



A proud founder of:



Signatory of:



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.)	5 Years (p.a.)	ITD (p.a.)
MEC ¹	7.12%	14.43%	2.83%	15.50%	4.72%	8.58%	7.74%
Index ²	5.88%	11.95%	11.06%	27.54%	13.14%	12.48%	12.00%

* Past Performance is not an indication of future performance.

Performance Summary

MEC increased +7.12% net during the month, outperforming the MSCI All Countries World Daily Total Return Net Index which increased by +5.88% over the same period.

Market Commentary

The portfolio's top three contributors **Itron, Nextracker and XPO adding 208bps** to performance while **Cellnex, Kinaxis and DigitalBridge detracted 94 bps** during the month.

The global equity rally that started around the end of October last year continued into February 2024. February saw a strong end to the results season with 63% of the US companies reporting a positive earnings surprise, while globally less than 15% of the companies reported a negative earnings surprise. The beats have been driven more by margin expansion rather than sales outperformance as we see corporates benefiting from cost optimisation lead by sequentially declining wage pressures, resolution of various supply chains issues and an ability to pass on costs by taking price hikes.

The US 10-year yield strengthened further from 3.9% to 4.25% in February. Primarily due to slightly higher CPI coming in at 3.1% for Jan, which was ahead of 2.9% expectations, though still a significant drop compared to 3.4% in December. Fed maintained its neutral stance with no rate announcement in Feb, expectations are the same for March with rate cuts expected in the second half 2024 totalling 100bps reduction, spread over 3 to 4 cuts. Meanwhile, US core PCE index for Jan, the Federal Reserve's preferred measure, was in-line with market expectations at 2.8% year over year and 0.4% month over month, these are the lowest numbers since March 2021.

Net Tangible Assets (NTA)	
NTA value before tax ³	\$1.1418
NTA value after tax ³	\$1.1327

Investment Returns since inception⁴



Feb US economic data print was positive, showing some signs of buoyancy. The US manufacturing PMI at 52.2 came in ahead of the survey at 51.5. Also, fourth-quarter GDP growth was healthy and in-line with expectations, rising at an annual pace of 3.2%; helped by strong personal consumption.

Regional discussion

The U.S. stock market's solid performance reflected broader economic trends and investor sentiment, with particular attention to mid and small-cap companies. Analysts and investors were keenly observing the impact of global economic factors, corporate earnings, and government policies on market dynamics. The overall market sentiment was influenced by a mix of optimism and caution due to economic uncertainties and potential growth opportunities.

The Japanese stock market maintained its upward trajectory in February, building on January's impressive rally. This momentum is attributed to favourable global economic conditions and pivotal stock market reforms, setting a positive tone for 2024. Investors are increasingly drawn to companies poised to thrive regardless of economic fluctuations, especially those with international exposure or resilience to downturns.

The European stock market experienced mixed results, reflecting a cautious investor sentiment amid various economic and geopolitical challenges. Eurozone composite Purchasing Managers' Index (PMI) marked an eight-month high suggesting a near-stabilization of the economy, yet concerns over persistent inflation, potential interest rate changes, and geopolitical tensions influenced market performance. Technology and healthcare showing resilience, whereas energy and utilities faced uncertainties due to fluctuating commodity prices. Within this landscape, France's market showed relative strength, buoyed by positive performance in the luxury goods sector, while the UK market struggled from disappointing recent earnings data leading to downgraded profit growth estimates for 2024.

China's stock market saw significant turmoil during February, prompting the China Securities Regulatory Commission to intervene and stabilize the market after a notable downturn, implementing measures against irregular market activities and promoting long-term investment. This period of volatility underscored broader economic challenges, including a sluggish recovery from the pandemic and a property market crisis, leading to diminished investor confidence as reflected in the steep declines of major indexes like the CSI300 and Hong Kong's Hang Seng.

Sector discussion

February witnessed continued strength in the Information Technology sector. This could be attributed to several key factors including groundbreaking advancements in artificial intelligence (AI), which have spurred renewed investor interest and optimism in the sector. This momentum suggests potential for continued growth into 2024. Additionally, a shifting macroeconomic environment has favourably impacted tech stocks, indicating a promising new era of innovation within the technology sector.

The Industrials sector experienced a positive uptick in February, with anticipation around long-term growth driven by investments in infrastructure, onshoring, and sustainability. The sector's potential was highlighted by its readiness to benefit from an economic improvement, with focus areas including commercial aerospace, utilities infrastructure, and shipping companies.

Mid and small cap communication services companies were challenged in February. There's apprehension about technological disruptions that may outpace some companies' ability to adapt, leading to competitive disadvantages. Concerns also extend to privacy and data security issues, which could result in consumer distrust and regulatory penalties, affecting company reputations and financial performance.

Portfolio Commentary

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

Itron (+0.75%) is a recent addition to the fund and is a player on distributed intelligence and smart grid edge infrastructure where it has 30-50% market share. It is a leader in the Industrial Internet of Things (IIoT). Itron unveiled its impressive fourth-quarter achievements on 26 February, with remarkable revenue growth and operational efficiencies surpassing analyst expectations. The 2024 outlook provided by management surpassed consensus estimates.

Nextracker (+0.68%) is the leading provider of intelligent, integrated solar tracker and software solutions used in utility-scale and ground-mounted distributed generation solar projects around the world. Nextracker reported its third quarter which demonstrated record strong results, outperforming across revenue, profit and backlog. Following this performance, management revised its full-year guidance upwards through 31 March 2024, signalling anticipated growth.

XPO (+0.64%) is the third largest provider of domestic and cross-border "Less than Truckload" (LTL) shipping in North America with extensive scale and a growing asset base. XPO disclosed outstanding fourth-quarter results on 7 February, exceeding expectations in revenue and profitability. The market predicts robust momentum for the company into 2024.

Conversely, the major detractors during February were:

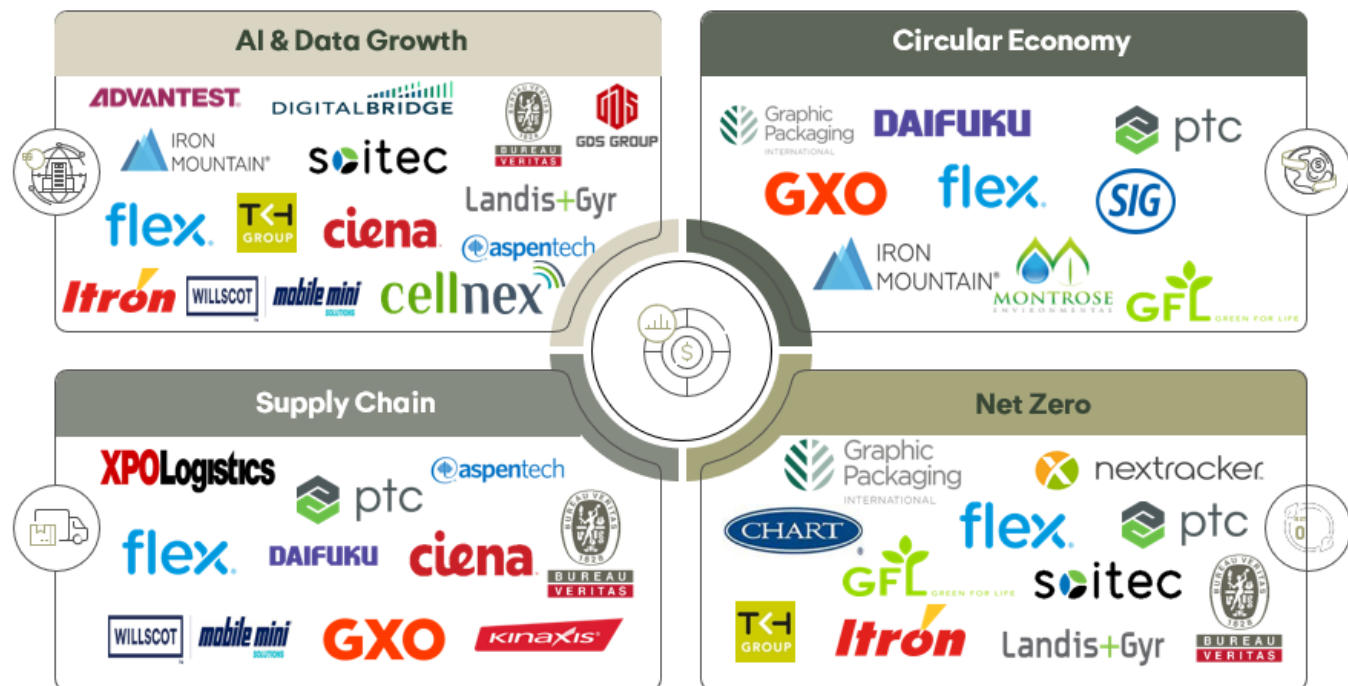
Cellnex Telecom (-0.35%) is the leading independent mobile tower company in Europe with over 130,000 sites across Spain, France, Italy, UK, Portugal, Poland and more. In Early February, speculation regarding the sale its Austrian operations circulated. Regardless, we noted that Cellnex was upgraded by a significant brokerage based on the positive outlook of its underlying free cash flow.

Kinaxis (-0.29%) provides best in class supply chain planning software to improve and accelerate analysis and decision making across a company's supply chain operations, delivered via a single flagship software product. The company reported its fourth earnings on 29 February. The results aligned with forecasts; however, guidance for 2024 was conservative, affecting its market valuation.

Digital Bridge (-0.29%) is a leading global alternative asset manager dedicated to investing in digital infrastructure which power the unstoppable secular trend of data growth in the digital world. Its diverse portfolio covers mobile towers, edge computing, hyperscale data centres, fibre and small cells. The company released its fourth quarter results on 20 Feb with a strong finish to 2023. Its strategic positioning is set to benefit from the continued advancements in 5G and AI technologies.

During February we made certain changes to our portfolio moving out of Stratasys and adding new positions in Pinterest and Landis+Gyr. Pinterest is a unique social media platform where more than 50% of the users come with an intent to buy specific products. It is an excellent full-funnel platform for both users and advertisers with Pinterest using advanced AI tools to enhance product associations and recommendations. Landis+Gyr is the largest smart metering company in North America and Europe offering cutting edge energy management solutions. The increasing electrification demand that is being met with more intermittent and constrained energy supply is leading to greater grid complexity. L+G captures that opportunity through grid modernisation, grid edge intelligence, smart Infrastructure by providing cloud-based services using advanced data analytics. Other key portfolio changes for the month were; we increased our position ins Aspen Tech, Zillow, Soitec, and Graphic Packaging while trimming our position in Acadia Healthcare, First Watch, Wilscott Mobile Mini, Nextracker and Kinaxis.

We continue to have differentiated exposure to some pretty powerful long term thematic 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 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.

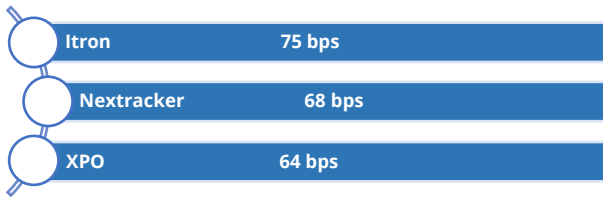
As always, we thank you for your continued support and look forward to providing further updates in the future.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting %
GFL Environmental	Industrials	North America	6.24
Option Care Health	Health Care	North America	4.32
PTC.	Information Technology	North America	4.29
Cellnex Telecom S.A.	Communication Services	Europe	4.20
Webster Financial	Financials	North America	4.17
DigitalBridge Group	Real Estate	North America	4.06
Itron	Information Technology	North America	3.38
Ciena	Information Technology	North America	3.28
Aspen Technology.	Information Technology	North America	3.20
WillScot Mobile Mini Holdings	Industrials	North America	3.14

Risk Measures	
Net Exposure ⁵	93.60%
Gross Exposure ⁶	93.60%
VAR ⁷	1.54%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.82%
Average Loss in Down Months	-2.99%
Annual Volatility	13.27%
Index Volatility	10.86%

Top contributor⁸ (bps)



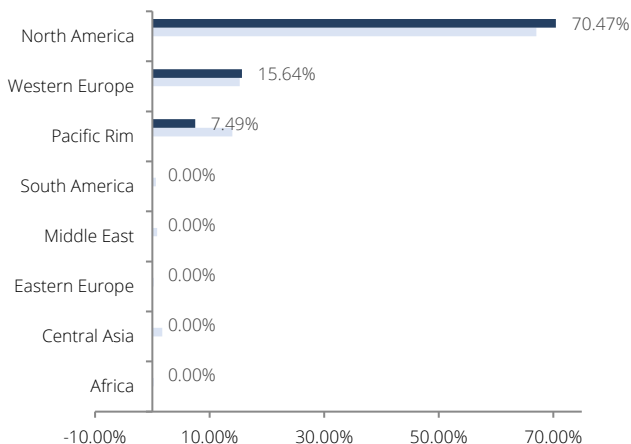
Top detractor⁸ (bps)



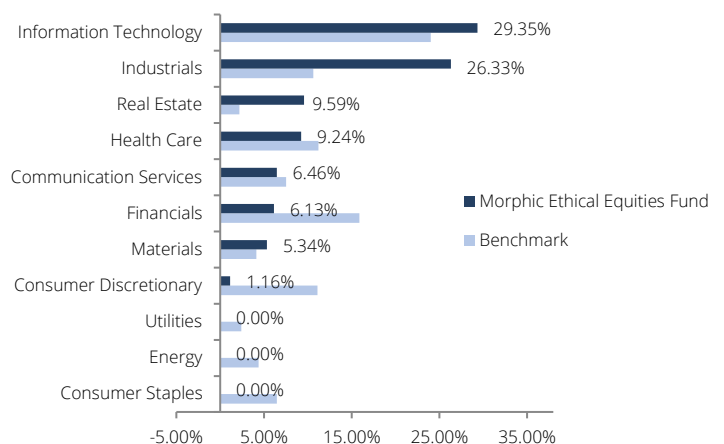
Key Facts

ASX code / share price	MEC / 1.035
Listing Date	3 May 2017
Profit Reserve ⁹	\$0.514
Management Fee	1.25%
Performance Fee ¹⁰	15%
Market Capitalisation	\$43.0m
Shares Outstanding	41,550,602
Dividend per share ¹¹	\$0.14

Equity Exposure Summary¹² By region



Equity Exposure Summary¹² 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 NDUJACWF) 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.