MORPHIC ETHICAL EQUITIES FUND

Monthly Report
October 2023

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

Fund Objective

The Morphic Ethical Equities Fund Limited (MEC) 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.

MEC 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.)
MEC[1]	-8.94%	-13.51%	-5.13%	-0.07%	3.59%	5.18%
Index[2]	-1.13%	-3.81%	2.36%	11.60%	10.43%	9.99%

* Past Performance is not an indication of future performance.

Performance Summary

MEC decreased -8.94% net during the month compared to the MSCI All Countries World Daily Total Return Net Index which fell by -1.13% over the same period.

For the calendar year to date, MEC appreciated 5.43% with the underlying benchmark increasing 14.34%.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$0.9768
NTA value after tax[3]	$1.0214

Investment Returns since inception[4]

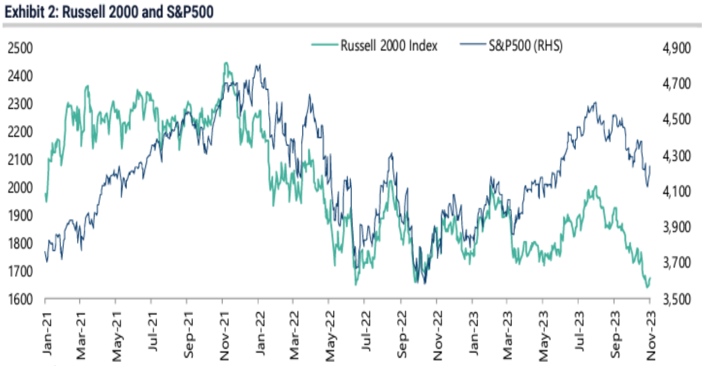
Market Commentary

The portfolio's top three contributors were Acadia Healthcare, XPO and Iron Mountain which added 16bps. Meanwhile, Rentokil Initial, Chart Industries and Cellnex Telecom detracted 309bps during the month. We discuss these stocks in greater detail in the 'Portfolio Commentary' section.

The month of October was a difficult one for the global mid/small cap space as funds continued to flow into unlevered monopolies (Magnificent Seven) as the gruelling sell off in US Treasuries accelerated during the month. The US 10yr yield touched 5% after increasing 125bps since July and represented a level not seen since 2007. The Russell 2000 has basically moved inverse to the 10yr yield, declining around 17% from its recent peak in July to end October.

You can see the massive divergence between the Russell 2000 and the S&P500 over the past few months as the S&P500 is underpinned by the relatively strong performance of the seven Megacaps:

Exhibit 2: Russell 2000 and S&P500

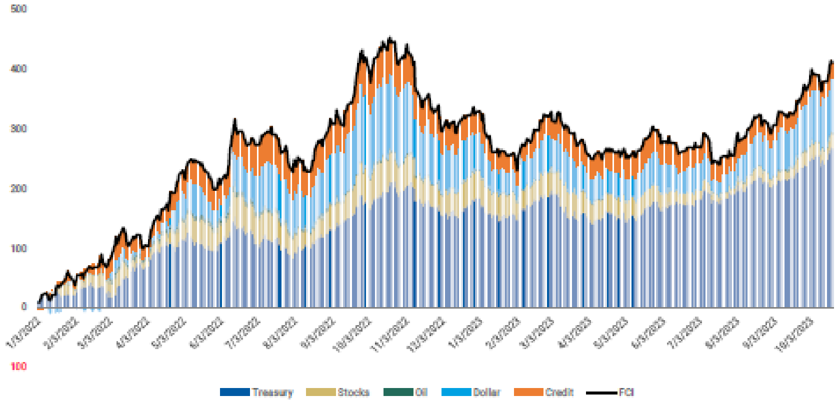


Source: Bloomberg

There have been many explanations for the surge in yields such as a supply/demand imbalance in the bond market, selling by momentum-based funds such as commodity trading advisors (CTAs), to fundamentally driven forces such as escalating fiscal deficits and higher for longer expectations associated with the Fed. Upside surprises to economic indicators resulted in sharp increases in long term yields, while downside datapoints were met with a relatively muted response – there has been a clear upside bias over the past few months.

According to Morgan Stanley, the rise in Treasury yields has significantly tightened financial conditions, with recent moves equivalent to >3 25bps Fed hikes since the September meeting:

Exhibit 1: Cumulative change in financial conditions – the equivalent of more than three 25bp fed funds rate hikes in tightening since the September FOMC meeting

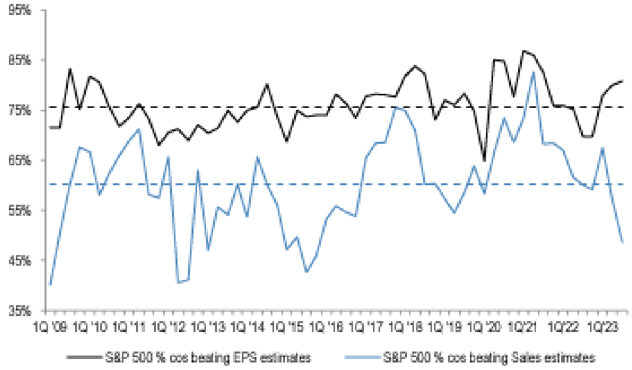


Source: Bloomberg, Morgan Stanley Research

Fed Chairman Jerome Powell has recognised that the yield curve has been doing its job in tightening financial conditions which should aid in slowing down the economy and subsequently provide a continued downside bias to inflation. In the Fed rate decision statement on the 1st of November, the committee highlighted "Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation", and as such, the Fed seems to be adopting a more dovish stance than seen over the past several months. As we have highlighted a number of times, with 525bps of fed funds rate increases in the US alone, it is difficult to see how this tightening in financial conditions can't have a substantial impact on the economy. With US mortgage rates increasing to >7% we have seen the pace of existing home sales declining to levels not seen since the mid 90's.

At the time of writing, we are at the final stages of the September quarter reporting season, which has (to date) seen >80% of S&P500 companies beat EPS estimates, while Europe and Japan have come in with lower beat rates, with both around 56%. When isolating the S&P500, it appears that margins have held up better than expected as the rate of sales exceeding expectations has come in much lower at just under 50%:

Figure 4: % of S&P500 companies beating quarterly EPS and sales estimates



Source: Bloomberg Finance L.P., J.P. Morgan, dotted lines denote median EPS and Sales beats

Overall, global equity markets were quite weak during October. The S&P500 and Nasdaq were down by 2.1% and 2.8% respectively, while the Russell 2000's weakness was even more pronounced as it declined 6.8% in the month. The FTSE (down 3.7%), CAC (down 3.5%) and DAX (down 3.7%) highlighted weakness in UK and Europe while Japan's Nikkei 225 was also 3.1% lower.

Portfolio Commentary

Turning back to October performance, key contributors for the month were:

Acadia Healthcare (+0.14%) is the #1 pure play behavioural health provider in the US operating >250 facilities across the country while serving a potential addressable market of $100bn with multiple strong tailwinds. While the underlying business has been performing strongly, there was a legacy legal claim which had been overhanging the stock. Acadia announced in mid-October that it was making good progress in finalising terms of settlement which would likely turn out better than some bearish predictions. With this overhang now seemingly removed, the market can focus on the core operations which will see low double-digit earnings growth over the coming years.

XPO Logistics (+0.03%) is one of the largest less than truckload (LTL) freight providers in North America, with coverage that spans the US, Canada, Mexico and the Caribbean. XPO reported results which were well ahead of market expectations, benefiting from increasing shipment counts as a large competitor (Yellow) declared bankruptcy, thereby driving substantial incremental volumes for the remaining players. XPO has been investing in its service network, so the company was well placed to take advantage of this incremental volume. Pricing performance was particularly strong with yields increasing 6.4% compared to 1.4% in the previous quarter. XPO guided to even better sequential margins for the fourth quarter, with this higher baseline providing solid underpinnings for FY24 earnings performance.

Iron Mountain (-0.02%) is a global leader in innovative storage, data centre infrastructure, asset lifecycle management and information management services. Its document management business counts 95% of the Fortune 1000 companies as customers and generates significant cash flow which is fully funding stellar growth in its data centre business. Its global data centre footprint is expected to grow 20% annually over the coming years as it benefits from strong spending associated with generative AI. Iron Mountain has solid earnings momentum across its business units which should deliver mid-teens return going forward. There was no stock specific news on Iron Mountain during the month, however, we noted a number of solid prints from data centre peers which helped sentiment.

Conversely, the major detractors during October were:

Rentokil Initial (-1.24%) is the world's largest commercial pest control services provider and the world's leading commercial hygiene services provider. Its operations cover 90% of global GDP in 92 of the world's largest 100 cities across North America, Europe, UK and Rest of World. Rentokil reported results in early October and while Management confirmed that the Terminix integration and associated synergies were on track, with full year results likely to come in broadly in line with current expectations, the stock sold off materially. Organic growth in North American pest control came in lower than expectations which created uncertainty around medium term growth prospects, and whether Terminix was actually detracting from growth. While we understand the near-term disappointment, we consider the share price move as an over reaction and maintain our position.

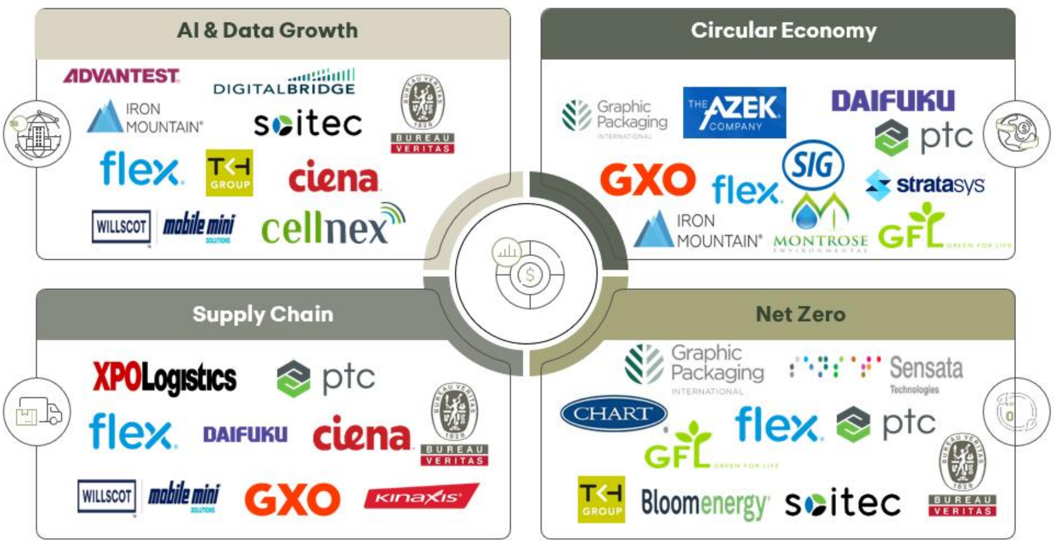
Chart Industries' (-1.20%) vision is to be the global leader in the design, engineering and manufacturing of cryogenic process technologies and equipment for the Nexus of Clean™ - clean power, clean water, clean food and clean industrials, regardless of molecule." Chart reported third quarter results which were slightly behind expectations as approximately $100m of project revenue was delayed into the fourth quarter or early 2024. Outside of this, the commentary was very positive as it announced the completion of $500m worth of asset sales associated with the Howden acquisition, record backlog of $4.1bn, almost $300m of commercial synergies (doubling year one expectations) and a book to bill of 1.26x. Management also confirmed FY24 guidance which calls for $1.3bn of EBITDA and >$14.00 of EPS. Similar to Rentokil, the share price came under significant pressure, however, we consider the long-term growth trajectory and earnings power of the combined group as very attractive at current levels.

Cellnex Telecom (-0.66%) is the largest independent owner of mobile tower assets across the European continent. It had no company specific news during the month, however, its equity value is highly correlated with bond yields given its leverage. With yields increasing dramatically during the month, this had a significant negative effect on the share price.

With share price movements around earnings reports quite pronounced this reporting season, we took off some exposure in positions where we considered the near-term setup as potentially unfavourable. While we look to longer term thematics, the risk around the near term cannot be ignored. Therefore, we trimmed sizing in Bureau Veritas, Graphic Packaging and Sensata. Both Bureau Veritas and Sensata underperformed post results, while Graphic Packaging was quite solid. Additionally, with a CEO change following poor product pricing actions associated with Unity, we deemed the thematic around digital advertising and mobile game rebound as too opaque and subsequently exited the position.

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".



Source: Ellerston Capital

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 %
GFL Environmental	Industrials	North America	6.65
PTC	Information Technology	North America	5.38
WillScot Mobile Mini	Industrials	North America	4.73
Option Care	Health Care	North America	4.28
GXO Logistics	Industrials	North America	4.12
Cellnex	Communication Services	Europe	4.01
Acadia Healthcare	Health Care	North America	3.86
Digital Bridge	Real Estate	North America	3.69
Flex	Information Technology	North America	3.44
RadNet	Health Care	North America	3.30

Risk Measures	
Net Exposure[5]	91.27%
Gross Exposure[6]	91.27%
VAR[7]	1.59%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.67%
Average Loss in Down Months	-2.99%
Annual Volatility	13.14%
Index Volatility	10.82%

Top contributor[8] (bps)

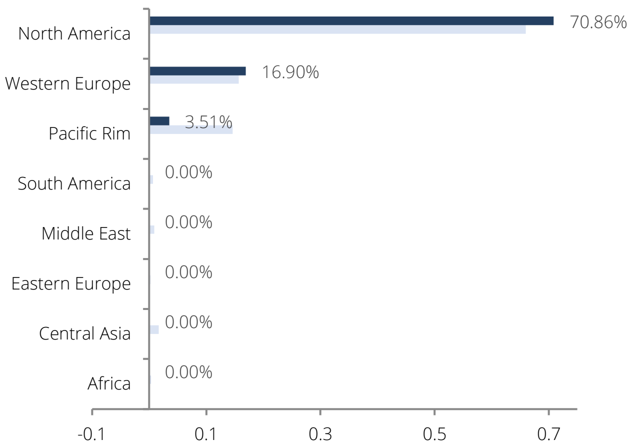
- **Acadia Healthcare** **14 bps**
- **XPO** **3 bps**
- **Iron Mountain** **-2 bps**

Top detractor[8] (bps)

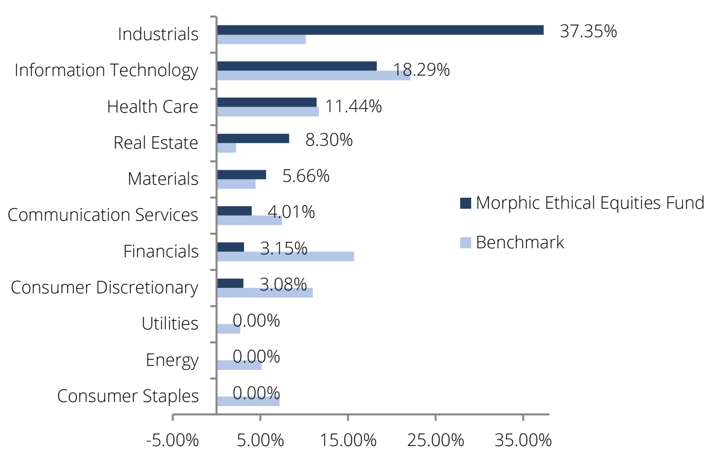
- **Rentokil Initial** **-124 bps**
- **Chart Industries** **-120 bps**
- **Cellnex Telecom** **-66 bps**

Key Facts	
ASX code / share price	MEC / 0.965
Listing Date	3 May 2017
Profit Reserve[9]	$0.466
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$47m
Shares Outstanding	48,926,716
Dividend per share[11]	$0.14

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] Contribution; absolute returns against 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 MEC realises taxable profits and generates franking credits; [10] The Performance Fee is payable annually in respect of MEC's out-performance of the Index. Performance Fees are only payable when MEC 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.