A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
May 2021

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]	2.12%	6.03%	17.98%	28.64%	11.39%	11.10%
Index[2]	1.35%	8.85%	10.41%	21.64%	13.00%	12.72%

* Past Performance is not an indication of future performance.

ESG IN FOCUS

We will continue to hear more about the circular economy and how businesses can harness this ideal in maximising our use of finite resources while at the same time minimising external pressures on our environment. The Ellen MacArthur Foundation has a great report titled "The New Plastics Economy, Rethinking the Future of Plastics" which highlights a number of environmental concerns, along with potential solutions, regarding our use of the "ubiquitous workhorse material", plastics.

The report highlights that while plastics deliver highly functional properties at a very low cost, the drawbacks are becoming increasingly apparent. Approximately 95% of plastic packaging material value, or US$80-120b annually, is lost to the economy due to its short first use cycle. More than 40 years after the launch of the first universal recycling symbol, only 14% of plastic packaging is collected for recycling. When additional value losses in sorting and reprocessing are factored in, only 5% of material value is retained for subsequent use.

What is more worrying is the likely acceleration of this trend. The report highlights that currently at least 8m tonnes of plastics leak into the ocean each year, the equivalent to one garbage truck every minute. If no action is taken, this is expected to increase to two per minute by 2030 and four per minute by 2050. This is unsustainable and while the plastics economy is highly fragmented, the collection and recycling infrastructure must rise to help minimise this issue.

PORTFOLIO COMMENTARY

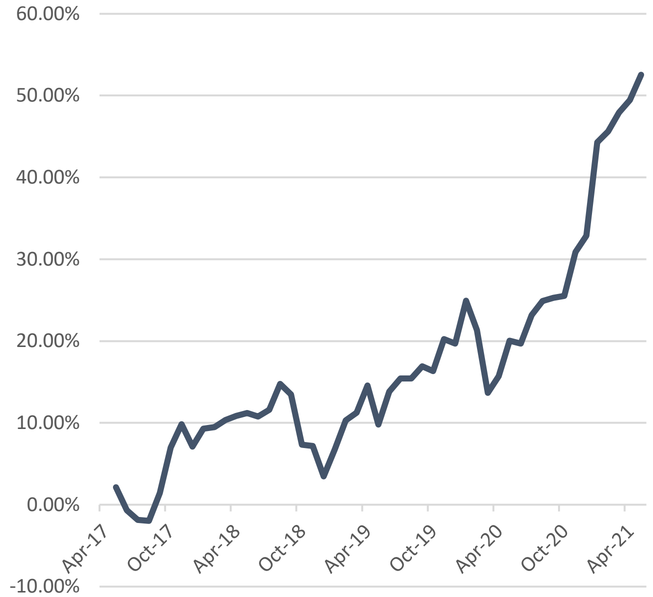
The Morphic Ethical Equities Fund increased 2.12% net during the month with positive equity performance of 2.12% augmented slightly by a weaker Aussie dollar. The the MSCI All Countries World Daily Total Return Net Index increased by 1.35% over the same period.

The portfolio's top three contributors Cellnex, Health and Happiness, Bed Bath and Beyond added 85bps to performance while QTS Realty, AZEK and Option Care Health detracted 43bps. The Fund had 8 portfolio companies reporting quarterly results or trading updates in May rounding out the March quarter reporting season.

Flex Group is one of the largest outsourced manufacturing solution players globally and is really benefiting from its strong position in the supply chain in a time of significant component shortages. Flex has a March year end and while full year revenue of $24.1bn was flat yoy, its Q4 exit rate came in at 14%. Despite the impact from Covid, full year EBITA grew 14.8% to over $1bn and free cash flow came in at $677m. Revenue and earnings guidance for the upcoming year was nicely ahead of market expectations and the share price reacted accordingly.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$ 1.4253
NTA value after tax[3]	$ 1.3299

Investment Returns since inception[4]



Option Care Health is the largest independent player in the US home infusion market and will benefit from the shift to home care at the expense of a hospital setting for the foreseeable future. It reported first quarter 2021 results with revenues and EBITDA up 7.6% and 29.5% respectively. Management marginally upgraded full year EBITDA guidance despite seeing some pressure on acute therapy pricing in antibiotics (nets out due to lower COGS) offset by referral patterns approaching pre-Covid levels and the launch of two new therapies in its network. It also purchased a small player in the Southeast for $18.5m (high single digit multiple) and we anticipate further value accretive deals going forward.

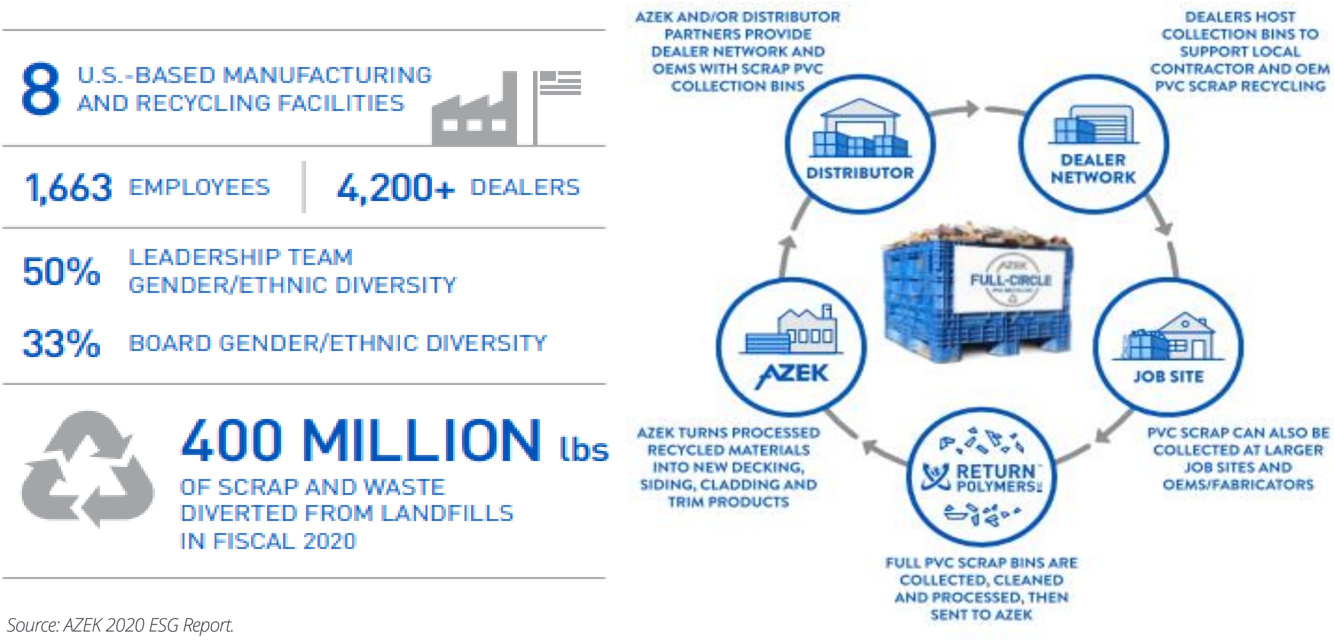
STOCK IN FOCUS: The Azek Company (AZEK US, $6.5b Market Cap)

After 30 years of private ownership, in June 2020, The Azek Company completed its IPO and made its trading debut on the NYSE.

Azek has a strong leadership position in the US composite decking and exterior market, operating in a domestic duopoly with industry leader Trex. It designs and manufactures low maintenance and environmentally sustainable products focused on the highly attractive and fast growing outdoor living market which is pivoting away from lumber. Wood currently represents about 65% of the $7.6bn US decking, railing and trim markets however composite alternatives such as Azek's offering are increasing market share at roughly a 2% annual clip and growing at >10% compared with the underlying market at just under 6.0% between 2014 and 2019.

Azek has created an operating platform that is centered around sustainability, which extends across its value chain from product design to raw material sourcing and manufacturing, and is increasingly utilizing plastic waste, recycled wood and scrap in its products. It has also made significant recent investments in expanding its recycling capabilities, including its recent acquisition of Return Polymers, which further enhances the sustainability of its manufacturing operations while concurrently expanding margins. Its TimberTech PRO and EDGE decking lines offer high-quality products made from approximately 80% recycled material. Through its recycling programs, approximately 400 million pounds of waste and scrap were diverted from landfills in fiscal year 2020. Furthermore, approximately 98% of scrap generated is re-used, and the majority of TimberTech, AZEK Exteriors and Versatex products are recyclable at the end of their useful lives.

In its recent ESG report, Azek unveiled its Full Circle initiative which is aimed at increasing the amount of scrap waste recycled from 400m pounds in 2020 to 1bn pounds by the end of 2026. With on-site collection programs in place, Azek provides a real solution to PVC disposal concerns and once the scrap is processed and sorted at its Return Polymer facility, the clean recycled material is utilised across multiple product lines. Azek estimates that recycled PVC has a carbon footprint 75-80% lower than virgin PVC therefore the more it can utilise, the more it can reduce the overall impact on the environment.



Source: AZEK 2020 ESG Report.

Azek has a September year end and recently released its second quarter result in mid May. The shift from lumber to composite decking is gathering pace as it sees record levels of consumer orders driving the need for increased capacity investments to satisfy long term growth opportunities. During the quarter, revenues increased 25% while adjusted EBITDA grew 28% on expanding margins. Sell through exceeded sales growth leaving system inventories below typical levels and it is upsizing its capacity investments in both recycling capabilities and decking manufacturing to satisfy market demand. The inflationary environment (especially in resins and logistics) is certainly impacting the business however Azek's strong market positioning has enabled it to institute 3 price increases in the past several months and anticipates fully offsetting the risk of input inflation in its P&L.

Management upgraded full year revenue growth to 23-26% with EBITDA expected to increase 25-29% on pcp and that is despite continued weakness in its commercial offering which is still being impacted by the pandemic. On the back of capacity expansions, the continued conversion from wood to composite and the solid underlying growth of outdoor decking we see long term double digit top line revenue growth coupled with even stronger earnings expansion as margins benefit from its recycling effort over the next few years.

Top 10 Active Positions

Stocks (Shorts)	Industry	Region	Position Weighting
Sensata	Industrials	North America	5.03
Cellnex	Communication Services	Europe	4.91
PTC	Information Technology	North America	4.87
Option Care Health	Health Care	North America	4.59
Flex	Information Technology	North America	4.51
Bureau Veritas	Industrials	Europe	4.23
SEB	Consumer Discretionary	Europe	3.81
Tempur Sealy International	Consumer Discretionary	North America	3.70
XPO Logistics	Industrials	North America	3.57
Webster Financial	Financials	North America	3.08

Risk Measures	
Net Exposure[5]	85.76%
Gross Exposure[6]	96.88%
VAR[7]	1.54%
Best Month	8.60%
Worst Month	-6.49%
Average Gain in Up Months	2.26%
Average Loss in Down Months	-2.13%
Annual Volatility	9.49%
Index Volatility	10.47%

Top three alpha contributors[8] (bps)

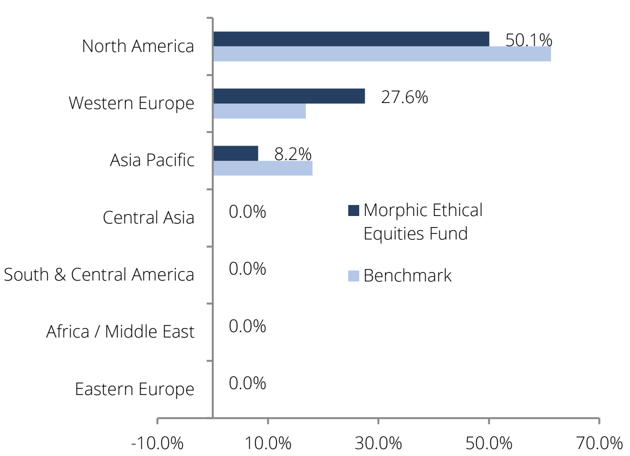
Cellnex	**30 bps**
Health and Happiness	**28 bps**
Bed Bath & Beyond	**27 bps**

Top three alpha detractors[8] (bps)

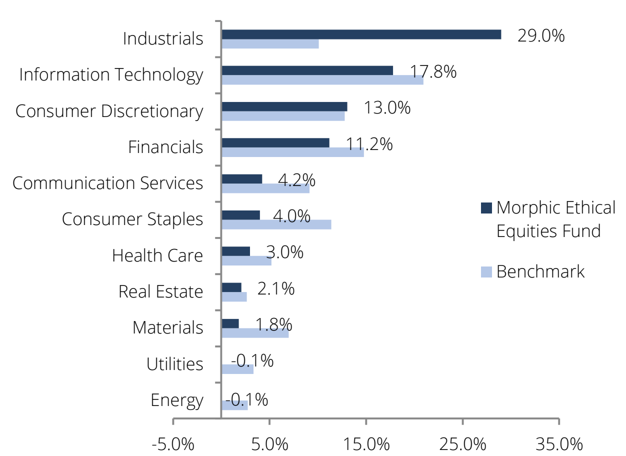
QTS Realty	**-12 bps**
AZEK	**-15 bps**
Option Health Care	**-16bps**

Key Facts	
ASX code / share price	MEC / 1.135
Listing Date	3 May 2017
Profit Reserve[9]	$ 0.301
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$ 58m
Shares Outstanding	52,953,469
Dividend per share[11]	$0.025

Equity Exposure Summary By region



Equity Exposure Summary By sector



Contact us

Morphic Asset Management Pty Ltd
Level 11, 179 Elizabeth St
Sydney 2000
New South Wales
Australia
www.morphicasset.com

Investor Relations
Phone: +61 2 9021 7701
Email: info@ellerstoncapital.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 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 reserve is made up of amounts transferred from current and retained earnings that are preserved for future dividend payments. The payment of franked dividends depends on the rate the Fund realises taxable profits and generates franking credits; [10] 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; [11] Annual dividend per share.