

# 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 <sup>1</sup> | 0.83%   | 7.53%    | -1.95%   | 7.53%  | 5.73%      |
| Index <sup>2</sup>                         | 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.

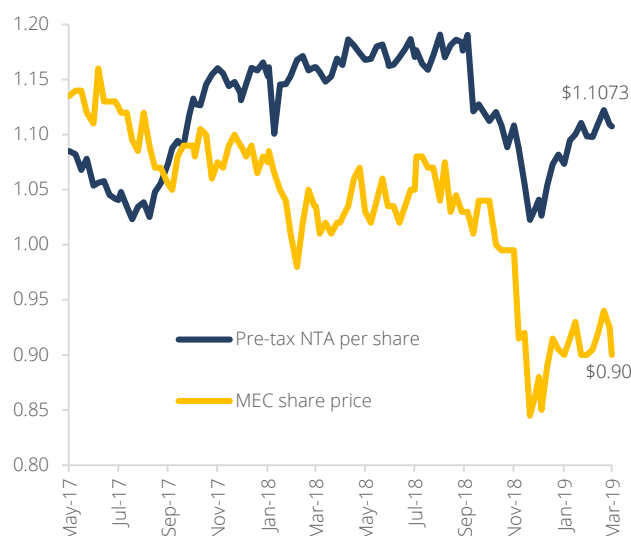
One of the largest detractors for the month was our long position in Hong Kong-listed Yangtze Optical Fibre and Cable (YOFC), a leading supplier of optical fibre cable globally. The company reported disappointing Q4 results and won only 4.3% of the China Mobile tender for optical fibre cables (versus 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 <sup>3</sup> | \$ 1.1073 |
| NTA value after tax <sup>3</sup>  | \$ 1.0982 |

## MEC share price and Pre-tax NTA performance<sup>4</sup>



## Outlook

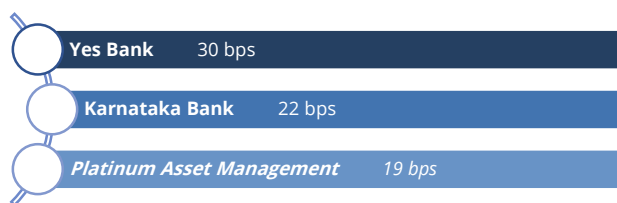
A dovish turn by the Federal Reserve in March has seen interest rate expectations collapse – from back in November pricing 2-3 hikes in 2019, they are now pricing cuts by year-end.

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.

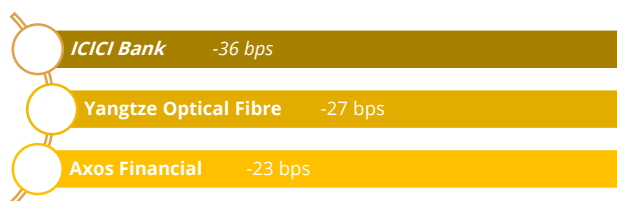
## Top 10 Active Positions

| 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%)             |

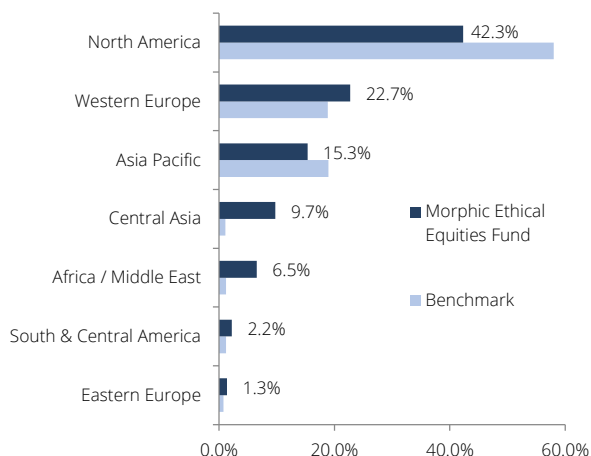
## Top three alpha contributors<sup>10</sup> (bps)



## Top three alpha detractors<sup>10</sup> (bps)



## Equity Exposure Summary By region

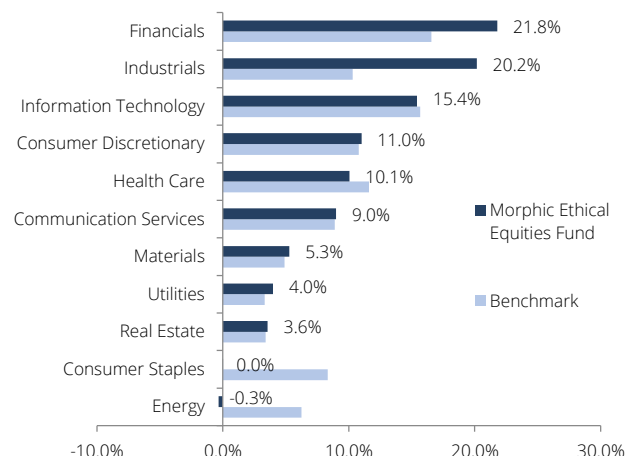


| Risk Measures                 |        |
|-------------------------------|--------|
| Net Exposure <sup>5</sup>     | 89%    |
| Gross Exposure <sup>6</sup>   | 187%   |
| VAR <sup>7</sup>              | 1.26%  |
| Upside Capture <sup>8</sup>   | 66%    |
| Downside Capture <sup>8</sup> | 82%    |
| 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%  |

| Hedge Positions                     | Risk Limit Utilisation (%) <sup>9</sup> |
|-------------------------------------|-----------------------------------------|
| Short AUD and EUR, Long USD and CNH | 1.6%                                    |
| US 5/30 Steepener                   | 1.0%                                    |
| Long Global Bonds                   | 0.5%                                    |

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

## Equity Exposure Summary By sector



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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 NDUEACWF) in AUD; <sup>3</sup> The figures are unaudited; <sup>4</sup> 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; <sup>5</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>6</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>7</sup> Based on gross returns since Fund's inception; <sup>8</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>9</sup> As a percentage of the Fund's Value at Risk (VaR) Limit; <sup>10</sup> Attribution; relative returns against the Index excluding the effect of hedges; <sup>11</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>12</sup> Dividend per share includes the final dividend for FY18 payable on 12 December 2018.