

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
January 2020



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 ¹ | 4.52% | 7.53% | 8.36% | 17.15% | 8.48% |
| Index ² | 3.84% | 7.93% | 10.58% | 26.38% | 14.37% |

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

Just how much consideration should guardians of your pensions and savings put on ethical and environmental concerns, if any at all? What responsibility do they have to consider climate change in investment decisions?

There is a landmark court case winding its way through the Australian courts that will have momentous consequences for how these questions are considered. [Mark McVeigh](#) is suing his Super Fund in the Federal Court for not acting in his best interests as he won't be able to access his savings until 2055, and argues that climate risks for that date should affect decisions now.

This shows the increasingly engaged stance from investors and members as the effects of Climate change become more severe and are demanding more action for those entrusted with running their money.

Portfolio review

The Morphic Ethical Equities Fund ("Fund") rose 4.5% in January, outperforming global markets which rose 3.8% in AUD terms. Global equities fell 1.2% in USD terms, as fears of the contagion effects from the Coronavirus drove markets down. A falling Australian dollar versus the US dollar offset this.

As markets went into "risk-off" mode, the US (+0.1%) performed best, with the worst hit being Emerging Markets (-4.7%), with Europe (-2.6%) also lagging. Bond-like sectors, such as Utilities (+4.7%) were the primary beneficiaries of the flight to safety, with Energy being the worst (-9.1%).

Our long held position in French train manufacturer Alstom performed best, despite being a cyclical stock, as rumours of a merger with competitor Bombardier circulated. Bombardier is struggling as a business and the market senses a chance for Alstom to acquire the assets at a good price.

Also contributing was our position in Spanish listed Mobile phone tower operator, Cellnex. Investors flocked to the certainty of earnings provided by these stable cashflow businesses.

The largest detractor of performance was Sensata Technologies. As a provider of sensor equipment into trucks and autos, the stock was sold off, particularly with some changes in senior management announced.

Net Tangible Assets (NTA)

| | |
|-----------------------------------|-----------|
| NTA value before tax ³ | \$ 1.2126 |
| NTA value after tax ³ | \$ 1.1711 |

Investment Returns since inception⁴



Past Performance is not an indication of future performance.

Outlook

Markets appeared to be overbought in early January after a bout of early year enthusiasm left them vulnerable to the shocks of the Coronavirus. What is interesting is the speed at which they are recovering.

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.

The Fund finished the month carrying some cash to reflect the uncertainties, but this is being re-deployed into some Asian focused names that had sold off more heavily.

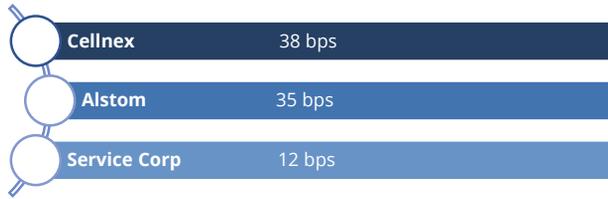
Top 10 Active Positions

| Stocks (Shorts) | Industry | Region | Position Weighting |
|----------------------|------------------------|---------------|--------------------|
| Service Corp | US Deathcare | North America | 5.2% |
| Sensata Technologies | Industrials | North America | 3.2% |
| Bank Leumi | Financials | Middle East | 3.1% |
| Cellnex | Telecom | Europe | 2.6% |
| Logitech | Information Technology | Europe | 2.6% |
| Alstom | Industrials | Europe | 2.3% |
| Tencent | Information Technology | Asia Pacific | 2.2% |
| Graphic Packaging | Industrials | North America | 1.9% |
| Fujitsu | Information Technology | Asia Pacific | 1.9% |
| WillScot Corp | Industrials | North America | 1.8% |

| Risk Measures | |
|-------------------------------|--------|
| Net Exposure ⁵ | 92% |
| Gross Exposure ⁶ | 106% |
| VAR ⁷ | 1.14% |
| Upside Capture ⁸ | 69% |
| Downside Capture ⁸ | 84% |
| Best Month | 5.51% |
| Worst Month | -5.41% |
| Average Gain in Up Months | 2.18% |
| Average Loss in Down Months | -1.85% |
| Annual Volatility | 8.80% |
| Index Volatility | 9.60% |

| Hedge Positions | Risk Limit Utilisation (%) ⁹ |
|-----------------|---|
| None | |

Top three alpha contributors¹⁰ (bps)

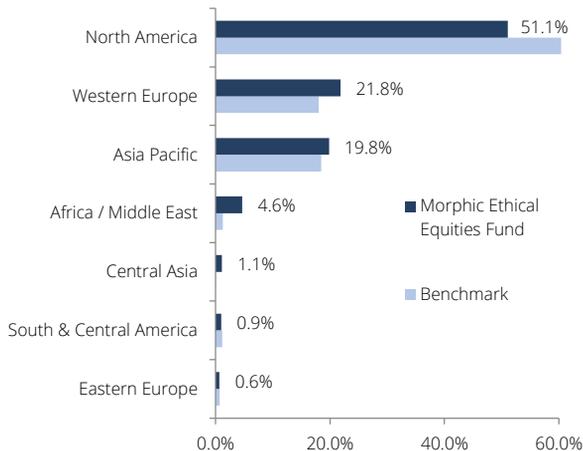


Top three alpha detractors¹⁰ (bps)

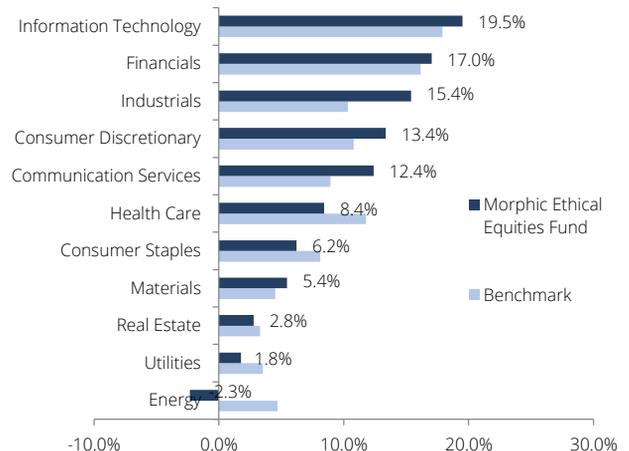


| Key Facts | |
|----------------------------------|------------|
| ASX code / share price | MEC / 0.96 |
| Listing Date | 3 May 2017 |
| Management Fee | 1.25% |
| Performance Fee ¹¹ | 15% |
| Market Capitalisation | \$ 51m |
| Shares Outstanding | 52,849,432 |
| Dividend per share ¹² | \$ 0.02 |

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



Irene Kardasis

Marketing & IR Manager

Phone: +61 2 9021 7726

Email: ikardasis@morphicasset.com

This communication has been prepared by Morpic Ethical Equities Fund Limited ("MEC") (ACN 617 345 123) and its Manager, Morpic Asset Management Pty Ltd ("Morphic") (ACN 155 937 901) (AFSL 419916). The information contained in this communication is for information purposes only and is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Please note that, in providing this communication, MEC and Morpic have not considered the objectives, financial position or needs of any particular recipient. MEC and Morpic strongly suggest that investors consult a financial advisor prior to making an investment decision. No warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this communication. To the maximum extent permitted by law, none of MEC, its related bodies corporate, shareholders or respective directors, officers, employees, agents or advisors, nor any other person accepts any liability, including, without limitation, any liability arising out of fault or negligence for any loss arising from the use of information contained in this communication. If this communication includes "forward looking statements", such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of MEC and its officers, employees, agents or associates that may cause actual results to differ materially from those expressed or implied in such statement. Actual results, performance or achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. MEC and Morpic assume no obligation to update such information. This communication is not, and does not constitute, an offer to sell or the solicitation, invitation or recommendation to purchase any securities and neither this communication nor anything contained in it forms the basis of any contract or commitment.

The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Morpic Ethical Equities Fund adheres to the strict disclosure practices required under the Responsible Investment Certification Program for the category of Product Provider. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Morpic Ethical Equities Fund's methodology, performance and stock holdings can be found at www.responsibleinvestment.org, together with details about other responsible investment products certified by RIAA. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

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 NDUJACWF) 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.