure Summary By region



## Equity Exposure Summary By sector



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<sup>1</sup> Performance is net of investment management fees, before company admin costs and taxes; <sup>2</sup> The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUJACWF) in AUD; <sup>3</sup> The figures are unaudited; <sup>4</sup> Performance is net of investment management fees, before dividends, company admin costs and taxes. Fund listing on the ASX 3 May 2017. Past performance is not an indication of future performance; <sup>5</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>6</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>7</sup> Based on gross returns since Fund's inception; <sup>8</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>9</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>10</sup> Attribution; relative returns against the Index excluding the effect of hedges; <sup>11</sup> The Performance Fee is payable annually in respect of the Fund's out-performance of the Index. Performance Fees are only payable when the Fund achieves positive absolute performance and is subject to a high water mark; <sup>12</sup> Annual dividend per share.