



Signatory of:



# MORPHIC ETHICAL EQUITIES FUND

## Monthly Report March 2018

### 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	ITD
Morphic Ethical Equities Fund <sup>1</sup>	0.82%	3.04%	8.83%	10.36%
Index <sup>2</sup>	-0.58%	0.99%	7.12%	10.25%

### Ethical Investing in Focus

March was marked by the Facebook data scandal with Cambridge Analytica using personal data from 87 million users. Having seized the lucrative opportunity of exploiting its users' data, Facebook generates today 98% of its revenue from advertising tools and consumer data. The company clearly reached a point where selling your data to anyone, including sponsoring scammers, was just deemed part of acceptable business practice. [Morphic's latest perspectives piece](#) shares another point of view on how and why leaders of companies can become blind to the ethical implications of their business model.

Investors may hold Facebook because of the lack of obvious Environmental risks, however, the materiality of the less obvious social risks of data protection is ignored at their peril. Morphic's holistic approach works hard to identify all material ESG risks in order to make sure we do not become blind to our shared values.

### Portfolio review

The Fund rose 0.8% in March, outperforming global markets. Global markets fell 2.4% in USD terms, offsetting this the Australian dollar fell over 1%. For the first quarter, the Fund rose 3.0%, against a backdrop of volatile markets.

March saw the end of a see-sawing quarter. It began with a strong rally in January; a swift collapse of markets driven by the extinction of many volatility funds; a rally back; and then another fall on Trump's tariff war with China.

Emerging Markets were the best performing sector (+1.1% USD) for the quarter, which is unusual in risk-off periods, with Europe (-2.6%) the worst region. Retailing was the best sector (+8.9%) with Staples and Telecom (-6%) the worst.

The Fund's largest contributor for the month was the short position in Swiss freight forwarder, Panalpina. Panalpina reported worse than expected numbers for their final quarter result, leading to concerns that expectations of a turnaround in 2018/19 may not materialise.

The long position in Alstom was the second largest contributor. During the month, the company reported that agreement of merger terms with Siemens had progressed and closing of the deal this year remains on track. The stock continues to trade at a large discount to the merged entity's fair value.

The largest detractor was the Fund's long position in China Everbright (CEI). Towards the end of the month, news emerged about a government plan to restrict Private Public Partnership (PPP) financing deals in the future. CEI does not have exposure to PPP deals per se, though higher financing costs could affect the debt costs for future projects. We remain holders.

### Net Tangible Assets (NTA)

Net tangible asset value before tax <sup>3</sup>	\$ 1.1613
Net tangible asset value after tax <sup>3</sup>	\$ 1.1439

### Key Facts

ASX code / share price	MEC / 1.04
ASX code / option price	MECO / 0.010
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee <sup>4</sup>	15%
Market Capitalisation	\$ 47m
Shares Outstanding	45,479,227
Options Outstanding	43,402,026
Options Exercise price	\$ 1.10
Options Expire	30 November 2018

### Outlook

The Manager has consistently held a somewhat more optimistic view towards the 2018 outlook than others seem to hold, though the last month is testing that view.

If one steps back, it should be noted that earnings continue to be revised higher globally; indicators of economic growth are not consistent with falling earnings; and valuations outside the US are not demanding (Japan trades on 13.5x P/E). The behaviour of Emerging Markets making new highs relative to the US market is also not consistent with sustained risk-off.

Offsetting this, corporate credit spreads have widened this year and the cost of capital continues to rise with the Federal Reserve tightening. The manager is less concerned about the esoteric funding spreads being obsessed over.

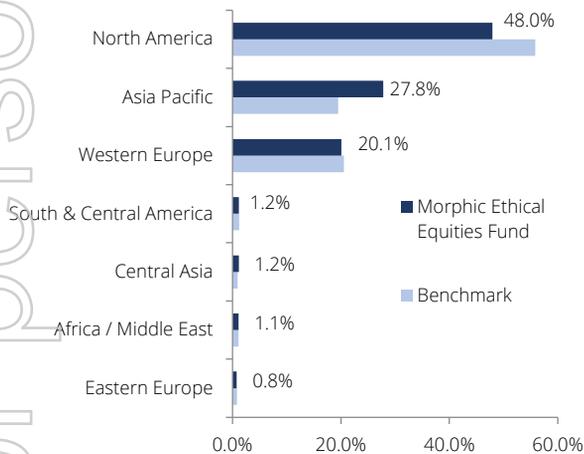
As such the view of markets remains net-net positive at this stage. The Fund remains overweight Japan and Asia.

## Top 10 Active Positions

Stocks (Shorts)	Theme	Region	Position Weighting
Alstom	Global Rail	Europe	4.4%
China Everbright Intl	Environmental & Facilities	Asia Pacific	3.0%
Service Corp	US Deathcare	North America	2.6%
Open House	Japanese Homebuilders	Asia Pacific	2.4%
Macromill	Global Research	Asia Pacific	2.3%
Haseko	Japanese Homebuilders	Asia Pacific	2.0%
Western Alliance	US Quality Banks	North America	1.7%
DSV	Global Freighters	Europe	1.7%
Bank of Internet	US Quality Banks	North America	1.6%
Eagle Bancorp	US Quality Banks	North America	1.6%

Hedge Positions	Risk Limit Utilisation (%) <sup>6</sup>
Short AUD against JPY and USD	1.2%
Short Bonds	0.6%

## Equity Exposure Summary By region



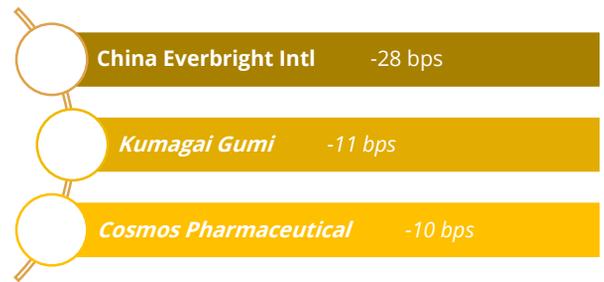
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<sup>1</sup> Performance is net of investment management fees, before company admin costs and taxes; <sup>2</sup> The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUACWCF) in AUD; <sup>3</sup> The figures are 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	Value
Net Exposure <sup>7</sup>	102%
Gross Exposure <sup>8</sup>	126%
VAR <sup>9</sup>	1.18%

## Equity Exposure Summary By sector

