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MORPHIC ETHICAL EQUITIES FUND

Monthly Report
November 2022

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]	0.55%	2.70%	-1.22%	-18.44%	5.14%	6.18%
Index[2]	2.89%	5.77%	4.43%	-6.43%	6.98%	10.11%

* Past Performance is not an indication of future performance.

ESG In Focus

As we have previously highlighted (see E-Waste Blog here) the global e-waste problem is large and growing with over 57m tonnes of e-waste generated in 2021. Naturally we initially think about our own computing devices such as smartphones, personal computers and laptops being the dominant driver of this problem however what many don't appreciate is the amount of redundant IT equipment associated with the ever-expanding cloud.

Hyperscalers such as Amazon, Alphabet and Microsoft are expanding their respective cloud footprints and adopting the most recent technology in the process. What may be forgotten is what happens with the legacy equipment which has now become outdated and subject to the scrap pile? Additionally, companies themselves are moving from on-premise (owning their own servers) to off-premise (third party data centers such as Next DC or Equinix) which is also resulting in a mountain of redundant IT equipment.

These IT assets typically hold sensitive information and when decommissioning these servers the information must be either thoroughly erased or securely transferred onto the new platform. There is a serious social risk if this data is not managed properly or falls into the wrong hands.

Overall, the size of the e-waste and data security problems are only set to grow right alongside cloud growth. But with an increasing focus on a circular economy via reusing and recycling, we can manage the impact of the problem to the best extent possible.

Portfolio Commentary

The Morphic Ethical Equities Fund increased 0.55% net during the month compared to the MSCI ACWI (AUD) Index which was up by 2.89% over the same period.

Global markets delivered a solid month during November with the rally largely driven by Chinese strength as a relaxation of COVID restrictions supported local markets as well as global companies exposed to a re-opening of the region. Additionally, signs that the Fed would not be as aggressive with its rates increase in December with a 50bps increase telegraphed by Chairman Powell (compared with 75bps previously expected by the market) drove positive equity returns.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$ 1.0909
NTA value after tax[3]	$ 1.1305

Investment Returns since inception[4]

The market looks to have sufficiently priced in the hawkish Fed while inflation readings (at least for the time being) appear to be moving lower despite elevated and persistent wage inflation. The question going forward will be the economic, and therefore corporate profit impact, associated with one of the fastest interest rate tightening regimes we have experienced in generations. While we have recently seen an easing in financial conditions, they are still tight relative to past periods and as such will likely result in slowing demand into 2023.

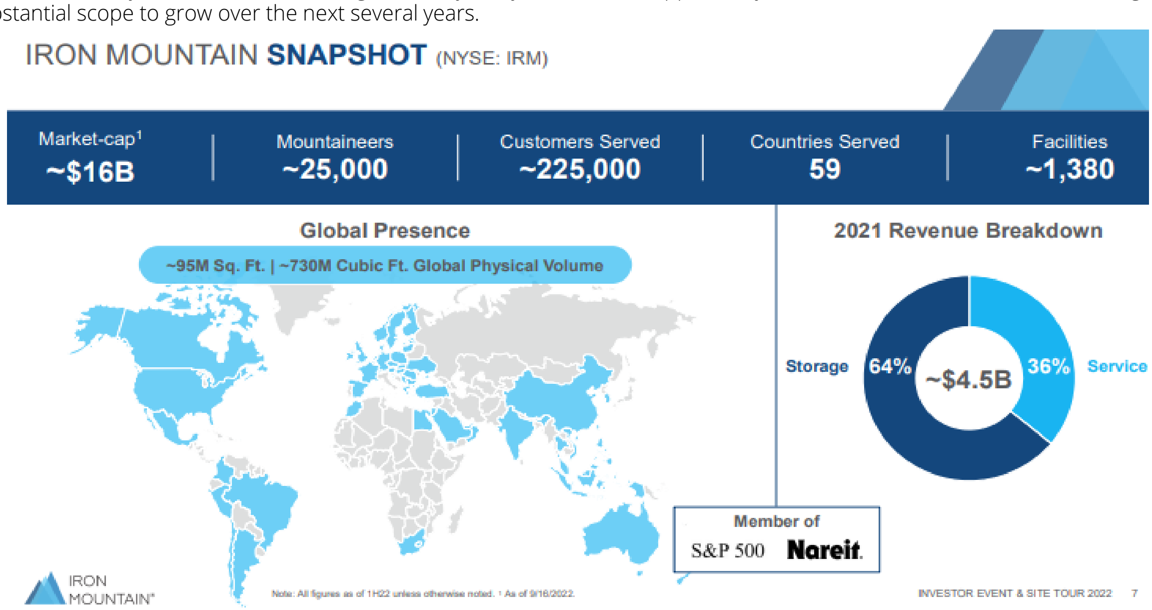
With this in mind, it has never been more important to be exposed to companies with strong secular or structurally growing end markets, high or growing market shares with commensurate pricing power driving sustainable cash flows and strong balance sheets. We consider companies with mission critical tangible assets are becoming even more valuable as the earnings certainty associated with these assets will prove increasingly attractive to both public and private investors.

The portfolio's top three contributors Willscot Mobile Mini, Flex Group and Soitec added 193bps to performance while Chart Industries, Ciena and Assurant detracted 232bps during the month.

Stock In Focus: Iron Mountain (IRM US, $16.0bn Market Cap)

Iron Mountain is a global business dedicated to storing, protecting and managing, information and assets. Organisations across the globe trust it to store and protect information and assets. Thousands of local enterprises work with it, as does almost all of the FORTUNE 1000. Iron Mountain helps organizations around the world protect their information, reduce storage costs, comply with regulations, facilitate corporate disaster recovery and better use their information. Iron Mountain stores physical and digital records and documents while concurrently providing data center space for enterprise and hyperscale deployments.

It counts 95% of the global Fortune 1,000 as customers and has maintained these relationships for decades, with minimal turnover. The majority of earnings are currently derived from its global information management division which boasts very high margins and cash generation which internally funds its data centre growth trajectory. The market opportunity has been estimated at over $130bn giving the business substantial scope to grow over the next several years.



Source: Iron Mountain.

A recent move into Asset Lifecycle Management delivers a number of services around customer IT assets such as servers and computers. These services include securing and wiping data off old IT equipment, refurbishing, reselling or reclaiming commodities which helps reduce e-waste while ensuring customer data integrity. It has capabilities to re-market assets where possible through refurbishment, data sanitization and reselling at a market price, thus reducing the total cost of ownership for the customer. And where re-marketing is not possible, e-waste recycling occurs by de-manufacturing the assets into commodity categories subject to guidelines including no-overseas and no-landfill policies. Iron Mountain is one of the largest IT asset disposition players, operating in 30 countries, sanitizing 3m+ drivers per year and generating US$1bn+ for clients via asset re-marketing.

3M+ DRIVES
Sanitized per year

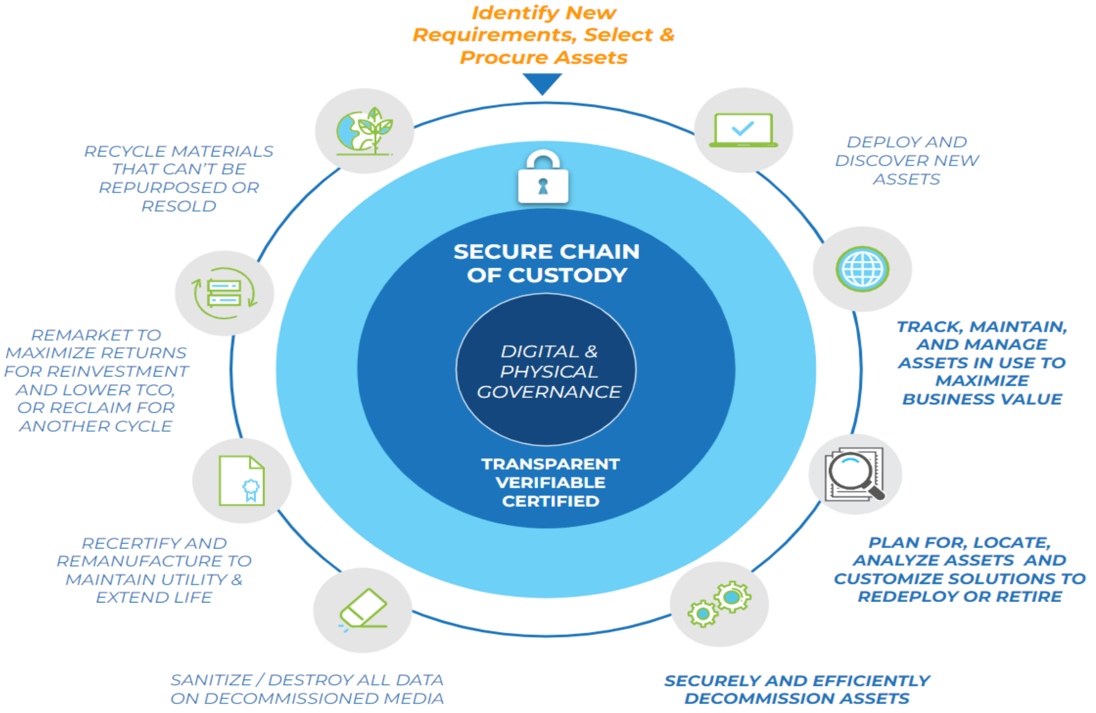
$1B+ GENERATED
For clients via remarketing

650K+ END-USER ASSETS
Processed per year

32 COUNTRIES
Supported globally

Continuous technological innovation has produced an explosion of e-waste which has resulted in increased regulation focused on improving global sustainability. At every step of the way, Iron Mountain works with its customers to reduce their carbon emissions and e-waste. By enabling faster and less disruptive refresh cycles, Iron Mountain makes it easier for companies to quickly deploy newer, more efficient, and environmentally friendly technology. At the same time, remarketing and recycling programs minimize the amount of material entering waste streams. Additionally, its comprehensive, audit-ready reporting helps companies measure and manage performance against their ESG targets.

With more frequent individual device and data center infrastructure refresh cycles, maximizing agility, efficiency, and return on investment (ROI) is key for its customer's competitive edge. Through its remarketing services, customers report up to 45% higher recovery value, which helps fund tech refreshes and alleviate stretched departmental budgets. From onsite data sanitization, deinstallation, and device pickup to sustainable asset disposition, having one partner streamlines operations while reducing costs and managing security risks.



Source: Iron Mountain.

Iron Mountain is a relatively new entrant into the fund. The company held an Investor Day in late September where it unveiled its Project Matterhorn strategy which was underpinned by an aggressive expansion of its data center footprint with around $4bn expected to be deployed over the next four years. In the presentation, Management highlighted the ability to increase its data centre capacity by 4x with existing land and power under contract. This should drive >20% compound growth in its data center business while its very high margin document management business should grow mid-single digit.

The market was unimpressed with the increased capex profile however we considered it a strong opportunity for the company to cross sell existing customers into new data center capacity, which will be fully funded by existing cash flows. This is an enviable attribute relative to pure play data center companies which are generally dependent on outside capital to grow. The share price weakness post the Investor Day gave us the opportunity to enter the stock at a very attractive discount to intrinsic value.

Overall Management expects the combination should drive 10% compound Revenue and EBITDA growth out to 2026 and with its services generally non-discretionary and mission critical to its customers, combined with strong pricing power, we see the growth profile as enduring. Combined with a close to 5% dividend yield we see a solid double digit annual compounding opportunity in the stock.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Flex	Information Technology	North America	5.17%
Cellnex	Communication Services	Europe	5.05%
PTC Inc	Information Technology	North America	4.85%
Graphic Packaging	Materials	North America	4.71%
Webster Financial	Financials	North America	4.49%
Sensata	Industrials	North America	4.42%
Rentokil	Industrials	United Kingdom	4.31%
Advantest	Information Technology	Japan	4.15%
Assurant	Financials	North America	4.07%
WillScot Mobile Mini	Industrials	North America	3.94%

Risk Measures	
Net Exposure[5]	85.32%
Gross Exposure[6]	95.79%
VAR[7]	1.70%
Best Month	9.59%
Worst Month	-8.44%
Average Gain in Up Months	2.68%
Average Loss in Down Months	-2.56%
Annual Volatility	12.53%
Index Volatility	10.99%

Top alpha contributor[8] (bps)

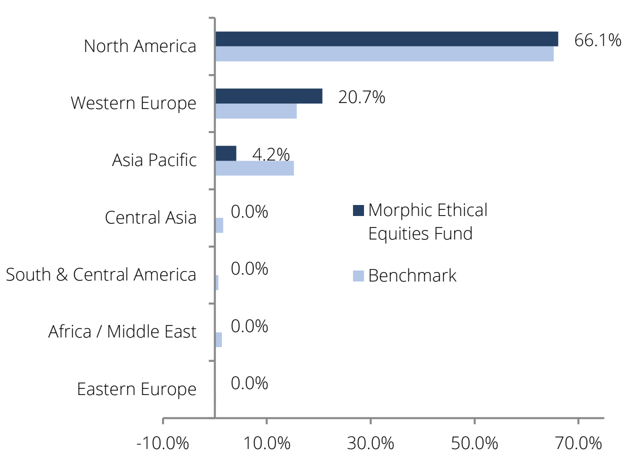
WillScot Mobile Mini	**71 bps**
Flex	**64 bps**
Soitec	**58 bps**

Top alpha detractor[8] (bps)

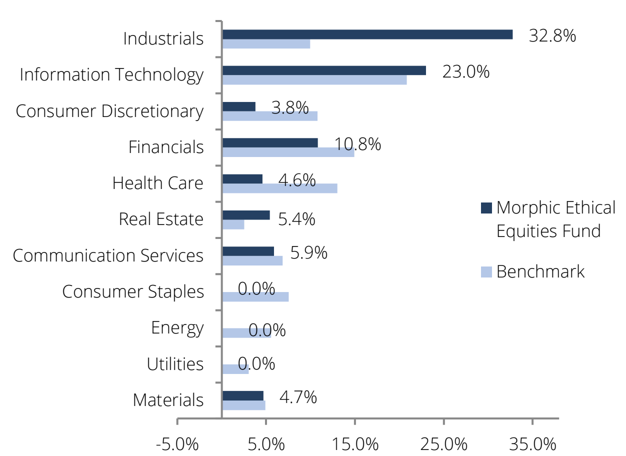
Assurant	**-26 bps**
Ciena	**-28 bps**
Chart Industries	**-178 bps**

Key Facts	
ASX code / share price	MEC / 0.920
Listing Date	3 May 2017
Profit Reserve[9]	$ 0.429
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$49m
Shares Outstanding	53,373,490
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.