

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
July 2018



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>	0.74%	0.67%	2.09%	13.72%	9.19%
Index <sup>2</sup>	2.39%	4.17%	5.76%	19.17%	14.07%

## Ethical Investing in Focus

The whole Morphic Team would like to thank the many people who attended our ESG Funds presentations across Australia. We were very pleased to see the genuine interest in Ethical investing and the momentum happening in the industry. The video as well as the slides are now available [on our website](#). It was a great opportunity to meet with both investors and non-investors and discuss our latest engagement campaigns with the companies we invest in, such as [Coca-Cola Amatil](#) and [Haseko](#).

We were also happy to see that the Morphic Ethical Equities Fund was mentioned as one of the five ASX-listed funds that make the grade in ESG investing on Financial Commentator Peter Switzer's website last month. You can read the full article [here](#).

## Portfolio review

The Fund rose 0.7% in July, trailing global markets for the month (2.4%). Global markets rallied +2.9% in USD terms, with a small rise in the Australian dollar providing the difference.

Headlines on the trade war between the U.S. and China continued to drive markets. Equities initially rallied on news that both countries were holding trade talks, though gave up some of the earlier gains after news that they made little progress in resolving trade disputes. The US (+3.5%) was the best performing region, followed by Europe (+3.3%) with Emerging Markets lagging (+1.7%) and China (-3.1%) suffering the largest losses for the month.

The largest detractor for the month was our long-held position in Open House. Depressed sentiment on the Japanese housing sector saw all stocks in the housing sector fall with the stock dropping 7%. We remain holders and the Fund has added to the position post month-end, after the company announced it will acquire Hawk One, a smaller Japanese home developer. This appears to be a thoughtful acquisition in the Nagoya region that is EPS accretive, yet it has not garnered much attention from the broking community.

On the positive side, the Fund's largest contributor was China Water Affairs for the second consecutive month. The water facility company reported in July and the better-than-expected growth in profitability, a higher than forecasted dividend and a favourable market outlook pushed the stock higher. We continue to engage with the company on how they can grow investors awareness of their ESG positives. The Morphic team believes the stock remains under-appreciated by the market, considering the good growth prospects.

## Net Tangible Assets (NTA)

Net tangible asset value before tax <sup>3</sup>	\$ 1.1704
Net tangible asset value after tax <sup>3</sup>	\$ 1.1515

## Key Facts

ASX code / share price	MEC / 1.045
ASX code / option price	MECO / 0.001
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>4</sup>	15%
Market Capitalisation	\$ 48m
Shares Outstanding	45,479,227
Options Outstanding	43,402,026
Options Exercise price	\$ 1.10
Options Expire	30 November 2018

## Outlook

The recent [half yearly report](#) outlined our broad outlook for the rest of 2018. Equity markets continue to climb the "wall of worry", with the USA markets either near or through their all-time highs. We are of the view that headwinds (both political and economic) to Asia will continue to be an issue over the coming half, though with valuation being below the long run average and positioning now light, there should begin to show levels of support. As such, we will look to hedge out, where possible, a degree of Asia Ex-Japan country risk for now. On the other hand, US long exposure is largely unhedged.

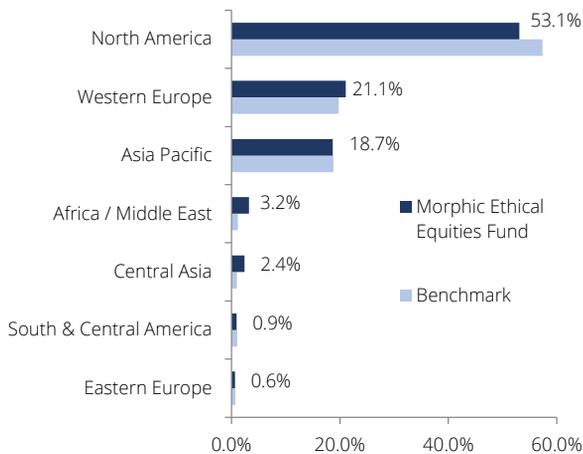
Other hedges remain minimal for now, accessing the full exposure to a strengthening USD. One risk that is being watched is the response by China to tariffs. There would appear to be an emerging push by the Chinese government to increase infrastructure spending to offset any fall in exports. This will have implications for currencies such as the AUD as well as sector selection in the region.

## Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.9%
Service Corp	US Deathcare	North America	2.9%
<i>lida</i>	<i>Japanese Homebuilders</i>	<i>Asia Pacific</i>	(2.2%)
Open House	Japanese Homebuilders	Asia Pacific	2.1%
Indian Bank	Indian Quality Banks	Central Asia	2.0%
<i>Coca-Cola Amatil</i>	<i>Beverages</i>	<i>Asia Pacific</i>	(2.0%)
China Water Affairs	Chinese Water Utilities	Asia Pacific	1.9%
<i>Tokyo Century</i>	<i>Japanese Leasing Companies</i>	<i>Asia Pacific</i>	(1.9%)
Mitsubishi UFJ Lease & Finance	Japanese Leasing Companies	Asia Pacific	1.9%
IndusInd Bank	Indian Quality Banks	Central Asia	1.5%

Hedge Positions	Risk Limit Utilisation (%) <sup>6</sup>
Short German Bonds	1.4%
Short AUD vs EUR and JPY	0.8%

## Equity Exposure Summary By region



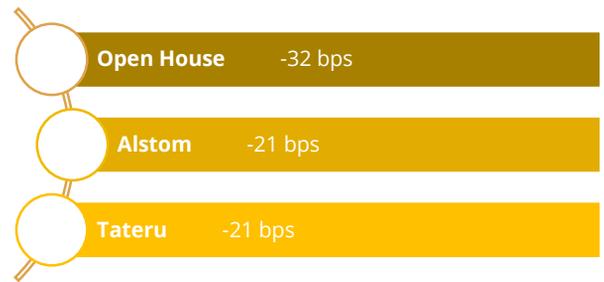
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<sup>1</sup> Performance is net of investment management fees, before company admin costs and taxes; <sup>2</sup> The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUACWV) in AUD; <sup>3</sup> The figures are unaudited; <sup>4</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>5</sup> Attribution: relative returns against the Index excluding the effect of hedges; <sup>6</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>7</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>8</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>9</sup> VAR is Value at Risk based upon the 95<sup>th</sup> percentile with a 1 day holding period using a 1 year look back.

## Top three alpha contributors<sup>5</sup> (bps)



## Top three alpha detractors<sup>5</sup> (bps)



Risk Measures	
Net Exposure <sup>7</sup>	102%
Gross Exposure <sup>8</sup>	139%
VAR <sup>9</sup>	1.18%

## Equity Exposure Summary By sector

