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MORPHIC ETHICAL EQUITIES FUND

Monthly Report
December 2020

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[1]	1.51%	6.04%	10.99%	10.49%	7.28%	7.91%
Index[2]	-0.08%	6.52%	10.65%	5.90%	10.56%	11.18%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

The United Nations estimates that 300 million tonnes of plastic waste is produced every year, with the plastic industry accounting for 20% of total oil consumption. The largest contributor to this production is single-use plastics. Of all plastics ever produced, 79% have ended up in landfill and only 9% have been recycled, with the remaining amount incinerated. In 2019 the European Union approved a ban on key single-use plastic items which comes into effect in July this year and covers plastic plates, straws, cutlery and cotton swabs.

In response, hospitality, beverage and consumer staple companies have made commitments to ban the use of plastic straws and other single-use plastics as a step towards their larger sustainability targets. In 2019 PepsiCo promised to reduce their use of virgin plastics by 100% in nine European markets by 2022. At the same time, Nestle began the process of eliminating all plastic straws from their products. A popular alternative to plastic straws has been the paper straw due to its sustainable reputation. However, companies have received some backlash over this alternative due to its lower functionality.

Portfolio review

There is so much going on in the world right now however with a quick lookback on calendar year 2020 we are pleased to have delivered 10.5% net return which compared well to the benchmark which returned 5.9% over the same period.

Volatility this year was off the charts with one of the largest equity drawdowns in history followed by one of the fastest snapbacks as the global shutdown associated with the pandemic was met with "war time" levels of monetary and fiscal responses that were swift and decisive. It really did highlight that a balanced portfolio of high-quality businesses provides the best protection from the risk of permanent capital loss as they tend to outperform under most scenarios.

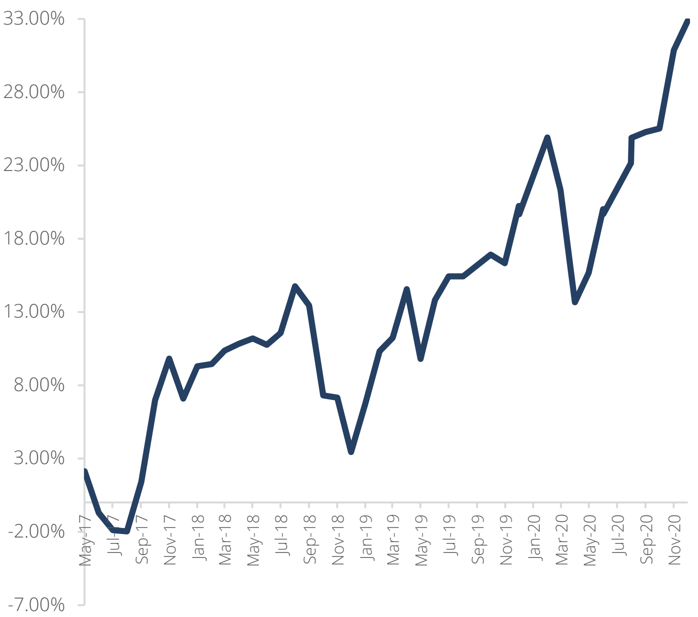
We have seen COVID-19 cases, and unfortunately deaths, skyrocket in the Northern Hemisphere with the US, UK and Europe in various forms of fresh lockdowns. Fortunately, we are getting more vaccines introduced into the market and with more likely to come, the market is currently looking through the near term COVID-19 spikes.

At the time of writing, the Democrats look to have won the Georgian election run-off and our hopes of a clean handover were dashed as Trump supporters marched on Congress in a violent, albeit short, insurgence. That said, now that Biden has been confirmed and the Senate is effectively controlled by the Democrats (50/50 split with VP Kamala Harris holding the deciding vote) we should now get a good indication of what the new administration will look to accomplish.

As the dust settles, we are expecting President-elect Biden's first priority will be getting the virus under control with accelerated vaccine rollouts to keep the economy rolling. This will be augmented with increased fiscal stimulus in the form of personal payments likely up to $2k, increased infrastructure spending with a focus on creating American jobs, enhanced renewable energy policies and while this is not an exhaustive list, improving access to mortgage credit for prospective homeowners. The longer-term risk is increased tax and regulations however we consider the first priority to be sustaining the economic recovery which is still in its early cycle phase.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$ 1.2430
NTA value after tax[3]	$ 1.1910

Investment Returns since inception[4]



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These policies will likely supercharge near term growth while concurrently increase inflation expectations as supply chains are still trying to catch up with demand. We are seeing this manifest itself in the US 10yr Yield which has increased >60% in just over 3 months from 0.68% to almost 1.10% today.

Over the past few months we have been pivoting the portfolio into value/cyclical exposures including US regional banks and global industrials which have been funded by reducing our exposure to technology names. With this shift we have fortunately been participating ahead of the strong equity markets and while we still see good upside in many of our names, we will remain diligent in trimming position sizing when the risk/reward becomes more marginal. That said, we are also not shying away from adding to existing positions, or initiating new positions, where we deem the capital upside potential relative to the risk as extremely attractive for us all as investors in the Fund.

Top 10 Active Positions

Stocks (*Shorts*)	Industry	Region	Position Weighting
PTC	Information Technology	North America	4.6%
Flex	Information Technology	North America	4.4%
Bureau Veritas	Industrials	Europe	4.2%
Tencent Music Entertainment	Communication Services	North America	4.2%
Option Care Health	Health Care	North America	4.1%
Anritsu	Information Technology	Asia Pacific	4.0%
Techtronic Industries	Industrials	Asia Pacific	4.0%
SEB	Consumer Discretionary	Europe	3.9%
Tempur Sealy	Consumer Discretionary	North America	3.9%
Sensata Technologies	Industrials	North America	3.9%

Risk Measures	
Net Exposure[5]	92.32%
Gross Exposure[6]	94.84%
VAR[7]	2.14%
Best Month	5.51%
Worst Month	-6.49%
Average Gain in Up Months	2.12%
Average Loss in Down Months	-2.13%
Annual Volatility	9.16%
Index Volatility	10.98%

Top three alpha contributors[8] (bps)

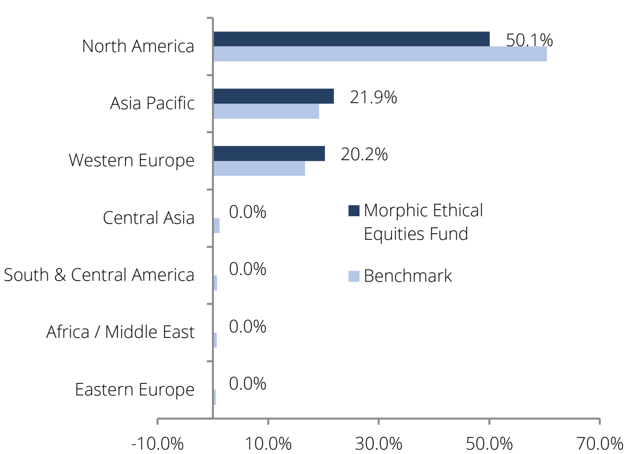
Tencent Music Entertainment	**37** bps
LiveRamp	**28 bps**
Alstom	**27** bps

Top three alpha detractors[8] (bps)

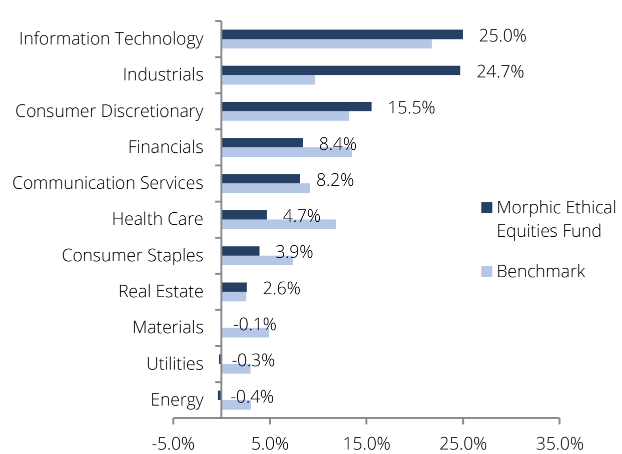
Cellnex Telecom	**-36** bps
Bed Bath & Beyond	**-28** bps
Anritsu	**-21 bps**

Key Facts	
ASX code / share price	MEC / 1.035
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee[9]	15%
Market Capitalisation	$ 55m
Shares Outstanding	52,953,469
Dividend per share[10]	$ 0.025

Equity Exposure Summary By region



Equity Exposure Summary By sector



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[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 estimated and unaudited; [4] 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; [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] Attribution; relative returns against the Index excluding the effect of hedges; [9] 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; [10] Annual dividend per share.