



## 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 | 3 Years (p.a.) | ITD (p.a.) |
|--|---------|----------|----------|--------|----------------|------------|
| Morphic Ethical Equities Fund <sup>1</sup> | 2.91%   | 6.47%    | -1.85%   | 6.20%  | 7.71%          | 6.47%      |
| Index <sup>2</sup>                         | 1.08%   | 3.51%    | -6.83%   | 3.03%  | 10.88%         | 9.62%      |

\* Past Performance is not an indication of future performance.

## Ethical Investing in Focus

Morphic is a signatory to the Principles for Responsible Investing (PRI), a UN supported initiative to which over \$100trn of Assets managed by over 3,000 managers, have signed up to. There are 6 principles regarding Environmental, Social and Governance assets of responsible investing, which can be read [here](#).

Morphic, for the second year in a row, received the highest possible rating (A+), a rating that less than 1 in 3 signatories achieves.

This underscores our ongoing commitment to the highest standards of engagement and transparency within the Asset Management industry. Thanks to James Tayler, Head of ESG, for his ongoing work for us in this area.

## Portfolio review

The Fund rose 2.9% in July, outperforming global markets which rose 1.1% in AUD terms. Global equities rose 5.1% in USD terms, as markets continued their rebound from March lows. Global markets are now up 44% off their March lows and sit just 4.8% below the all-time highs of February. The rise in the AUD dampened returns.

Emerging Markets resumed their "risk-on" leadership (+8.4%), with Asia Ex Japan (+7.5%) also rising strongly, both regions being helped by a falling USD. Japan lagged for the second month in a row (-1.6%) along with Europe (+3.7%).

Tech and Tech Hardware (+11.4%) topped the sector performance yet again and are the seemingly unstoppable forces with both up over 20% YTD. Likewise, Energy was the worst performing sector again (-2.3%) for the second month in a row despite the oil price rising over the month.

The Fund's holding in French listed rail company, Alstom, was the largest positive contributor over the month. During the month, Alstom reported quarterly results that the market took positively. The Fund reduced its holding size with the stock rallying over 20% at one point in the month as the upside became more limited.

The second largest contributor was our position in NEC Corporation. The Fund owns NEC and Fujitsu for both ESG (Governance) and sector exposure to increased IT hardware expenditure and are "self-help" stories of improved capital management and governance. During July, the UK government announced that they would not be using Huawei for the provision of 5G network hardware, and NEC and Fujitsu have been mentioned as likely replacements.

The Fund's largest detractor was the Open House and Iida sector neutral pair discussed last month (as a large contributor). Open House did a capital raising during the month to take advantage of buoyant capital markets, to pay down debt and raise cash for faster growth. The stock fell on this news. The Fund remains a holder.

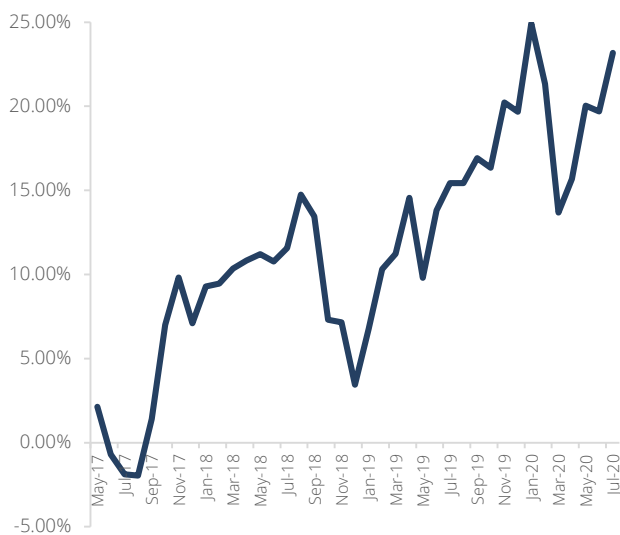
## Outlook

The trading range continues. Markets continue in their range, though right at the top of it now. The biggest change in markets is the view on the USD. An

### Net Tangible Assets (NTA)

|                                   |           |
|-----------------------------------|-----------|
| NTA value before tax <sup>3</sup> | \$ 1.1732 |
| NTA value after tax <sup>3</sup>  | \$ 1.1471 |

### Investment Returns since inception<sup>4</sup>



Past Performance is not an indication of future performance.

emerging view is that the USA is debasing their currency with large funding needs, but have pinned interest rates down, resulting in lower real interest rates. Reflective of this, the gold price surged to highs during the month. Whether this remains the case if COVID-19 cases increase globally into a risk off environment remains to be seen.

Lastly, it should be noted the breadth of stocks in the market that are rising has fallen further. For example, of the S&P 500 (the USA's largest 500 stocks), the whole years gain has been driven by five stocks. Breadth this narrow is usually not a sign of a healthy market.

Cash levels remain broadly unchanged from last month, along with fund positioning. Higher frequency data, such as continuing claims have come in on the softer side.

The Fund is positioned more for "COVID-19 risk off" in stock positioning (via long Tech and education and short air travel) even if the net exposure isn't as heavily positioned for that scenario as it was in March/April.

## Top 10 Active Positions

| Stocks (Shorts)       | Industry               | Region        | Position Weighting |
|-----------------------|------------------------|---------------|--------------------|
| Tencent               | Information Technology | Asia Pacific  | 4.0%               |
| NEC Corp              | Information Technology | Asia Pacific  | 2.8%               |
| Cellnex               | Telecom                | Europe        | 2.6%               |
| Ciena Corp            | Information Technology | North America | 2.6%               |
| Alstom                | Industrials            | Europe        | 2.2%               |
| Keysight Technologies | Industrials            | North America | 2.2%               |
| Fujitsu               | Information Technology | Asia Pacific  | 2.2%               |
| Sundrug               | Pharmaceuticals        | Asia Pacific  | 2.0%               |
| Sugi                  | Pharmaceuticals        | Asia Pacific  | 2.0%               |
| Techtronic Industries | Information Technology | Asia Pacific  | 1.9%               |

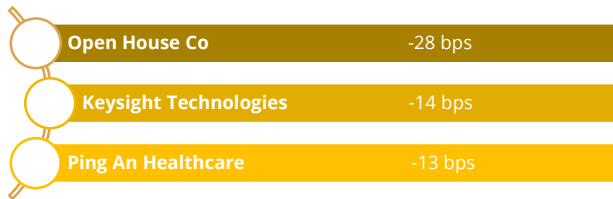
| Risk Measures                 |        |
|-------------------------------|--------|
| Net Exposure <sup>5</sup>     | 96%    |
| Gross Exposure <sup>6</sup>   | 122%   |
| VAR <sup>7</sup>              | 2.19%  |
| Upside Capture <sup>8</sup>   | 74%    |
| Downside Capture <sup>8</sup> | 79%    |
| Best Month                    | 5.51%  |
| Worst Month                   | -6.49% |
| Average Gain in Up Months     | 2.24%  |
| Average Loss in Down Months   | -2.13% |
| Annual Volatility             | 9.50%  |
| Index Volatility              | 11.04% |

| Hedge Positions | Risk Limit Utilisation (%) <sup>9</sup> |
|-----------------|---|
| None            |   |

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

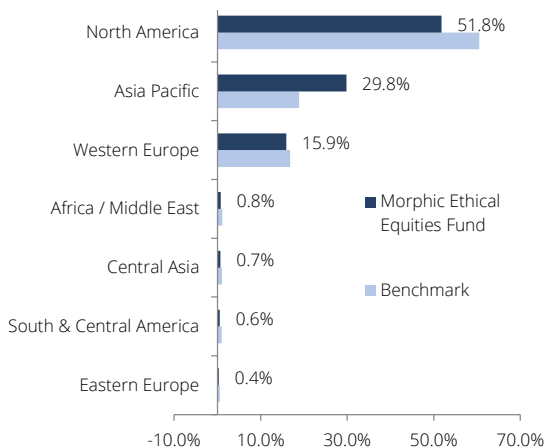


## Top three alpha detractors<sup>10</sup> (bps)

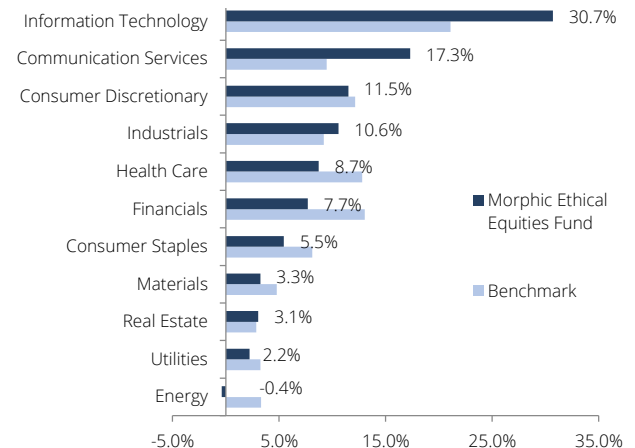


| Key Facts                        |             |
|----------------------------------|-------------|
| ASX code / share price           | MEC / 0.955 |
| Listing Date                     | 3 May 2017  |
| Management Fee                   | 1.25%       |
| Performance Fee <sup>11</sup>    | 15%         |
| Market Capitalisation            | \$ 50m      |
| Shares Outstanding               | 52,871,147  |
| Dividend per share <sup>12</sup> | \$ 0.02     |

## Equity Exposure Summary By region



## 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 estimated and unaudited; <sup>4</sup> 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; <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> Annual dividend per share.