

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
August 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	3 Years (p.a.)	ITD (p.a.)
Morphic Ethical Equities Fund ¹	1.39%	4.04%	2.58%	7.68%	8.24%	6.74%
Index ²	2.91%	3.49%	0.45%	6.16%	11.56%	10.31%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

In its continued trend of breaking with the rest of the world, the Trump administration last month had the Department of Labor propose new rules that would discourage pension (superannuation) plans in the USA from considering Environmental, Social and Governance (ESG) issues when picking investments.

This is despite research that shows that [more than 70% of American](#) investors were interested in ethical investing and the increasing amounts of academic evidence supporting the role of ESG within the investment process.

Thankfully American companies continue to push ahead with improving both disclosure and efforts towards sustainability, despite their government's efforts, rather than because of them.

Portfolio review

The Fund rose 1.4% in August, underperforming global markets which rose 2.9% in AUD terms. Global equities rose 6.0% in USD terms, as markets continued their rebound from March lows. Global markets have now recouped all their COVID-19 related losses to make new all-time highs in August. Something that felt implausible in the depths of March. The rise in the AUD dampened returns.

Japan rebounded from its laggard status of July to lead markets in August (+7.6%), whilst the USA was not far behind (7.3%). Asia Pacific (+3.6%) and Emerging Markets (2.1%) lagged.

For the third month, Tech hardware (+12%) was near the best performing sector, with Utilities (-2%) struggling as the market was led by cyclical sectors over the month.

The Fund's holding in Techtronic, the owner of the Ryobi brand of power-tools, was the best performing stock over the month. The company has been the beneficiary of the stay at home DIY trend of COVID-19 lockdowns globally. The Fund accumulated during the March sell off and the results were ahead of even our optimistic forecasts. With the stock up 15% since results, the Fund has reduced its holding but will look to add on pullbacks.

Having been a large contributor in the prior month, NEC gave back some of its performance post quarterly earnings results. The market was disappointed that management appears to have been overly optimistic and walked back on some its prior bullish comments. There was also little news on both capital management and 5G growth. The Fund remains a holder, with hopefully the upcoming capital markets day to provide more colour to investors on these areas.

Outlook

It is worth noting the continued narrowness of the market moves we are seeing at the moment. One way to measure this is looked at an equal weight index (SPW – where every stock is given the same size) versus the usual market cap weighted one (SPX) as a way to measure "breadth". In August, the SPW trailed the SPX by the largest margin since June 2000, and 9th largest margin since 1990.

Or another one: the market cap of Apple is now more than the Russell Index of

A proud founder of:



Signatory of:



Net Tangible Assets (NTA)

NTA value before tax³ \$ 1.1843

NTA value after tax³ \$ 1.1589

Investment Returns since inception⁴



Past Performance is not an indication of future performance.

2000 US stock names put together, having only been 50% of the Russell's size just last year. This narrowness makes stock selection even more challenging than usual when there are so few stocks outperforming the market.

This would be more palatable as a fundamental investor if Apple earnings forecasts were rising rapidly. They are not. Instead, Apple's P/E has gone from 22x in May to 35x today. Extreme re-rating of earnings (faster than the 1999 bubble) is not the foundation of long term bull markets.

Put together, these are some of the unsavoury statistics that give rise to comparisons with 1999/2000. The following years were not kind to investors.

What is different to then, is that the US Dollar is weakening rapidly as the Federal Reserve, rather than take away the punchbowl, is encouraging more. As such calling the end is likely to be an expensive and unsatisfying exercise.

Cash levels remain broadly unchanged from last month, along with Fund positioning.

Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Fujitsu	Information Technology	Asia Pacific	3.3%
NetEase	Information Technology	Asia Pacific	3.3%
Cellnex	Telecom	Europe	3.3%
New Oriental Education	Consumer Discretionary	Asia Pacific	2.8%
NEC Corp	Information Technology	Asia Pacific	2.7%
Tencent	Information Technology	Asia Pacific	2.5%
Alstom	Industrials	Europe	2.1%
Keysight Technologies	Information Technology	North America	2.1%
Techtronic Industries	Industrials	Asia Pacific	1.9%
Joyoung	Consumer Discretionary	Asia Pacific	1.8%

Risk Measures	
Net Exposure ⁵	98%
Gross Exposure ⁶	114%
VAR ⁷	3.00%
Upside Capture ⁸	73%
Downside Capture ⁸	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	9.39%
Index Volatility	10.96%

Hedge Positions	Risk Limit Utilisation (%) ⁹
None	

Top three alpha contributors¹⁰ (bps)

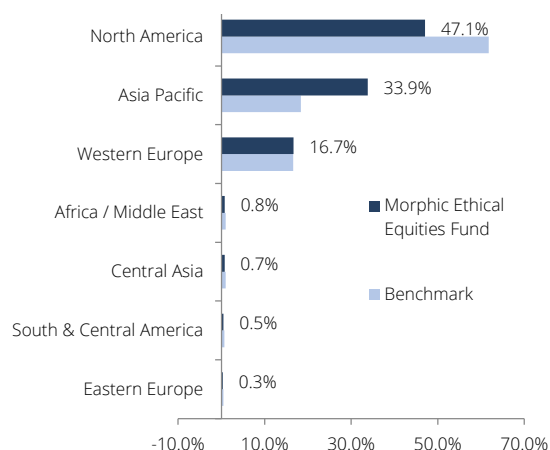


Top three alpha detractors¹⁰ (bps)

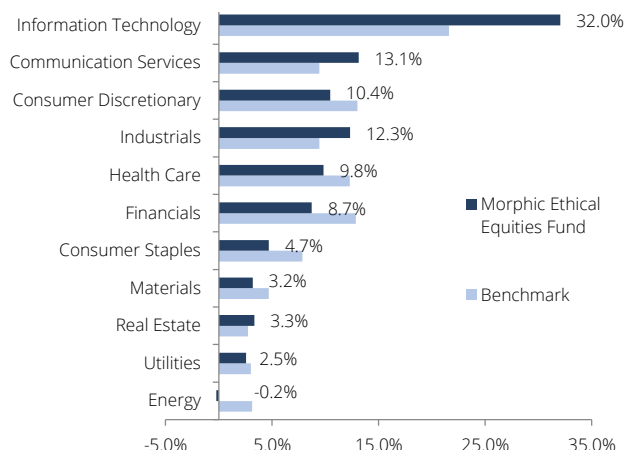


Key Facts	
ASX code / share price	MEC / 0.98
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee ¹¹	15%
Market Capitalisation	\$ 52m
Shares Outstanding	52,871,147
Dividend per share ¹²	\$ 0.02

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 estimated and 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.