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MORPHIC ETHICAL EQUITIES FUND

Monthly Report
February 2020

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[1]	-2.87%	1.06%	5.25%	10.14%	7.13%
Index[2]	-4.56%	-1.27%	5.68%	14.63%	12.07%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Regular readers will recall that one of the Fund's investments, Alstom, was a leader in rolling out hydrogen fuelled trains in Germany. Australia is turning its attention to monetising renewable energy via producing hydrogen via the newly announced "H2 under $2" goal. Tasmania has announced a $20m renewable Hydrogen fund, along with $30m in tax concessions to build a 1000MW hydrogen plant in Bell Bay or Burnie, to utilise Tasmania's abundant hydro and wind generation. Hopefully over time it leads to Australian jobs in export focused regional areas and continuing to export energy to the world – just not fossil fuel energy.

Portfolio review

The Morphic Ethical Equities Fund fell 2.9% in February, outperforming global markets which fell 4.56% in AUD terms. Global equities fell -8.1% in USD terms, as fears of the contagion effects from the Coronavirus drove share markets down. In one brutal week at the end of February, the market completed its fastest "correction" (defined as a 10% fall from the peak) ever. A falling Australian dollar versus the US dollar cushioned the losses somewhat.

Our position in funeral home operator, Service Corp, performed the best, presumably on the assumption of rising demand for its services. Also contributing was our position in Chinese listed Tencent, China's leading internet and Games Company, as people still need something to do whilst on quarantine across China.

The largest single detractor of performance for the month was our holding in Swiss listed computer periphery manufacturer, Logitech. A sell-side broker downgraded the stock ahead of its capital market day on concerns that coronavirus would impact both its ability to supply product and a lowering in demand in the short term.

Outlook

We wrote last month "Despite talk that Chinese GDP may slow to well less than 5% this year and large scale manufacturing shutdowns, markets are prepared to look through this and focus on the backdrop of fiscal and monetary easing. Whether this can be sustained in coming months remains to be seen".

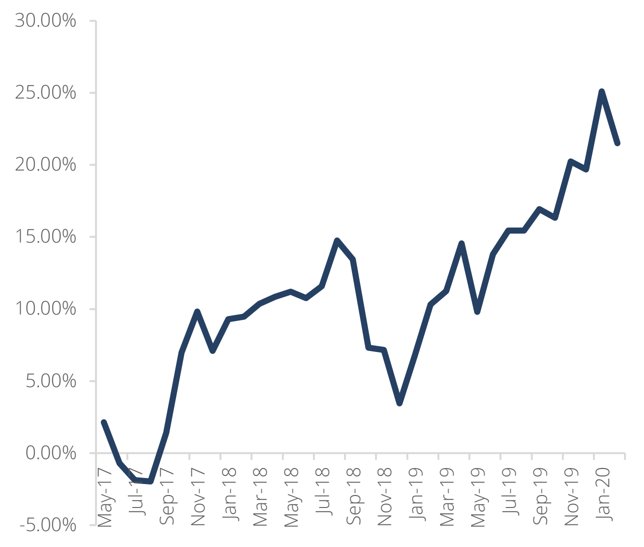
It took the Coronavirus leaving China to resolve this in the negative. Markets are now down 8-12% from their recent peaks as they adjust to expectations of slower global GDP in coming quarters. The response to this from fiscal and monetary authorities is uncertain.

It seems that a pandemic is one of the few things Trump, the Democrats, the Chinese and the Australian government can agree on, along with swift action. Interest rates are already being cut, talk of tax cuts and stimulus packages are underway already

Net Tangible Assets (NTA)

NTA value before tax[3]	$ 1.1755
NTA value after tax[3]	$ 1.1451

Investment Returns since inception[4]



Past Performance is not an indication of future performance.

So to us it would appear the market has shifted to a (large) range-bound market. Bouts of new virus outbreaks and poor data will drive it down, then periods of talk of recovery and stimulus will drive it up

The size of the range is the hard part. A "technical" recession seems probable for parts of the world with a bounce back in late 2020 as inventory is rebuilt with a "catch-up" and demand returns. That would imply a circa 20-25% market fall from the peak (unlike "normal" recessions which is circa 35-45%), of which we've covered half that distance in those 6 days in February. New highs seem unlikely for now. Though the speed of the policy response needs to be consider in this analysis (traditionally the response is slow and lags).

The Fund finished the month with nearly 10% in cash to reflect the above uncertainties. This will be managed actively over the coming months

Top 10 Active Positions

Stocks (*Shorts*)	Industry	Region	Position Weighting
Service Corp	US Deathcare	North America	3.7%
Bank Leumi	Financials	Middle East	3.2%
Keysight Technologies	Electrical Equipment	North America	2.9%
Tencent	Information Technology	Asia Pacific	2.8%
Fujitsu	Information Technology	Asia Pacific	2.5%
Logitech	Information Technology	Europe	2.5%
Alstom	Industrials	Europe	2.3%
Cellnex	Telecom	Europe	2.1%
Graphic Packaging	Industrials	North America	1.7%
Qantas Airways	*Airlines*	Asia Pacific	*(1.7%)*

Risk Measures	
Net Exposure[5]	90%
Gross Exposure[6]	111%
VAR[7]	1.17%
Upside Capture[8]	69%
Downside Capture[8]	81%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.18%
Average Loss in Down Months	-1.93%
Annual Volatility	8.92%
Index Volatility	10.05%

Hedge Positions	Risk Limit Utilisation (%)[9]
None	

Top three alpha contributors[10] (bps)

Service Corp	45 bps
Tencent	28 bps
Keysight Technologies	21 bps

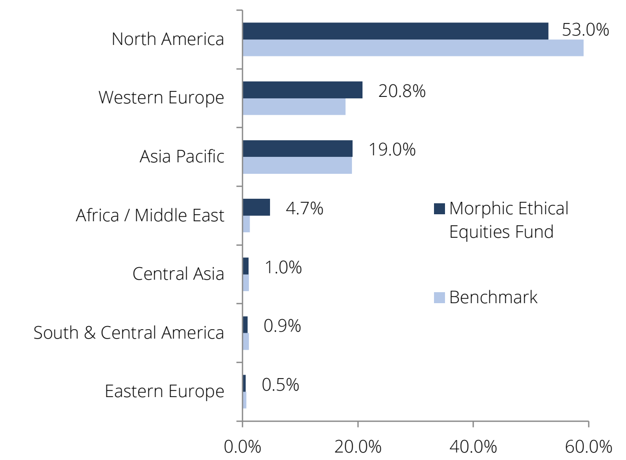
Top three alpha detractors[10] (bps)

Wizz Air	-19 bps
Logitech	-18 bps
Sensata	-12 bps

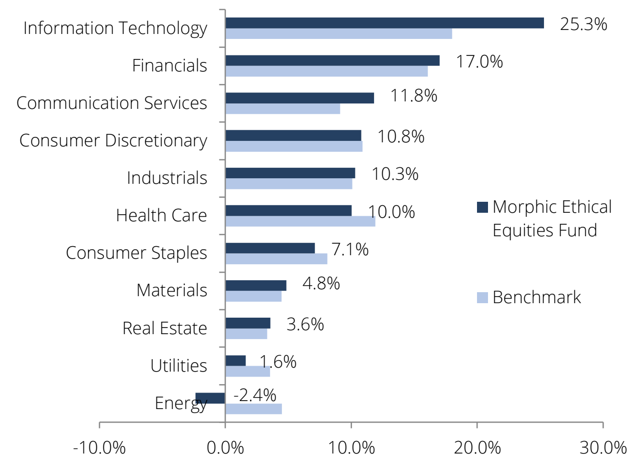
Key Facts

ASX code / share price	MEC / 0.97
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee[11]	15%
Market Capitalisation	$ 51m
Shares Outstanding	52,829,432
Dividend per share[12]	$ 0.02

Equity Exposure Summary By region



Equity Exposure Summary By sector



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