MORPHIC ETHICAL EQUITIES FUND

Monthly Report

February 2022

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]	-4.08%	-9.78%	-9.59%	6.66%	11.91%	9.44%
Index[2]	-5.42%	-5.87%	-4.59%	15.02%	12.67%	11.92%

* Past Performance is not an indication of future performance.

Portfolio Commentary

The month of February continued the negative trend felt in January however what was interesting was the outperformance of the Russell 2000 compared with its larger cap brethren in the S&P 500 and Nasdaq 100 indices. This was the opposite of what we saw in January and probably a consequence of energy and commodity players outpacing technology stocks.

The tragic scenes from Ukraine are hard to fathom and while equity markets are difficult at the moment, this pales in comparison to what the Ukraine people are going through on a daily basis.

The Morphic Ethical Equities Fund declined 4.08% net during February compared to the MSCI ACWI (AUD) which declined 5.42% over the month.

The portfolio's top three contributors for the month Assurant, Option Care Health and XPO Logistics added 96bps to performance while Net Protections, Olaplex and Workiva detracted 135bps. While we were disappointed with the short-term share price performance over the past couple of months, it is always important to focus on our businesses and how they are delivering in this environment. At the time of writing, we have just completed the December quarter reporting season and pleasingly the majority of our portfolio companies are performing at, or ahead of, expectations.

In times of uncertainty and volatility, understanding what you own, making changes when your thesis changes and taking a longer-term perspective in holding high quality businesses ultimately proves a winning strategy in generating capital growth.

We are focusing on and well positioned in businesses with strong balance sheets, high recurring revenues, secular tailwinds and pricing power. With that frame in mind, we have reduced our exposure to retail as rising food and fuel inflation will likely dampen consumer's desire to spend on discretionary items which in turn have inflated pretty materially over the past several months.

Given the current market volatility we will return to providing brief paragraphs on the top 10 positions in the portfolio. What you will hopefully take away is consistent attributes such as a high or dominant market share, high recurring revenues, high revenue retention rates, secular tailwinds and exceptional Management teams.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$ 1.2949
NTA value after tax[3]	$ 1.2811

Investment Returns since inception[4]

We consider these characteristics underpin pricing power, margin expansion, capital allocation optionality and increasing returns on capital. We want investors to be aware of, and hopefully comfortable with, the long-term opportunities held within the portfolio. Note that valuations quoted are all at the time of writing:

Sensata is a global leader in mission critical sensors which are primarily used in the automotive, heavy vehicle and industrial markets. The business benefits from increased sensor content per unit as safety requirements/regulations expand and clean energy applications increase over time. Typically, it outgrows its end markets by 4-6% which basically means even if its end markets are flat, it will still grow mid-single digit. Management recently held an Electrification Teach webcast in which it highlighted sensor content per vehicle more than doubling as we move from internal combustion engines to electric. Consequently, it sees a $15bn addressable market by 2030 and expects electrification revenue to grow at a 50% compound rate and come in around $2bn by 2026. To put this in context, we expect Sensata to generate just over $4bn of revenue in 2022 so the opportunity is very material to revenue and earnings growth over the next several years. Sensata is trading on just over 11x PE while generating over half a billion of FCF.

Webster Financial has recently completed its merger with Sterling Bank which will result in a regional bank powerhouse in Northeast US – think the Boston and New York regions. It will benefit from an expanded balance sheet which enables greater access to larger loan originations (at very little incremental cost) and as one of the larger HSA Banks in the US it will have significant cross revenue opportunities going forward. In its last earnings call, Management was confident on delivering 8-10% loan growth over the next couple of years and this will come at expanding net interest margins as rates ratchet up over the coming months. As a combined group, WBS is trading on 8.8x PE while generating about $400m of excess capital per year which will be returned to shareholders or reinvested to drive further growth.

Cellnex Telecom is the largest independent owner of mobile phone towers in Europe and is benefiting from a long-term outsourcing trend (as Telcos sell towers to independent operators) and data growth associated with current and next gen technologies such as 5G. The business benefits from very high recurring revenues underpinning EBITDA margins in the high 70% range. Cellnex has made a number of strategic and value accretive purchases over the past couple of years and still has close to €8bn of additional firepower for accretive acquisitions. The majority of its contracts are linked to inflation (with the rest at fixed escalators) and with close to 90% of its debt at fixed rates it actually benefits from a rising rate environment. Management recently confirmed FY25 EBITDA of €3.4bn with subsequent recurring free cash flow of €2.1bn placing it on a high single digit yield. The business has incredibly high earnings certainty and would represent a great pension asset.

WillScot Mobile Mini has over 40% market share in modular office leasing market in North America and is by far the dominant player in a space which should benefit from increased infrastructure spend associated with fiscal stimulus which has already passed (although more impact in 2023). Modular units are typically leased for almost 3yrs providing excellent visibility associated with highly recurring revenues. It is delivering high-teens pricing growth as it re-prices returning units at higher rates and fits these out with value added products which drive both revenue and margins. With >120m square feet of rentable space (equivalent to 44 Empire State Buildings) currently only utilised at 70%, it has significant scope to grow earnings with marginal increases in capital. Management confirmed full year midpoint EBITDA of $830bn placing it on track to achieve a $500m FCF run rate by mid-2022, comparing well to its $7.7bn market cap.

Digital Bridge is a leading global digital infrastructure REIT which invests in and owns assets across the digital ecosystem including cell towers, data centres, fibre , small cells and edge infrastructure. Management (led by industry veteran Marc Ganzi) has transformed the business over the past couple of years as it sold non-core assets to invest in its digital strategy. The last of its major asset sales completed at the end of February and now investors will be able to analyse the business as a pure play investment in digital infrastructure. It currently has $45bn of digital assets under management and $18bn of fee earning equity under management (FEEUM) which is expected to increase by $4-5bn annually over the next several years. We contend that tangible assets, and especially those able to pass through pricing such as digital infrastructure, become increasingly valuable in an inflationary environment.

Option Care Health is the largest independent provider of at home infusion services in the US (reaching 96% of the US population) and recently delivered FY21 revenue growth of 13.4% while EBITDA increased almost 31% despite continued impacts on labour associated with COVID. It continues to benefit from the shift of infusion from the hospital setting to the more convenient and significantly less costly at home setting. Chronic therapies (long term treatments) grew high teens while actute (shorter term just out of hospital typically) grew low single digit as elective surgery remained curtailed. Management indicated it will accelerate its M&A strategy as its balance sheet is in great shape and the business is generating accelerating free cash flow. Additionally, it will increase the number of infusion suites available (stop in on your way home) which will help with labour efficiency. FY22 EBITDA guidance of $320m midpoint looks conservative with further upside from accretive M&A likely through the year.

Graphic Packaging operates in a duopoly in the US serving the packaging needs for large consumer goods companies such as Kellogg's, Coca Cola and Nestle to name a few. Organic growth is benefiting from the push to sustainable fibre packaging away from plastic. It produces 49% of all CRB (Coated Recycled Board which is used in consumer goods packaging) and 60% of all CUK (Coated Unbleached Kraft which is made from recycled materials and used to carry beverages). The business is now benefiting from significant pricing initiatives and efficiencies from a recently completed new plant. Graphic Packaging recently guided FY22 EBITDA at $1.5bn midpoint driven by recent acquisitions and >$300m of net pricing benefits offsetting inflation. Its Vision 2025 playbook calls for $9.5bn revenue, $1.85bn EBITDA and >$2.85 per share of earnings. Based on these metrics the business is trading on 6.5x PE with mid-teens FCF yield.

GXO Logistics was recently spun out of XPO Logistics and is the largest global pure play contract logistics provider, operating in an industry which is being driven by ecommerce, warehouse automation and outsourcing trends. Its stated focus is on moving goods through supply chains with critical efficiency and reliability. In its FY21 result, management delivered 15% organic growth with mid to high 90% customer revenue retention rates which have increased over the past several months. It guided to 8-12% revenue growth for FY22 with new contract wins (which have already been booked) adding $830m of incremental revenue or about 10% - basically next year's revenue is already accounted for. GXO is currently trading on just over 9x next year's EBITDA which we view as a several point discount to its fair value.

TKH Group is a leader in 2D and 3D machine vision and security vision systems, number one player in next generation tyre manufacturing systems and a leader in providing medium voltage energy cables to the renewable energy sector. It is participating in a number of global megatrends and is fine-tuning its portfolio to provide investors with a pure look through to these opportunities. It aims to grow revenues to >€2bn with margins approaching 17% by 2025 as it focuses on its high value add capabilities. TKH reported its full year results on March 8th and delivered an impressive 15.9% organic sales growth while EBITDA grew 32.5%. Management remains confident in delivering on its strong order book and participating in the secular drivers of its end markets with further growth expected in FY22. TKH is trading on a forward PE of 11x and just under 7.0x EBITDA.

Assurant is a leading global provider of lifestyle and housing solutions that support, protect and connect major consumer purchases, primarily mobile phones and autos globally. It delivered full year EPS growth at the top end of its 10-14% guided range as it benefits from increased 5G phone trade ins and a strong used car market driving higher attach rates. Management guided FY22 EBITDA to grow another 8-10% despite significant investments in new programs recently won with AT&T and T-Mall as it builds out its in-store repair model. Following the sale of its Preneed business earlier this year it holds >$800m excess capital which will be allocated to share buybacks and tuck in M&A this year. We have Assurant trading on 11.5x forward earnings with mid-teens EPS growth expected this year.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Sensata	Industrials	North America	4.21%
WillScot Mobile Mini	Industrials	North America	4.09%
Webster Financial	Financials	North America	4.02%
Option Care Health	Health Care	North America	3.84%
Cellnex	Communication Services	Europe	3.79%
Digital Bridge	Real Estate	North America	3.66%
Assurant	Financials	North America	3.63%
Graphic Packaging	Materials	North America	3.59%
TKH Group	Industrials	Europe	3.50%
GXO Logistics	Industrials	North America	3.48%

Risk Measures	
Net Exposure[5]	80.37%
Gross Exposure[6]	98.76%
VAR[7]	1.34%
Best Month	8.60%
Worst Month	-8.44%
Average Gain in Up Months	2.40%
Average Loss in Down Months	-2.01%
Annual Volatility	10.64%
Index Volatility	10.56%

Top two alpha contributors[8] (bps)

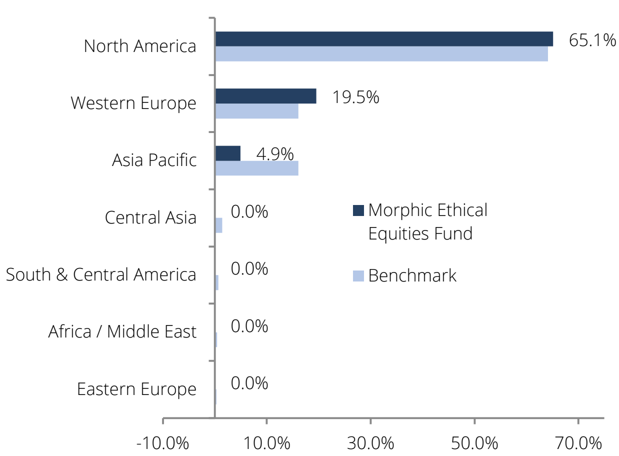
Option Care Health	**35 bps**
Assurant	**33 bps**
XPO Logistics	**29 bps**

Top three alpha detractors[8] (bps)

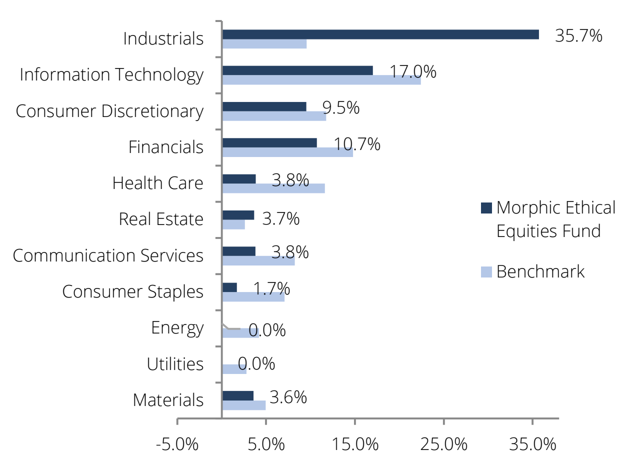
Net Protections	**-42bps**
Workiva	**-45 bps**
Olaplex	**-48 bps**

Key Facts	
ASX code / share price	MEC / 1.230
Listing Date	3 May 2017
Profit Reserve[9]	$ 0.421
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$ 65m
Shares Outstanding	53,164,680
Dividend per share[11]	$0.06

Equity Exposure Summary[12] By region



Equity Exposure Summary[12] 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. [12] Exposure Summary charts do not take into account derivate positions.