MORPHIC ETHICAL EQUITIES FUND

Monthly Report
July 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]	9.59%	-2.19%	-11.72%	-11.73%	7.22%	6.95%
Index[2]	5.43%	-0.11%	-9.33%	-5.71%	8.08%	10.03%

* Past Performance is not an indication of future performance.

ESG in Focus

The pandemic has driven demand for many products higher, supply of key components lower, and with inconsistent transport availability, you have the recipe for a supply chain disaster. From both a component supply and transportation perspective the worst appears to be behind us, but in the meantime, sales have been lost, inflation is widespread, and profits are being squeezed.

What we are also seeing is an ever growing environmental, social and governance (ESG) scrutiny across industries in driving comprehensive analyses of both downstream and upstream implications for suppliers, distributors and the full value chain.

As an example, Germany's Supply Chain Due Diligence Act comes into force on 1 January 2023 and requires companies with more than 3,000 employees in Germany to monitor supply chains for human rights violations and comply with environmental standards. However, nearly two thirds (65%) of businesses worldwide said they are unable to accurately assess whether their suppliers meet ESG standards according to a Sapio Research survey. Furthermore, 57% do not have an effective risk management system in place to ensure ESG integrity of supply chains, according to a survey by one of our portfolio companies, Coupa Software.

Portfolio Commentary

July provided a much-welcomed relief to the negativity experienced over the past six months as the narrative seems to have shifted (for the moment anyway) to one which questions how much of the downside risk has already been priced in by the market. Additionally, with recent substantial declines in commodity prices, coupled with improving supply chains, commentary around whether we have seen peak inflation and therefore peak US Federal Reserve (Fed) is ramping up.

The Morphic Ethical Equities Fund increased 9.59% net during the month comparing well to the MSCI ACWI (AUD) which was up by 5.43% over the same period.

The portfolio's top three contributors Willscot Mobile Mini, Cellnex Telecom and Option Care Health added 262bps while portfolio hedging was the dominant drag during the month.

The Fund had 13 portfolio companies reporting quarterly results or trading updates during the month with generally positive outcomes and commentary. We will be following up with company calls over the coming weeks to keep our finger on the pulse of operating conditions in this uncertain environment however let's run through several of these now.

Net Tangible Assets (NTA)

NTA value before tax[3]	$ 1.1505
NTA value after tax[3]	$ 1.1770

Investment Returns since inception[4]

Firstly, our regional banks, Comerica and Webster Financial both delivered solid results despite concerns around economic growth and credit quality. Both banks are predominantly exposed to Commercial and Industrial customers who are building working capital and replenishing inventories. Comerica upgraded full year loan growth expectations as well as net interest income as the rising rate environment feeds through its P&L. Webster's Commercial loan book grew 12% in the quarter underpinning Management indications that loans would grow at the upper end of its 8-10% target and net interest income would exceed expectations.

Graphic Packaging is the world's largest folding carton manufacturer with significant market share providing strong economies of scale benefits. It delivered a strong set of second quarter results as organic growth was driven by global demand for sustainability-supported and innovative consumer packaging solutions. The business is now benefiting from price increases more than offsetting cost inflation with full year 2022 benefits now estimated at $300m-$400m this year and potentially another $200m rolling into 2023. Management upgraded full year guidance with organic sales growth expected to beat the high end of its historical range. The stock has performed well and is still only trading on 9.0x next year's earnings.

Option Care Health is the largest independent provider of at home infusion services in the US (reaching 96% of the US population) and delivered a very strong set of second quarter results with revenue up 14% and EBITDA up 17% to >$85m. While it is early, the business is benefiting from several competitors exiting certain categories in acute care while chronic care continues to grow mid-teens. Management upgraded full year guidance which now assumes low double digit revenue growth translating into mid-teens earnings growth. Cash flow of at least $250m will see its balance sheet de-gear even further, leaving plenty of scope for value accretive acquisitions.

Sensata is a global leader in mission critical sensors which are primarily used in the automotive, heavy vehicle and industrial markets. The second quarter result came in line with expectations however the full year outlook was lowered due to continued supply chain impacts on global automotive production. Importantly, ST continues to significantly outperform its end markets with 650bps of outperformance this quarter. While it now expects its end markets to decline 1% this year (compared to 1% increase previously), this sets up the business for a solid 2023 as electrification trends continue to expand. ST has completely recouped the share price weakness on the day of its result and is currently trading on 12.0x PE.

Soitec is the dominant player in providing next generation semiconductor materials which dramatically increase efficiency while simultaneously reducing power consumption. It has >70% market share in its end markets which include products used in mobile communications, automotive/industrial and smart device applications. Soitec's first quarter revenue was impacted by a fire in one of its facilities which limited top line growth to 12%. With strong committed contracts, it is confident on achieving an acceleration throughout the year with full year revenue growth of >20% driving EBITDA margins of 36% expected.

Bureau Veritas (BVI) is a top 3 testing, inspection and certification company globally with strong ESG credentials in testing and certifying next generation energy developments as well as playing a critical role in ensuring our supply chains are robust with traceability. BVI announced its first half 2022 results and despite the macro challenges (Ukraine, China lockdowns and energy prices) organic growth continued to trend at its mid-single digit FY guide. Management confirmed its previous full year outlook underpinned by significant growth opportunities related to its sustainability range of services and solutions.

Advantest currently has over 50% market share in the global system on chip (SoC) testing market which is driven by increased complexity and quantity of semiconductor chips used in pretty much every device globally. The business is performing very strongly with an earnings beat and raised guidance for the financial year ending March 2023. It now expects revenue growth of >32% and EBIT up over 48% as margins increase year on year. Management also released a revised Midterm Plan which highlighted conservative assumptions for next year although capital management including buybacks and dividends were ahead of expectations.

Cellnex is the largest independent owner of mobile tower assets in Europe controlling over 20% of all towers in the region. Management delivered its typical result which included a slight earnings beat underpinned by solid organic growth. Given recent acquisitions are expected to completely close shortly, Management indicated that FY22 earnings are trending towards the top end of its guided range with FY25 guidance reiterated again. While it was not successful in purchasing the Deutsche Telekom tower portfolio (market was relieved given debt burden) it still has >€7bn of balance sheet firepower for more bolt on acquisitions and spending within its current customer base.

PTC is a leader in CAD and PLM software applications globally and is the market leader in industrial automation software underpinning digital twins. This was its third quarter result as it has a September year end. Management delivered an earnings beat while concurrently raising full year Annual Recurring Revenue and Free Cash Flow guidance. Organic bookings were up in the high 20% range which should help augment future revenue once they become recognised. It is seeing significant interest from enterprises looking to expand their digital transformation and cloud initiatives. The shift to SaaS continues (primarily in its Windchill PLM product) and this will underpin strong revenue and earnings growth over the next several years.

Flex is one of the largest contract manufacturers globally while also owning the largest solar tracking business in the world, called Nextracker. Revenues came in +16% on last year with earnings coming in ahead of expectations as well. While it is seeing some slowing in consumer discretionary segments (<10% of group) demand remains strong in most business units. Flex is increasing share in EV component manufacture (bookings this quarter alone were almost the same as all of last year), connected medical devices and data centers. Full year revenues were upgraded as the business fully recoups inflation and strong end markets are underpinned by new production ramps.

Rentokil Initial is the world's largest hygiene and pest control company which delivered a slight beat to consensus expectations with organic revenue of 5.6% in pest control and 10.0% in hygiene. As the majority of its customers are on evergreen contracts with annual price escalators, it is having no trouble in passing on cost inflation with no deterioration in customer retention rates. Management indicated that it is seeing no change in the positive trends so far in July and also re-affirmed its full year profit guidance. Rentokil is purchasing Terminix in the US which will give it 30% market share in the largest pest market in the world. The acquisition is on track to close late September/early October.

Chart Industries is a global leader in providing technology, equipment and services serving multiple market applications in Industrial Gas and Energy. Chart delivered record orders of $887m (+39% from Q1) and backlog at $1.95bn with adjusted EPS slightly ahead of consensus at $0.88. Importantly, the company is starting to see the pricing actions that the implemented late last year take hold with record GP and OP dollars. Strong demand for new orders was driven by all aspects of the LNG business with Management even more confident in its FY23-FY25 growth aspirations underpinned by hydrogen, carbon capture and water treatment growth.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Cellnex	Communication Services	Europe	5.13%
Assurant	Financials	North America	5.09%
WillScot Mobile Mini	Industrials	North America	4.97%
PTC Inc	Information Technology	North America	4.41%
Flex	Information Technology	North America	4.38%
Graphic Packaging	Materials	North America	4.17%
Sensata	Industrials	North America	3.98%
Chart Industries	Industrials	North America	3.81%
Rentokil	Industrials	United Kingdom	3.72%
GXO Logistics	Industrials	North America	3.70%

Risk Measures	
Net Exposure[5]	85.07%
Gross Exposure[6]	95.50%
VAR[7]	1.72%
Best Month	9.59%
Worst Month	-8.44%
Average Gain in Up Months	2.59%
Average Loss in Down Months	-2.37%
Annual Volatility	12.00%
Index Volatility	10.78%

Top alpha contributor[8] (bps)

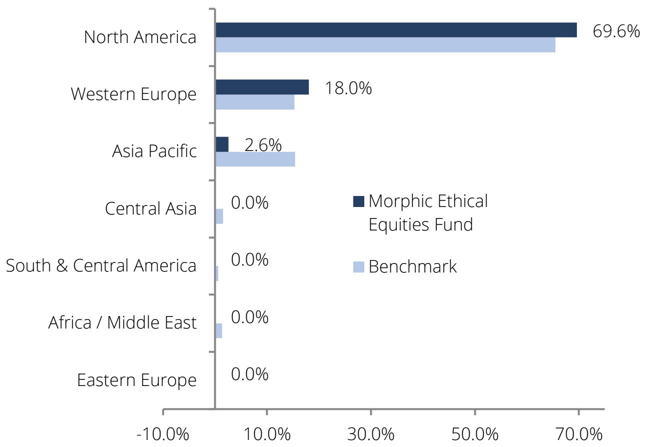
WillScot Mobile Mini	**97 bps**
Cellnex	**90 bps**
Option Care Health	**75 bps**

Top alpha detractor[8] (bps)

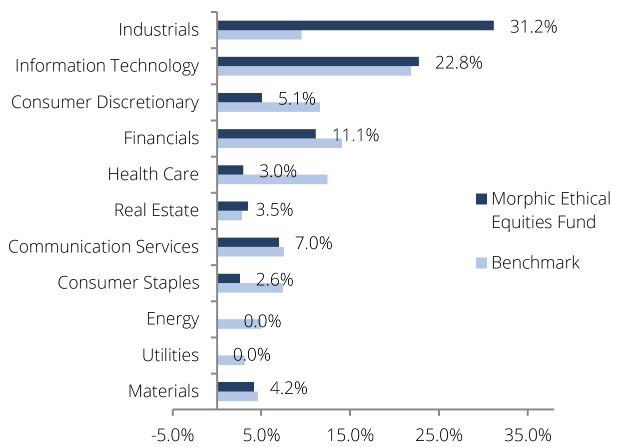
Workiva	**-2 bps**

Key Facts	
ASX code / share price	MEC / 1.000
Listing Date	3 May 2017
Profit Reserve[9]	$ 0.460
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$53m
Shares Outstanding	53,301,524
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 derivative positions.