

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
September 2022

## Fund Objective

The Morpic 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 <sup>1</sup> | -5.61%  | -1.08%   | -12.28%  | -22.40% | 3.18%          | 4.73%      |
| Index <sup>2</sup>                         | -3.58%  | -0.34%   | -8.21%   | -10.86% | 5.41%          | 8.57%      |

\* Past Performance is not an indication of future performance.

## ESG in Focus

In January 2021, Joe Biden took office as President of the United States on his promise that a Democratic government would bring a rapid climate response. One month later, the US re-joined the Paris Agreement and vowed to 'take the lead on climate action'. Putting pen to paper, Biden set the goal of reducing US emissions to 50-52% below 2005 levels by 2030.

Despite this huge commitment, CO2 emissions in the US rose by +6% YoY in 2021. After the Build Back Better Bill failed to garner support in the Senate despite lengthy negotiations to reconfigure aspects of the Bill, promises had been made but still no action had been taken.

On August 16th, 2022, the Inflation Reduction Act was signed into law. The Bill contained key aspects of the original Build Back Better framework that were never passed, especially regarding clean energy transition and increasing domestic manufacturing.

The Act will allocate \$370 billion towards climate change and the energy transition. The investment aims to increase domestic production of wind turbines, solar panels, batteries, and other energy production and storage means including green hydrogen, nuclear, and carbon capture.

## Portfolio Commentary

From a global market perspective in the month of September, the S&P 500 and Nasdaq indices were lower by 9.2% and 10.4% respectively while Europe performed marginally better with the FTSE 100 lower by 5.2%, French CAC 40 index down 5.8% and Germany's DAX down 5.6%.

The Morpic Ethical Equities Fund declined 5.6% net during the month compared with the MSCI ACWI (AUD) which was down by 3.6% over the same period. Financial year to date the Fund is down 1.1%.

Global weakness was mainly triggered by the US Federal Reserve (Fed) which made it clear that it was on a path to fight inflation via financial tightening and was accepting of potential economic weakness in achieving its goal. The market has been impacted by a significant multiple de-rating and the common view is that the next move will be driven by negative earnings revisions.

A proud founder of:



Signatory of:



## Net Tangible Assets (NTA)

|                                   |           |
|-----------------------------------|-----------|
| NTA value before tax <sup>3</sup> | \$ 1.0205 |
| NTA value after tax <sup>3</sup>  | \$ 1.0836 |

## Investment Returns since inception<sup>4</sup>



We remain intently focused on minimizing the risk of earnings disappointments by investing in quality businesses that have dominant or growing market shares in structurally attractive end markets, solid balance sheets, and cash flows while carrying attractive valuations.

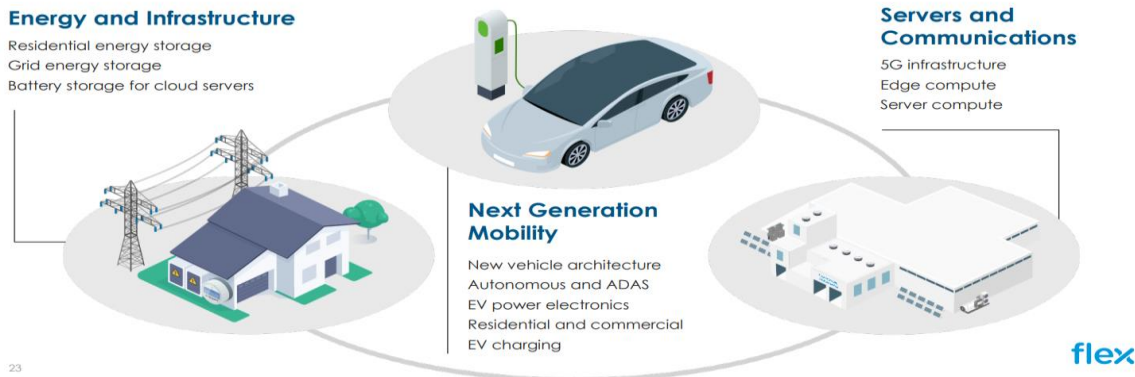
The portfolio's top three contributors **Workiva**, **Option Care Health**, and **LiveRamp Holdings** added 15bps while **Digital Bridge**, **Cellnex**, and **Ciena Corporation** detracted 244bps from performance.



Flex is one of the largest contract manufacturing companies globally operating over 100 facilities in 30 countries providing its customers with world-class manufacturing capabilities. Over the past few years, it has significantly changed its portfolio mix to higher margin, secularly growing market segments such as digital healthcare, 5G, cloud applications, and next-generation mobility, which we will discuss here.

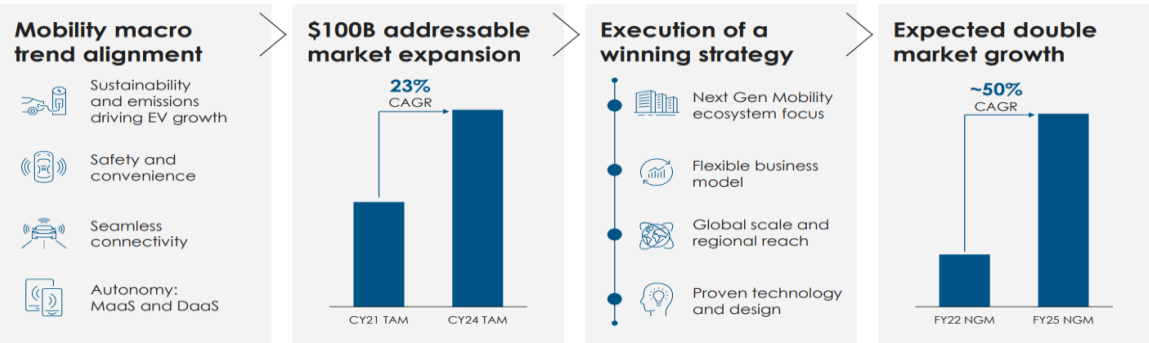
Flex is uniquely positioned in the next-generation mobility market, not just manufacturing components for electrical vehicles but a multi-segment product approach to address this megatrend. The growth of electrification, which is underpinned by the recently passed Inflation Reduction Act, means much more than on-vehicle content. Think of the EV chargers for residential and commercial, and to residential and grid energy storage systems powering these chargers and closing the loop, vehicle-to-infrastructure 5G connectivity from car to edge to cloud, providing these connected services, and the advanced battery storage systems protecting these cloud servers.

## Leveraging Flex’s full capabilities to enable the next generation electric mobility ecosystem



The total addressable market for Flex’s next-generation mobility segment is expected to approach \$100bn by CY2024 with especially strong growth in EV components opening up its total pipeline of opportunities. It expects to generate 50% compound growth in this segment with economies of scale driving increased profitability as well. Recent project wins and subsequent ramps are driving increased Flex content per vehicle as it designs its own products and co-designing with its customers.

## Flex is uniquely positioned to deliver above market growth in Next Gen Mobility



Now, this is just one segment within Flex, however, with the strong tailwinds of regulation and stimulus underpinning the opportunity, there seems to be significant earnings momentum over the next few years. At the time of writing, Flex is currently trading on a forward price-to-earnings multiple of 8.3x and is on track to generate >\$500m of free cash flow this financial year which compares well with its \$8.3bn market cap.

## Top 10 Active Positions

| Stocks               | Industry               | Region         | Position Weighting |
|----------------------|------------------------|----------------|--------------------|
| Flex                 | Information Technology | North America  | 5.30%              |
| WillScot Mobile Mini | Industrials            | North America  | 5.27%              |
| Assurant             | Financials             | North America  | 5.14%              |
| PTC Inc              | Information Technology | North America  | 4.56%              |
| Graphic Packaging    | Materials              | North America  | 4.51%              |
| Chart Industries     | Industrials            | North America  | 4.40%              |
| Cellnex              | Communication Services | Europe         | 4.39%              |
| Webster Financial    | Financials             | North America  | 4.30%              |
| Sensata              | Industrials            | North America  | 4.07%              |
| Rentokil             | Industrials            | United Kingdom | 3.67%              |

| Risk Measures               |        |
|-----------------------------|--------|
| Net Exposure <sup>5</sup>   | 79.13% |
| Gross Exposure <sup>6</sup> | 90.12% |
| VAR <sup>7</sup>            | 1.57%  |
| Best Month                  | 9.59%  |
| Worst Month                 | -8.44% |
| Average Gain in Up Months   | 2.59%  |
| Average Loss in Down Months | -2.56% |
| Annual Volatility           | 12.29% |
| Index Volatility            | 10.84% |

## Top alpha contributor<sup>8</sup> (bps)



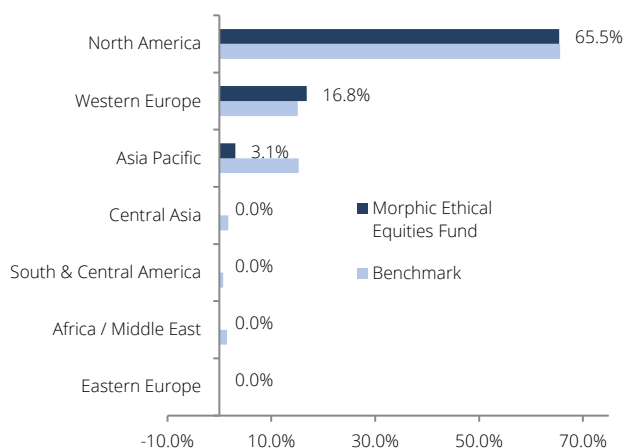
## Top alpha detractor<sup>8</sup> (bps)



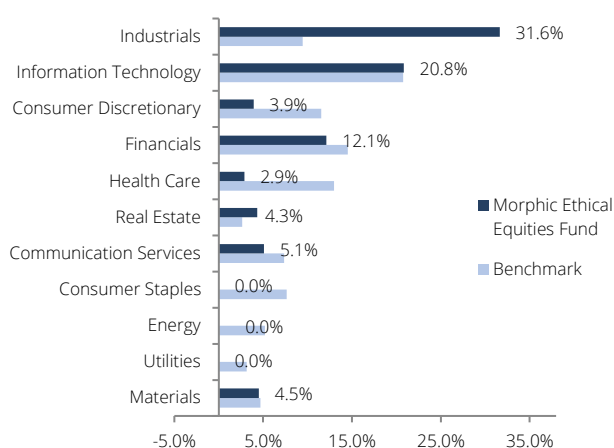
## Key Facts

|                                  |             |
|----------------------------------|-------------|
| ASX code / share price           | MEC / 0.900 |
| Listing Date                     | 3 May 2017  |
| Profit Reserve <sup>9</sup>      | \$ 0.459    |
| Management Fee                   | 1.25%       |
| Performance Fee <sup>10</sup>    | 15%         |
| Market Capitalisation            | \$48m       |
| Shares Outstanding               | 53,373,490  |
| Dividend per share <sup>11</sup> | \$0.06      |

## Equity Exposure Summary<sup>12</sup> By region



## Equity Exposure Summary<sup>12</sup> By sector



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<sup>1</sup> Performance is net of investment management fees, before company admin costs and taxes; <sup>2</sup> The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUEACWF) in AUD; <sup>3</sup> The figures are estimated and unaudited; <sup>4</sup> 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; <sup>5</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>6</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>7</sup> Based on gross returns since Fund's inception; <sup>8</sup> Attribution; relative returns against the Index excluding the effect of hedges; <sup>9</sup> 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; <sup>10</sup> 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; <sup>11</sup> Annual dividend per share. <sup>12</sup> Exposure Summary charts do not take into account derivative positions.