MORPHIC ETHICAL EQUITIES FUND

Monthly Report
November 2021

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

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]	3.58%	0.20%	11.49%	31.54%	16.94%	12.47%
Index[2]	3.38%	1.36%	12.26%	23.95%	17.11%	14.09%

* Past Performance is not an indication of future performance.

ESG In Focus

There was a very topical article in the AFR in early December outlining potential greenwashing risks associated with new entrants to the market. While it was aimed at new IPOs, the context of the article could easily be ascribed to many companies touting an ESG strategy and/or net zero targets. Current disclosure seems murky or at best very subjective, however what is clear is that we need a common platform or language on which companies can provide transparent and comparable reporting on climate matters.

One of the outcomes of the UN Climate Change Conference (COP26) was the formation of the International Sustainability Standards Board (ISSB) which will provide standards to cover important sustainability topics associated with ESG principles and develop both thematic and industry-based requirements.

The initiative has support from G20 countries as it lays the foundation for a global baseline of sustainability disclosure. From the ISSB website *"It is expected there will be a great deal of overlap between the information needs of investors and broader stakeholder groups on sustainability matters. However, the focus of the ISSB will be on meeting investors' needs, as the Foundation's remit and expertise is to set standards that provide information for the capital markets."*

The format will take some time to develop and implement as the ISSB will carry out a consultation process during 2022 to develop standards that can be mandated, while meeting regional requirements. Therefore, it seems likely it will be late 2022 or early 2023 before we get an ESG accounting framework. That said, this is clearly a strong step in the right direction in meeting the information needs for a broad set of stakeholders concerned about ESG disclosure.

Net Tangible Assets (NTA)

NTA value before tax[3]	$ 1.5250
NTA value after tax[3]	$ 1.3867

Investment Returns since inception[4]

Portfolio Commentary

Global markets had quite a volatile month during November with a strong start totally offset by the one-two punch of Fed Chairman Powell becoming more hawkish around inflation risks and the disturbing news that a new COVID variant called Omicron had emerged out of South Africa.

Consequently, there was a flight to safety with bond yields declining and risk assets coming under pressure late in the month. The S&P 500 reversed a +2% intramonth gain into an 70bps decline while the more economically sensitive Russell 2000 finished the month down 4.2%. Other overseas markets followed a similar trend with Japan down 3.7%, Germany lower by 3.8% and the UK down 2.2%.

The Morphic Ethical Equities Fund increased 3.58% net during the month outperforming the MSCI ACWI (AUD) which expanded 3.38% over the same period (both benefiting from the weaker Aussie dollar). The market narrative continues to be concentrated on the Omicron variant impact on growth, inflationary and supply chain concerns and, as always, the Fed.

The portfolio's top three contributors for the month DigitalBridge, WillScot Mobile Mini and Bed Bath and Beyond added 130bps to performance while XPO Logistics, Cerence and PTC detracted 173bps. We ran through the majority of our September quarter earnings updates last month although a couple of our new positions, Olaplex and First Watch Restaurants reported inaugural results (new IPOs) which both came in ahead of expectations.

STOCK IN FOCUS: Workiva (WK US, $7.2bn Market Cap)

Workiva simplifies complex work for thousands of organizations around the world, including 75% of the Fortune 500. It is the world's leading connected reporting and compliance software platform, offering collaboration, data assurance and control at scale. It simplifies regulatory, financial and operational reporting by automating tedious functions associated with complex reporting. Financial and operational reporting requires data from multiple systems of record, with multiple contributors and must be certified and transparent. The Workiva platform is a fit for purpose solution that works alongside a lot of the general ledger and ERP companies and has relationships with Oracle and SAP. The company also provides fit for purpose solutions for ESG reporting, ESEF (new European regulatory framework), risk, and in particular, financial services reporting.

Its subscription based, cloud native software connects over 70 third party application providers onto one platform that seamlessly co-ordinates and organises this disparate data into usable documents such as presentations, reports, SEC filings etc. It can support many users working on the same document at the same time with changes tracked in real time into one end document, say an SEC filing such as a 10-K, statutory insurance filing, and now ESG disclosure.

Workiva is targeting a $25bn total addressable market (TAM), has incredibly high customer retention rates of >96% and net revenue retention of over 110% when including new business with existing customers. It is targeting long term compound revenue growth greater than 20% as it works towards achieving its long-term operating margins of 22%+.

Source: Workiva.

At the end of its most recent quarter, it had over 4,100 customers on its platform which represented a 16% increase on the same period last year. Revenues increased almost 28% as it sells more products to its existing customer base. Annual recurring revenue associated with larger contract deals of >$300k has increased at a 40% compound rate over the past couple of years as its "land and expand" strategy takes hold. Currently >75% of its existing user base are spending approximately $100k/yr highlighting the strong upsell opportunity in front of the business.

With the increased focus on ESG reporting, a new market has opened up for Workiva with Management conservatively estimating a $3.0bn ESG TAM associated with its fit for purpose solutions. While still early, the ESG reporting opportunity is clearly being supported by regulatory bodies with the ISSB now in preliminary stages of developing standards. ESG reporting is incredibly complex as it requires ingestion of both financial and non-financial data from many disparate sources with significant collaboration between users required as well.

As the leader in "Investment Grade" reporting, Workiva is uniquely positioned to deliver its customers a platform that will generate consistent and concise ESG disclosure that all stakeholders can rely upon. While standards and regulations are still being formulated, Workiva has seen companies already begin the ESG journey as they embrace change and set their own internal targets to get ahead of the new regulation. Many of its customers are now working with advisory firms who are assisting with ESG transformation projects. This is opening up a much larger partner opportunity set for Workiva as advisory firms utilise the Workiva ESG platform in implementing ESG strategies for their customers.

Workiva is a new entrant into the Fund as pricing became very attractive after it got caught up in the tech selling pressure in mid-November at which point we initiated a position. We view the investment opportunity as one characterised by strong 20%+ multiyear revenue growth compounding on expanding margins with a Management team that we have found to be very forward thinking yet incredibly conservative.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Tempur Sealy	Consumer Discretionary	North America	4.79%
Sensata	Industrials	North America	4.71%
DigitalBridge	Real Estate	North America	4.54%
PTC	Information Technology	North America	4.53%
Webster Financial	Financials	North America	4.36%
Option Care Health	Health Care	North America	4.31%
Flex	Information Technology	North America	4.31%
PVH	Consumer Discretionary	North America	4.25%
WillScot Mobile Mini	Industrials	North America	4.12%
XPO Logistics	Industrials	North America	4.10%

Risk Measures	
Net Exposure[5]	89.46%
Gross Exposure[6]	96.24%
VAR[7]	1.52%
Best Month	8.60%
Worst Month	-6.49%
Average Gain in Up Months	2.39%
Average Loss in Down Months	-1.57%
Annual Volatility	9.70%
Index Volatility	10.32%

Top three alpha contributors[8] (bps)

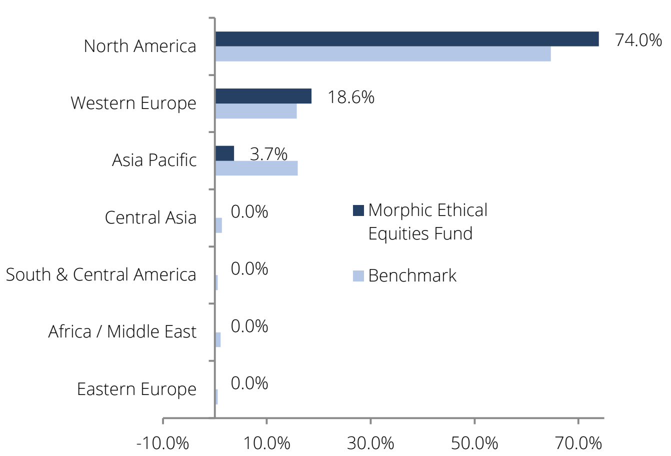
DigitalBridge Group	57 bps
Bed Bath and Beyond	37 bps
WillScot Mobile Mini	36 bps

Top three alpha detractors[8] (bps)

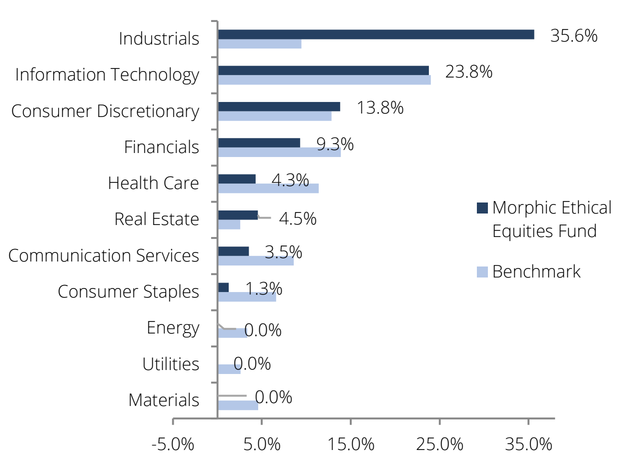
PTC	-51 bps
Cerence	-53 bps
XPO Logistics	-69 bps

Key Facts	
ASX code / share price	MEC / 1.355
Listing Date	3 May 2017
Profit Reserve[9]	$ 0.394
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$ 72m
Shares Outstanding	53,050,432
Dividend per share[11]	$0.06

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 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.