AsiaHedge 2018 Finalist "New Fund of the Year"

CERTIFIED BY RIAA

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

MORPHIC ETHICAL EQUITIES FUND

Monthly Report

March 2019

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	CYTD	ITD (p.a.)
Morphic Ethical Equities Fund[1]	0.83%	7.53%	-1.95%	7.53%	5.73%
Index[2]	1.41%	11.17%	-0.31%	11.17%	11.04%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

The Fund has been short Coca-Cola Amatil in Australia for some time now and we have written before about our views and attempts to make an impact. In March, CEO Alison Watkins gave a speech to the Committee for Economic Development of Australia (CEDA) where for the first time she acknowledged the company's lobbying against consumer recycling schemes (and we would add lobbying against a sugar tax) had resulted in a general cynicism about their commitment to sustainability.

Whilst their acknowledgment that Coca-Cola's fight against sustainability has done them more damage than good, their refusal to entertain a sugar-free future and continued lack of progress in the developing nations they operate in, coupled with a refusal to take a meeting with us, leaves us still rather cynical about their apparent Damascus conversion. The Fund remains short the stock.

Portfolio review

The Fund rose 0.8% in March, underperforming global markets which went up 1.4% in AUD terms. Global equities returned 1.0% (USD) making Q1 the second strongest quarter on record with a return of 11.6%.

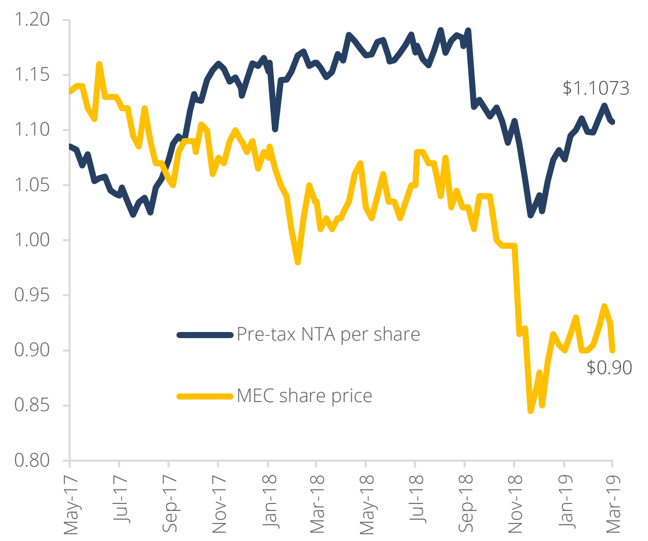
During the month, the US (+1.7%) performed best and continues to lead the bounce in equity markets this year. In contrast, Japan (-0.3%) was the worst performing region during the month and lags the global markets by 5.9% this year. The best performing country in March was India (+9.1%), significantly outperforming all large countries.

One of the largest detractors for the month was our long position in Hong Kong-listed Yangtze Optical Fibre and Cable (YOFC), a leading supplier of optical fibre cable globally. The company reported disappointing Q4 results and won only 4.3% of the China Mobile tender for optical fibre cables (versus 17% last year), both detrimental to share price. Offsetting that, their outlook included a large win in Peru. We remain a holder at a smaller weighting, reflecting increased uncertainty.

The Fund's largest contributor was the long position in Indian Bank, Yes Bank. Yes Bank's shares climbed as it cleared several hurdles towards its rehabilitation as one of India's top private banks. The company passed an inspection by the Reserve Bank of India for its provisioning for bad debts, which had previously been under scrutiny. It has room to rise further if the new managing director can improve the bank's governance culture without slowing its historic growth. The Fund is long Yes Bank, Shriram Transport Finance and Karnataka Bank against ICICI Bank.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$ 1.1073
NTA value after tax[3]	$ 1.0982

MEC share price and Pre-tax NTA performance[4]



Outlook

A dovish turn by the Federal Reserve in March has seen interest rate expectations collapse – from back in November pricing 2-3 hikes in 2019, they are now pricing cuts by year-end.

In December, we blogged about what a rate pause has historically meant for equities, bonds and the real economy. Thus far, the rally in stocks and now the fall in yields have been consistent with this playbook. From here, history suggests the data worsens, bonds rally some more and equities enter a sideways to down range.

Top 10 Active Positions

Stocks (*Shorts*)	Industry	Region	Position Weighting
China Everbright Intl	Waste-to-Energy	Asia Pacific	4.8%
Huadian Power Intl	*Power Utility*	*Asia Pacific*	*(4.8%)*
Panalpina	Freight Forwarder	Europe	4.6%
Alstom	Global Rail Equipment	Europe	4.5%
Qantas	*Australian Airline*	*Asia Pacific*	*(4.2%)*
Service Corp	US Deathcare	North America	4.2%
ICICI Bank	*Indian Bank*	*Central Asia*	*(4.1%)*
Iida	*Japanese Homebuilders*	*Asia Pacific*	*(4.1%)*
Bank Leumi	Israeli Bank	Middle East	3.8%
Coca-Cola Amatil	*Beverages*	*Asia Pacific*	*(3.7%)*

Risk Measures	
Net Exposure[5]	89%
Gross Exposure[6]	187%
VAR[7]	1.26%
Upside Capture[8]	66%
Downside Capture[8]	82%
Best Month	5.51%
Worst Month	-5.41%
Average Gain in Up Months	2.03%
Average Loss in Down Months	-1.90%
Annual Volatility	8.80%
Index Volatility	9.44%

Top three alpha contributors[10] (bps)

- **Yes Bank** 30 bps
- **Karnataka Bank** 22 bps
- ***Platinum Asset Management*** *19 bps*

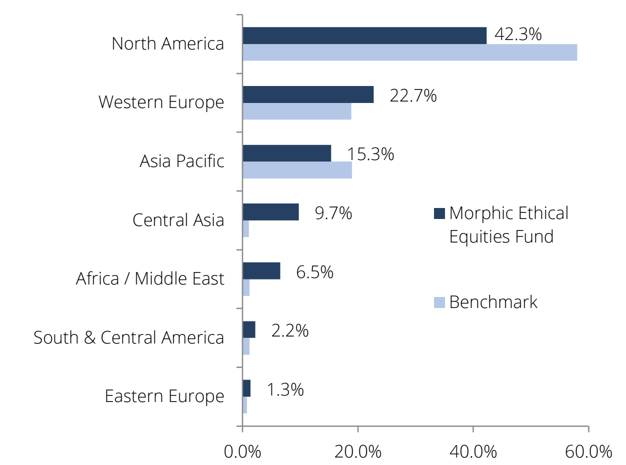
Hedge Positions	Risk Limit Utilisation (%)[9]
Short AUD and EUR, Long USD and CNH	1.6%
US 5/30 Steepener	1.0%
Long Global Bonds	0.5%

Top three alpha detractors[10] (bps)

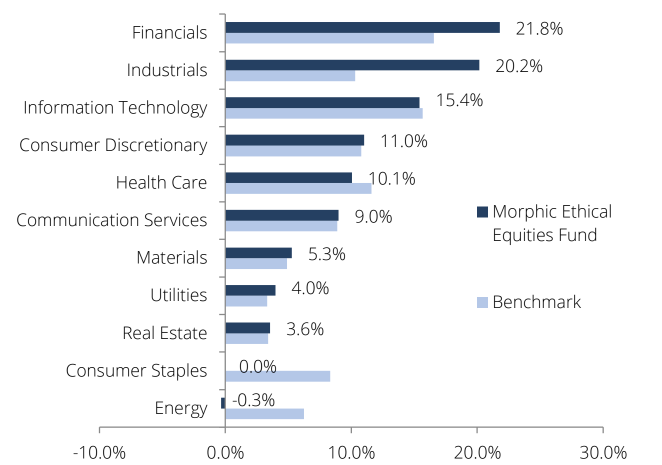
- ***ICICI Bank*** *-36 bps*
- **Yangtze Optical Fibre** -27 bps
- **Axos Financial** -23 bps

Key Facts	
ASX code / share price	MEC / 0.90
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee[11]	15%
Market Capitalisation	$ 47m
Shares Outstanding	52,619,987
Dividend per share[12]	$ 0.02

Equity Exposure Summary By region



Equity Exposure Summary By sector



Contact us

Morphic Asset Management Pty Ltd
Level 3, 139 Macquarie St
Sydney 2000
New South Wales
Australia
www.morphicasset.com

Irene Kardasis
Business Development Manager
Phone: +61 2 9194 6707
Email: ikardasis@morphicasset.com

---

[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 unaudited; [4] The pre-tax net tangible asset value is after the deduction of fees and costs. 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] Dividend per share includes the final dividend for FY18 payable on 12 December 2018.