

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
June 2020



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>	-0.28%	5.14%	-0.45%	4.68%	5.69%
Index <sup>2</sup>	-0.51%	5.98%	-4.28%	4.08%	9.52%

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

## Ethical Investing in Focus

The largest corporate fraud in Germany history, Wirecard, was uncovered this month with the ex-CEO arrested and nearly \$3bn of bank account money has found to be missing. Shamefully the German regulators had harassed and arrested short sellers and the Financial Times journalists who tried to bring this to light in the last 2 years.

We focus a lot on the “E” of ESG, in ethical investing, but the Governance matters a lot as well. One would hope that German regulators (and Auditors) focused more themselves rather than just blindly trusting management.

## Portfolio review

The Fund fell 0.28% in June, outperforming global markets which fell 0.51% in AUD terms. Global equities rose 3.0% in USD terms, as markets continued their rebound from March lows, capping off the best second quarter since 2009 and despite increasing evidence of a “second wave” of COVID-19 infections. The rise in the AUD dampened returns.

Asia Ex Japan, which lagged significantly in the last month, led the rebound (+7.7%) as fears of US retaliation over Hong Kong were pushed aside. Europe (3.9%) had one of its best performances compared to the USA (2.1%), whilst Japan, which the fund is overweight, lagged (-0.1%)

One thing that didn't change was Technology (+9.4%) leadership, following on from the 7% in the month before as the market continues to seek out long duration growth stories. Energy was the worst performing sector (-0.5%), along with Utilities (-1.5%).

Reflective of the strong performance of the Technology sector for the month, Tencent, our largest holding, rose strongly over the month and was the largest contributor. Having sold off a little on results last month, the Fund added to the position and the stock rose as southbound Connect investors' from Mainland China added to their holdings in it.

The second largest contributor was our sector neutral pair in Japanese homebuilder stocks, Open House and Iida. In May Open House reported excellent results, whilst Iida cut dividends and guidance. The valuation dispersion was still not reflective of the differential earnings outlook, so June's performance went some way to rectifying this.

All the Fund's largest detractors were in the USA. Liveramp, which provides digital marketing solutions to businesses, was the largest detractor, giving back a lot of the gains of May where it rose strongly after earnings. Also detracting was Keysight Technologies, as the market became more concerned about loss of customers around its 5G testing for Chinese customers.

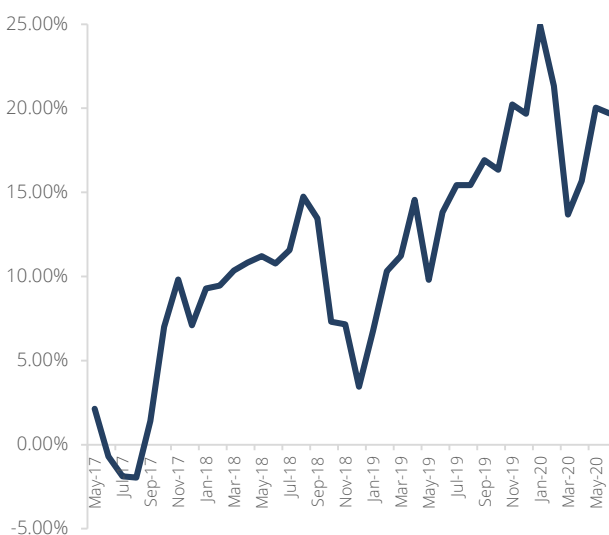
## Outlook

Somewhat remarkably given the increasingly bad COVID-19 news at the margin, the market remains stuck in a trading range.

## Net Tangible Assets (NTA)

NTA value before tax <sup>3</sup>	\$ 1.1503
NTA value after tax <sup>3</sup>	\$ 1.1333

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



Past Performance is not an indication of future performance.

We had discussed the view that as long as the data keeps improving, the market will be OK. Whilst this is the case, at the margin, shutdowns in California, Florida and Texas appears to be impacting the high frequency data in June, with the lower frequency data (Purchasing Managers surveys and employment) remaining on track.

With this in mind, the Fund has increased cash levels at the margin towards the end of the month. This is consistent with our prior views that post July may see increasingly difficult waters for markets to navigate. That said it is with low conviction as the situation remains incredibly fluid.

The Fund is positioned more for “COVID-19 risk off” in stock positioning (via long Technology and Education and short Air Travel) even if the net exposure isn't as heavily positioned for that scenario as it was in March/April.

## Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Tencent	Information Technology	Asia Pacific	4.0%
Alstom	Industrials	Europe	3.0%
Cellnex	Telecom	Europe	2.7%
NEC Corp	Information Technology	Asia Pacific	2.7%
Fujitsu	Information Technology	Asia Pacific	2.5%
Keysight Technologies	Industrials	North America	2.3%
Service Corp	Consumer Staples	North America	2.0%
New Oriental Education	Consumer Services	North America	2.0%
NetEase Inc	Information Technology	Asia Pacific	1.9%
Techtronic Industries	Information Technology	Asia Pacific	1.9%

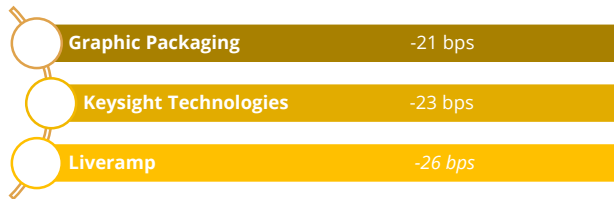
Risk Measures	
Net Exposure <sup>5</sup>	95%
Gross Exposure <sup>6</sup>	125%
VAR <sup>7</sup>	2.28%
Upside Capture <sup>8</sup>	71%
Downside Capture <sup>8</sup>	79%
Best Month	5.51%
Worst Month	-6.49%
Average Gain in Up Months	2.21%
Average Loss in Down Months	-2.13%
Annual Volatility	9.53%
Index Volatility	11.19%

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

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

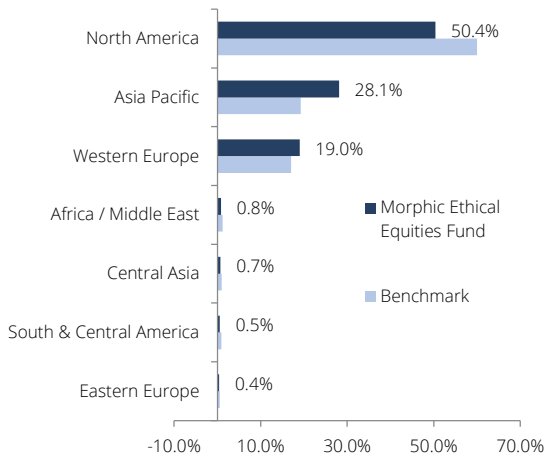


## Top three alpha detractors<sup>10</sup> (bps)

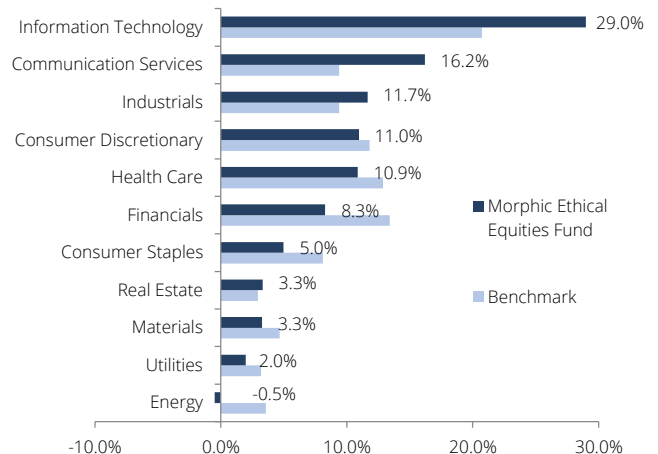


Key Facts	
ASX code / share price	MEC / 0.88
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>11</sup>	15%
Market Capitalisation	\$ 46m
Shares Outstanding	52,829,432
Dividend per share <sup>12</sup>	\$ 0.02

## Equity Exposure Summary By region



## Equity Exposure Summary By sector



## Contact us

### Morphic Asset Management Pty Ltd

Level 11, 179 Elizabeth St

Sydney 2000

New South Wales

Australia

[www.morphicasset.com](http://www.morphicasset.com)



### Irene Kardasis

*Marketing & IR Manager*

Phone: +61 2 9021 7726

Email: [ikardasis@morphicasset.com](mailto:ikardasis@morphicasset.com)

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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 NDUEACWF) in AUD; <sup>3</sup> The figures are estimated and 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.