

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
December 2019



A proud founder of:



Signatory of:



## Fund Objective

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

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

## Investment returns\*

	1 Month	3 Months	6 Months	1 Year	ITD (p.a.)
Morphic Ethical Equities Fund <sup>1</sup>	-0.46%	2.36%	5.16%	15.69%	6.98%
Index <sup>2</sup>	-0.39%	4.53%	8.74%	26.79%	13.25%

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

## Ethical Investing in Focus

Drought, fires, smoke-filled skies and record high temperatures are a wake-up call to the world about the importance of tackling climate emergency. Growth in sustainable and responsible investing is expected to quicken in 2020 as the bushfires disaster encourages more people to seek funds that support environmental and social change.

Companies have been promising for years to come clean about their exposure to climate risk. But 2020 may prove to be the moment that investors finally force them to do it.

## Portfolio review

The Fund fell 0.46% in December, versus global markets which fell 0.39% in AUD terms. Global equities rose 2.3% in USD terms, although market leadership shifted towards cyclicals.

In December, the US (+2.8%) lagged while the most cyclical region - Emerging Markets (+7.2%) - performed best. By sector, Tech Hardware (+7.8%) and Semiconductors (+7.6%) continued to lead performance, but these sectors were joined by Energy (+5.1%) and Materials (+5.0%) and Banks (+4.3%).

The Fund's biggest contributor was Tencent, which proved well positioned for the sharp rally in emerging markets stocks over the month. Our long short pair in Italian Fund managers also proved profitable, confirming our view that Anima is a superior business to Azimut

On the other hand, the Fund's biggest detractor was German forklift operator Jungheinrich, which announced disappointing guidance about its earnings prospects, which it blamed on slowing growth in Europe.

## Outlook

Markets remain remarkably sanguine about both economic and political risks. They seem now to be convinced there will be, at worst, a prolonged truce in the US/China trade wars. The news that US House of Representatives had impeached President Trump caused scarcely a blip, doubtless because the market completely discounts any prospect of the Senate convicting him.

## Net Tangible Assets (NTA)

NTA value before tax <sup>3</sup>	\$ 1.1620
NTA value after tax <sup>3</sup>	\$ 1.1357

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



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Even the flare up in middle east tensions following the killing of an Iranian general early in the new year had only momentary impact on financial markets.

The beginning of an Asia market catch-up with the US markets that we foresaw last month remains supported by improving economic data and relatively attractive valuations and looks like it has further to run.

We continue to expect all major developed country central banks to keep interest rates on hold for the foreseeable future.

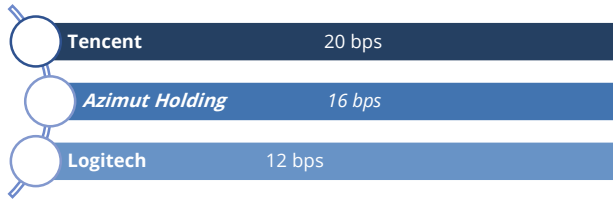
## Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Service Corp	US Deathcare	North America	5.0%
Bank Leumi	Israeli Bank	Middle East	3.2%
Logitech	Information Technology	Europe	2.7%
Alstom	Global Rail Equipment	Europe	2.5%
Sensata Technologies	Industrials	North America	2.4%
Cellnex	Telecom	Europe	2.2%
Anima Holding	Asset Management	Asia Pacific	1.9%
China Everbright	Waste-to-Energy	Asia Pacific	1.8%
WillScot Corp	Industrials	North America	1.8%
Azimut Holding	Asset Management	Europe	(1.7%)

Risk Measures	
Net Exposure <sup>5</sup>	99%
Gross Exposure <sup>6</sup>	121%
VAR <sup>7</sup>	1.23%
Upside Capture <sup>8</sup>	68%
Downside Capture <sup>8</sup>	84%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.06%
Average Loss in Down Months	-1.85%
Annual Volatility	8.61%
Index Volatility	9.60%

Hedge Positions	Risk Limit Utilisation (%) <sup>9</sup>
None	

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

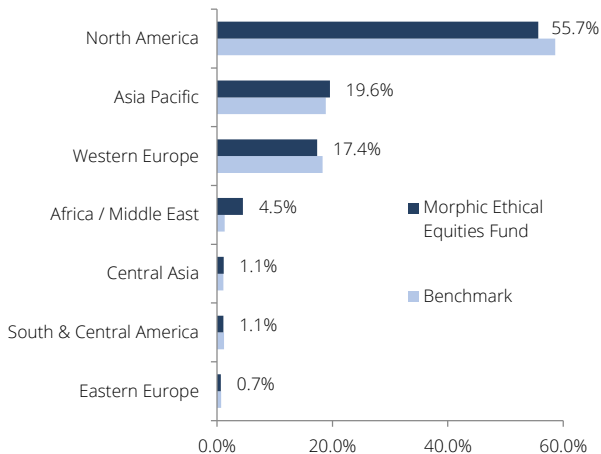


## Top three alpha detractors<sup>10</sup> (bps)

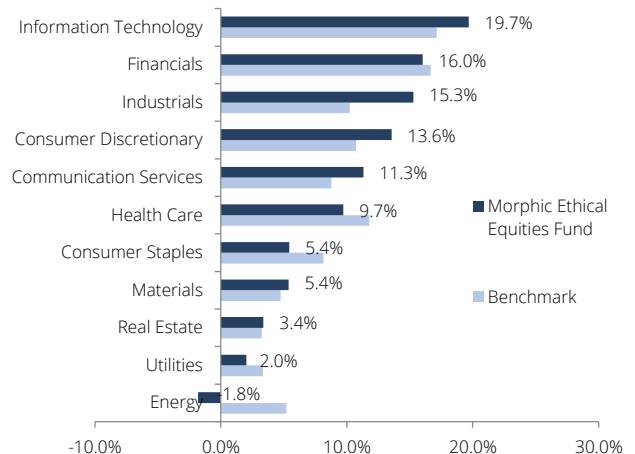


Key Facts	
ASX code / share price	MEC / 0.875
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>11</sup>	15%
Market Capitalisation	\$ 52m
Shares Outstanding	52,849,432
Dividend per share <sup>12</sup>	\$ 0.02

## 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.