MORPHIC ETHICAL EQUITIES FUND

Monthly Report

April 2023

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]	-0.21%	3.88%	5.33%	0.64%	8.33%	6.56%
Index[2]	2.80%	8.30%	9.03%	9.75%	11.69%	10.45%

* Past Performance is not an indication of future performance.

ESG In Focus

There is an interesting and thoughtful article in the Economist this month which discusses how ocean temperatures are breaking records as plastic oceans accumulate and greenhouse gas emissions are being absorbed. On April 1st, the average global sea-surface temperature reached a tad over 21 degrees Celsius which is half a degree higher than the average between 1982 and 2011.

This year has started from a relatively high base as 2022 delivered above average temperatures as well. There is no clear consensus as to what is causing the spike however after long periods of La Nina, which is coming to an end, any change in these conditions could be contributing to record breaking sea-surface temperatures this year. Whatever the true reason, we do believe that the plastic oceans and greenhouse gas emissions (the article highlighted that about 90% of excess heat caused by GHG has been absorbed by our oceans) are no doubt contributing to the long-term problems associated with rising temperatures.

Portfolio Commentary

At the time of writing, approximately 90% of the S&P has reported (by market cap) with earnings coming in generally better than expected with a beat rate of around 78%. Earnings that have been reported in both the US and Europe are tracking down about 3% on last year which is actually a positive surprise of 6% and 9% respectively. There had been a swath of earnings downgrades heading into the reporting period and clearly they got ahead of themselves.

While earnings have been stronger than anticipated, the average stock movement has been relatively subdued as the market had been quite solid leading into the reporting season. That said, misses or results which are showing a material slowdown, margin contraction or structural issues have been dealt with harshly.

The US Federal Reserve (Fed) raised rates by 25bps in early May (as expected) representing the 10th increase in a little over a year, taking the Fed Funds rate target to 5.0-5.25%. The questions going forward are whether this was the last rate increase we will see this cycle, do they pause and hold at this higher level or will rates need to be cut over the coming months. The market is pricing in the latter as one the fastest rate rise events coupled with regional bank liquidity concerns will likely weigh on economic growth over the coming quarters.

Net Tangible Assets (NTA)

NTA value before tax[3]	$1.1186
NTA value after tax[3]	$1.1459

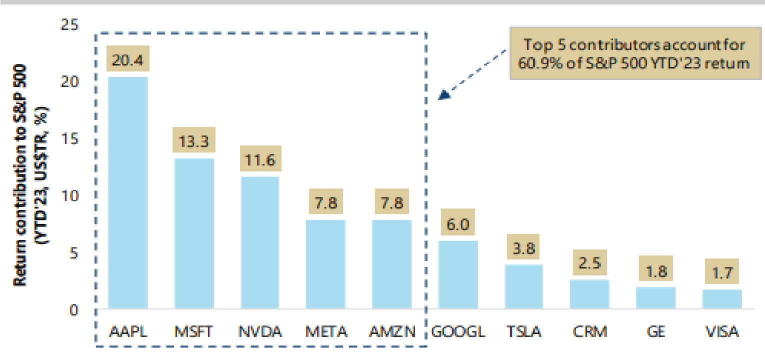
Investment Returns since inception[4]

Typically, the Fed is cutting rates in times of earnings contraction however this period has been overshadowed by its fight with inflation and therefore quite an unusual period for equities to deal with. Fed Chairman Jerome Powell does seem steadfast that he is in the "higher for longer" camp despite regional bank stress.

Economic data over the first quarter of 2023 has demonstrated a fairly resilient consumer, tight labour markets driving sustained wage growth with core inflation still well above target. It will be interesting to see if the forward market, which is pricing in cuts this year, has gotten ahead of itself considering that policy tightening has yet to deliver a material easing in wage growth and therefore inflation down to targeted levels.

On the back of recession concerns, regional bank liquidity issues and now the debate around the debt ceiling in the US, there has been a flight to the large end of town with returns concentrated in a select number of stocks. As Jefferies highlights below, approximately 61% of S&P 500 returns YTD can be explained by 5 stocks with only 32% of the stocks outperforming the index, a level not seen since 1999. While our investing universe does not include these mega caps, it does show how narrow the market breadth is at the moment.

Exhibit 9: S&P 500 constituents return contribution (YTD'23)

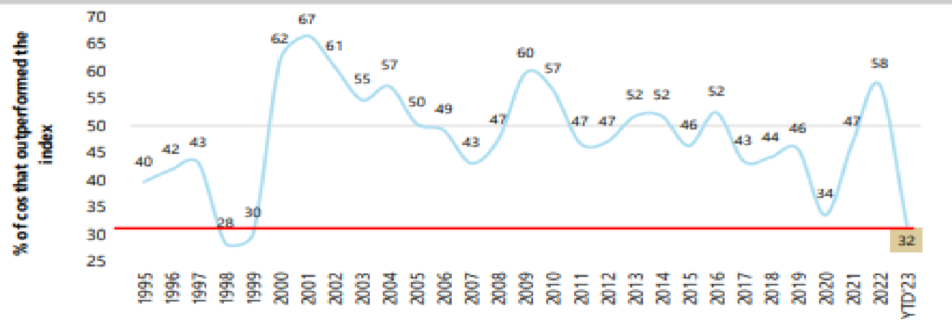


Return for the S&P 500 index has been very concentrated this year...

...with the top 5 contributors accounting for C.60% of the index's YTD return

Note: Based on 31st Dec 22 universe and weight. Alphabet class A and C were combined. Source: Jefferies, FactSet

Only 32% of the S&P stocks have outperformed the index so far this year



Source: Jefferies, FactSet. Note: Based on yearly rebalanced S&P Dec end universe.

The Morphic Ethical Equities Fund declined 0.21% net during the month compared to the MSCI ACWI (AUD) which was up by 2.80% over the same period.

The portfolio's top three contributors XPO Logistics, Cellnex Telecom and Rentokil added 135bps to performance while Catalent, Sensata and Ciena detracted 204 bps during the month.

XPO is one of the largest less than truckload (LTL) companies in the US, an industry with relatively high barriers to entry and rational pricing driving solid returns on capital. The market is obviously cyclical as it is predominately driven by industrial production and consumer consumption. XPO has been undergoing a turnaround and bolstering its Management bench as a result. During April it announced that Dave Bates would be joining as Chief Operating Officer after he has spent 27 years with industry leader, Old Dominion Freight. The market applauded the announcement and subsequently in May, XPO delivered a solid set of operating results.

Cellnex Telecom reported a decent set of inline results during April with organic growth coming in at the high end of expectations at 6.8% driving 15% EBITDA growth and FCF up 12% to €336m. The quarter demonstrated that the company is delivering on its organic growth objectives and firmly on track to achieve investment grade (Standard and Poor's rating) no later than 2024. Perhaps more impactful was the announcement a day later that it had completed its search for a new CEO after months of speculation. Marco Patuano will succeed outgoing CEO Tobias Martinez from June 4th. Mr. Patuano has extensive experience in the telecommunications industry with 25 years at Telecom Italia including Group CEO between 2011 and 2016.

There was little stock specific news on Rentokil, perhaps continued follow through from its solid results the previous month which resulted in market earnings upgrades for the business.

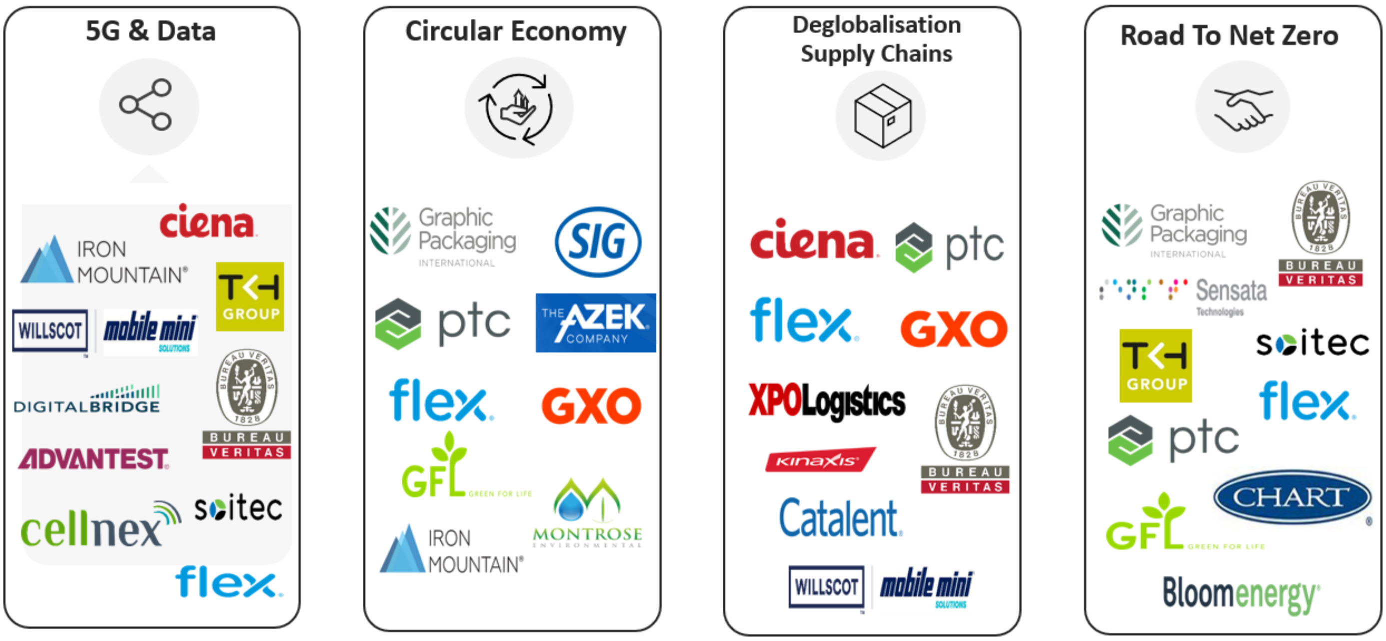
Catalent dropped during the month after it announced that productivity issues and higher-than-expected costs experienced at three of its facilities, including two of its largest manufacturing facilities, during the quarter will materially and adversely impact the Company's financial results for the third fiscal quarter and its outlook for the remainder of the 2023 fiscal year. This came despite the company presenting at recent conferences and indicating that all was on track. It is currently engaging a CFO search following the departure of its current CFO, Tom Castellano. Danaher had been rumoured as a potential acquiror of Catalent prior to this announcement however there is now speculation around its interest. That said, towards the end of the month M&A speculation swirled up with the stock appreciating c20% off its lows at which point we significantly trimmed the position until we get further earnings clarity.

Sensata delivered first quarter 2023 results ahead of expectations driven by solid automotive and heavy vehicle performance partially offset by weaker conditions in industrial (HVAC and Lighting). Forward guidance was slightly below market forecasts as Management remains quite conservative around end market conditions and indications that Chinese OEMs are looking to source more supply from local players. The market was not impressed with the conservative guidance and indications that margin improvement, while positive, would be more muted throughout 2023.

Ciena had no direct company news during the month however it declined when Lumentum (supplier to Ciena) indicated that its quarterly revenue would come in below expectations as a network equipment manufacturer who represents >10% of its revenue (Ciena) would be taking lower shipments than previously projected. Ciena indicated in its previous result that it would be reducing its inventory safety stock as supply chains improve and delivery visibility becomes clearer. To clear up any ambiguity, Ciena Management has reaffirmed its guidance for the next quarter and full year 2023.

The fund had little stock movement during the month with turnover less than 1% in April. We took some profits in Soitec, Bureau Veritas and TKH Group who each delivered solid results and trading updates earlier in the month.

We continue to have differentiated exposure to some pretty powerful long term thematics which should drive long term compounding benefits to us all as investors. These include 5G and the growth in data as Industrial IoT, AI and large language networks such as ChatGPT and next generation applications associated with 5G drive data demand, companies that enable our push to a circular economy, beneficiaries of deglobalisation as well as those helping to improve supply chain efficiency and companies which are levered to the multi trillion dollar spending required for our "Road to Net Zero".



These businesses as well as idiosyncratic opportunities in the fund should provide solid absolute and relative returns over the long term as secular and structural business drivers help mitigate earnings risk in times of economic uncertainty.

As always, we thank you for your continued support and look forward to providing further updates in the future.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Cellnex	Communication Services	Europe	6.03
Graphic Packaging	Materials	North America	5.28
Sensata	Industrials	North America	4.55
PTC Inc	Information Technology	North America	4.50
Rentokil	Industrials	United Kingdom	4.29
WillScot Mobile Mini	Industrials	North America	4.28
GXO Logistics	Industrials	North America	4.12
Ciena Corporation	Information Technology	North America	3.94
Bureau Veritas	Industrials	Europe	3.76
TKH Group	Industrials	Europe	3.68

Risk Measures	
Net Exposure[5]	88.95%
Gross Exposure[6]	88.96%
VAR[7]	1.67%
Best Month	9.59%
Worst Month	-8.44%
Average Gain in Up Months	2.68%
Average Loss in Down Months	-2.68%
Annual Volatility	12.67%
Index Volatility	11.02%

Top alpha contributor[8] (bps)

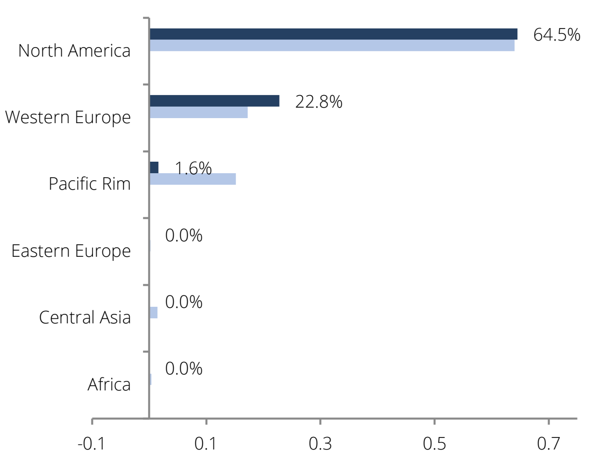
- **XPO** **64 bps**
- **Cellnex** **38 bps**
- **Rentokil** **32 bps**

Top alpha detractor[8] (bps)

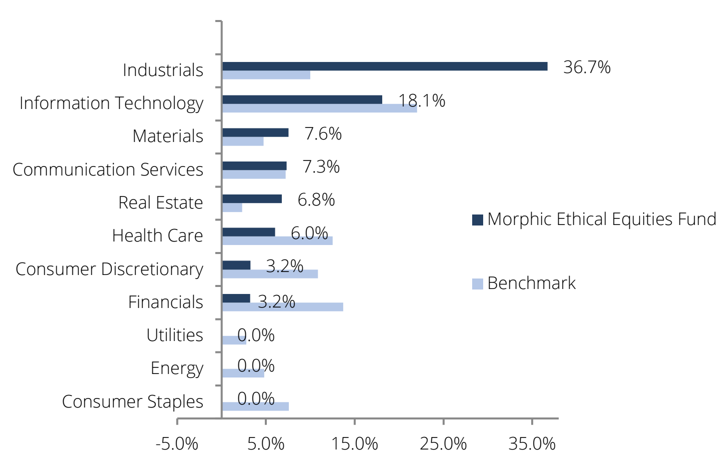
- **Ciena** **-56 bps**
- **Sensata Technologies** **-70 bps**
- **Catalent** **-79 bps**

Key Facts	
ASX code / share price	MEC / 0.905
Listing Date	3 May 2017
Profit Reserve[9]	$0.430
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$48m
Shares Outstanding	53,572,420
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.