MORPHIC ETHICAL EQUITIES FUND

Monthly Report
March 2024

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]	1.44%	10.64%	10.70%	15.08%	4.26%	8.71%	7.87%
Index[2]	2.94%	13.16%	18.85%	26.49%	12.62%	12.82%	12.31%

* Past Performance is not an indication of future performance.

Performance Summary

MEC increased +1.44% net during the month, underperforming the MSCI All Countries World Daily Total Return Net Index which increased by +2.94% over the same period.

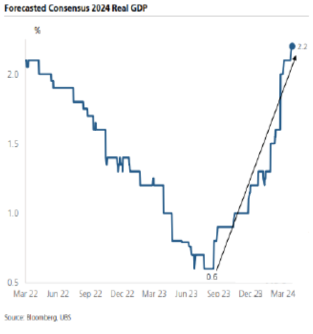
Net Tangible Assets (NTA)	
NTA value before tax[3]	$1.1578
NTA value after tax[3]	$1.1449

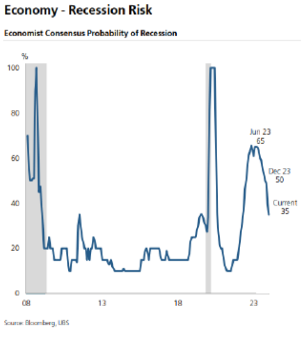
Investment Returns since inception[4]

Market Commentary

The portfolio's top three contributors RadNet, Chart Industries and Graphic Packaging added 152bps to performance while Soitec, Ciena and Zillow detracted 148bps during the month.

Global indices came in quite strong during March as a rebound in global PMIs have ratcheted up economic growth expectations, while the risk of recession continues to get priced out of the market. The Fed pivot in early November 2023 kickstarted the initial equity rally, however, we have seen indices continue to march upwards, and this is likely driven by the following charts:



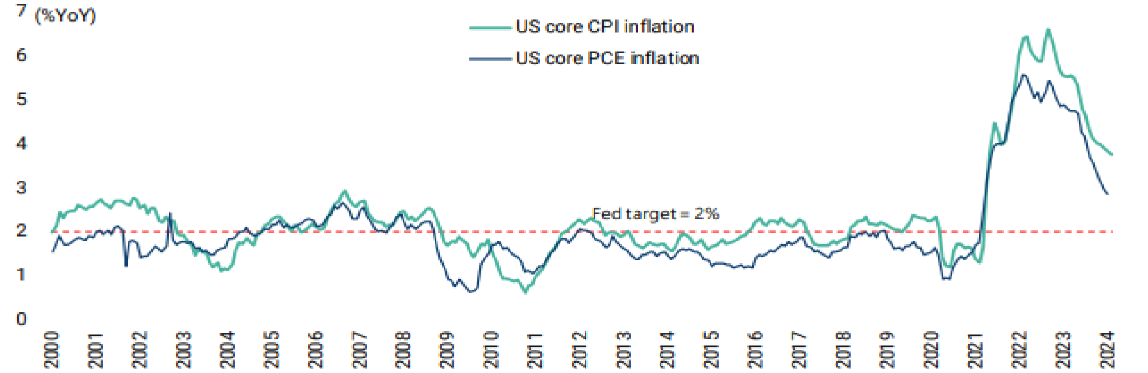


The S&P500 posted a strong first quarter as it reached a new all time high, with solid underpinnings from the largest Mega cap tech stocks. Market breadth was quite narrow at the end of calendar year 2023 and while this has continued into 2024, we are starting to see some broadening of returns as both higher expected earnings and an expanding multiple is driving broader performance.

Looking at overall global benchmarks, we note the S&P500 and Russell 2000 were up 3.2% and 3.6% respectively, while the broadening market hampered Nasdaq relative performance which increased by 1.9%. Europe indices were also strong with the FTSE 100 up 4.9%, German DAX ahead by 4.6% and France's CAC index up by 3.6% as well. In Asia, Japan's Nikkei 225 was up 3.8% while the Hang Seng market continued to struggle as it was up 0.6%.

There are many predictions on the Fed's interest rate path over the next 12 months however with inflation declining quite materially from its peak, there is scope for cuts going forward. That said, with economic activity remaining fairly solid, the urgency of cuts seems a bit more distant than a few months ago. In the most recent meeting, Fed Governors maintained their median dot plot which calls for 3 rate cuts during 2024 (likely starting in June) while Powell seemed to telegraph a subtle change to his inflation tolerance as he viewed the path to 2% as "over time" rather than a pre-requisite to start cutting rates.

Exhibit 1: US core CPI inflation and core PCE inflation



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

Looking at rate expectations from the ECB, we note that the market is expecting cuts to start in June as well with a 25bps reduction priced in. The future path is a bit more uncertain with doves expecting 125bps of cuts this year compared with the more hawkish at 75bps – either way the path is downward. The ECB does not want to commit to a pace just yet as it will be data dependent.

Conversely, we saw a strong move out of Japan as it removed the negative interest rate policy (NIRP), ended yield curve control (YCC) and hiked rates for the first time in 17 years. This move was largely anticipated by the market and the commentary was actually more dovish than anticipated given the strong growth in wages we have seen over the past couple of months. The Japanese Yen has depreciated further post the move, however, this seems more to do with the interest rate differential between Japan and the US actually increasing over the past month.

Regional discussion

In March, the U.S. stock market exhibited robust performance, reflecting the economy's continued resilience. The market's positive momentum was buoyed by robust household spending and a strong services sector, alongside persistent high wages and employment growth. Despite the ongoing concerns about inflation, investors appeared to weigh their optimism regarding the robust labour market and the vitality of the service sector against the expectation of gradually moderating, but still elevated inflation levels.

The European stock market demonstrated resilience amid economic uncertainties, with factors such as inflation control measures and banking sector caution influencing its performance. The anticipation of mild recessions in some Western European countries, alongside a vibrant private equity scene and technological advancements, particularly in AI, played pivotal roles. Germany's DAX index reached record highs, showcasing the strength of German firms globally. Meanwhile, the UK market maintained a cautiously optimistic stance, with investors seeking income and defensive opportunities against a backdrop of economic challenges.

Japan's Nikkei index exceeded 40,000, a historic first, signalling a resurgence after prolonged stagnation. This rally, fuelled by global investor optimism towards Japanese corporations amid technological strides and governance improvements, comes despite Japan's economic challenges, including a recession. The rally reflects the broader market response to potential economic stimuli, including wage growth adjustments and anticipated Bank of Japan interest rate changes, highlighting a complex interplay of domestic economic policies and global market dynamics.

Sector discussion

The global Energy sector witnessed a notable uptick, driven by a confluence of factors including rising oil and natural gas prices, geopolitical developments, and a robust demand recovery as global economies continue to navigate post-pandemic dynamics. Investors and the market responded positively to these trends, buoyed by expectations of sustained demand and potential supply constraints.

The Materials sector thrived in March, fuelled by rising demand in key industries and higher raw material prices. Investors are notably upbeat, driven by the sector's strong performance and the anticipation of sustained growth amidst global economic recovery. This period's success also highlights the sector's capability to navigate through supply chain challenges, positioning companies for continued positive momentum.

The communication services sector faced challenges in March, with its performance impacted by regulatory concerns, competitive dynamics, and evolving consumer behaviours. The Communication Services sector, encompassing a wide range of companies from telecommunications to media and entertainment, saw investor caution amid uncertainties over future growth prospects and technological advancements reshaping the industry landscape.

Portfolio Commentary

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

RadNet (+0.70%) is the largest provider of freestanding, fixed-site outpatient diagnostic imaging in the United States. The company delivers high-quality, cost-effective solutions in its 366 centre network, and strategic partners. RadNet reported its fourth quarter results on 2 March which beat the consensus with revenues up 9.5% and EBITDA up a robust 15%. Management unveiled its DeepHealth AI-Powered Health Informatics portfolio which is designed to dramatically drive efficiency and transform the role of radiology in Heatlhcare. We are looking forward to seeing how this product progresses as it rolls it out internally as well as across its 200 external customers.

Chart Industries (+0.45%) is a leading independent global manufacturer of highly engineered equipment servicing multiple market applications in Energy and Industrial Gas. Chart Industries released its fourth quarter results on 28 February, indicating strong order inflow and positive commentary for the coming quarter. It anticipates each of its operating segments across all of its regions will show growth in 2024. With the fourth quarter delivering the highest order quarter in company history, it is well set up for revenue and earnings delivery this year.

Graphic Packaging (+0.38%) is the largest folding carton manufacturer in the world providing innovative consumer packaging solutions including folding cartons, cups and foodservice packaging. It is benefiting from the shift from plastic to fiber-based packaging as large consumer branded companies meet sustainability targets. There was no specific news during the month however, we did meet with Management during March and came away positive on the cash flow profile over the coming years.

Conversely, the major detractors during March were:

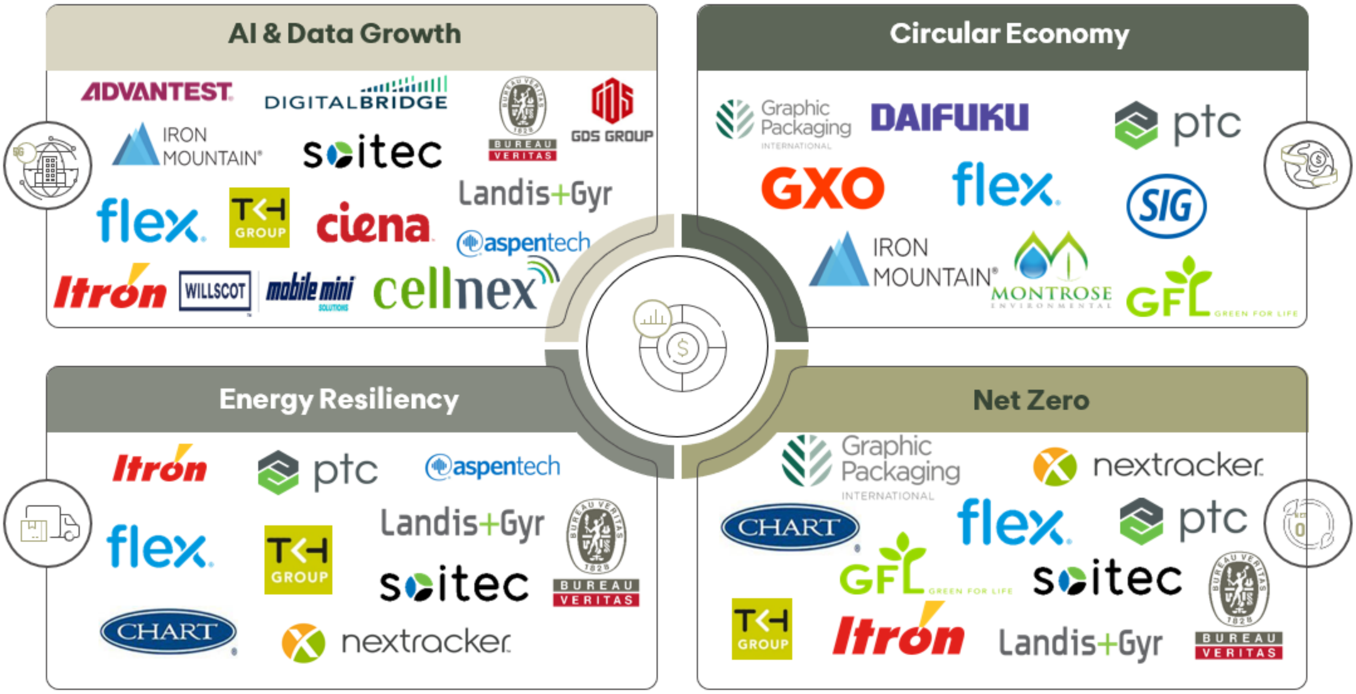
Soitec (-0.75%) designs and manufactures innovative semiconductor materials. Its products are used to manufacture chips that go into smart phones, tablets, computers, IT servers and data centres as well as electronic components in cars, connected devices, and industrial and medical equipment. The company experienced a sell-off after its 2025 guidance revealed a material shortfall compared to market expectations. Regardless, as a long-term investor, we stay positive on its unique products and believe the current share price has already reflected the soft near-term demand outlook.

Ciena (-0.43%) is a global leader in networking systems, services, and software. Ciena builds the most adaptive networks in the industry, enabling customers to anticipate and meet ever-increasing digital demands. The share price underperformed during March month as revenue guidance short of market expectation; nevertheless, the outlook for bandwidth demand remains strong with direct cloud providers.

Zillow (-0.31%) is the No. 1 U.S. residential real estate app. In addition to its for-sale and rental listings on Zillow.com, Zillow also provides home loan, affiliated lender, mortgage pre-approvals and financing, and real estate professional services. Zillow has been under pressure following the National Association of Realtors (NAR) settlement, which decouples buyers and seller agent commissions. We believe highly engaged platforms like Zillow will emerge stronger on the other side of the changes with tech innovations and increasingly diversified growth drivers.

During the month we trimmed positions in PTC, XPO Logistics, Radnet and Resona after strong share price performances while adding to Acadia Healthcare and Cellnex Telecom where the respective share prices were relatively weak despite positive underlying fundamentals. We initiated a position in LiveRamp and while new currently, LiveRamp has been part of our library as we have owned the business in the past. As the digital advertising market moves to first party data (ie our sign ins to websites such as your Woolworths or Qantas membership or connected TV such as Netflix) and tracking cookies get taken away, LiveRamp's solution becomes increasingly valuable.

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 AI and the growth in data as Industrial IoT 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 the resilience of our energy grids as the world looks to electrify 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 %
GFL Environmental	Industrials	North America	5.96
Cellnex Telecom	Communication Services	Europe	4.53
Option Care Health	Health Care	North America	4.49
Webster Financial	Financials	North America	4.44
DigitalBridge Group	Real Estate	North America	4.25
PTC	Information Technology	North America	3.87
Aspen Technology	Information Technology	North America	3.52
Itron	Information Technology	North America	3.37
Chart Industries	Industrials	North America	3.35
Graphic Packaging	Materials	North America	3.31

Risk Measures	
Net Exposure[5]	96.07%
Gross Exposure[6]	96.07%
VAR[7]	1.54%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.80%
Average Loss in Down Months	-2.99%
Annual Volatility	13.19%
Index Volatility	10.82%

Top contributor[8] (bps)

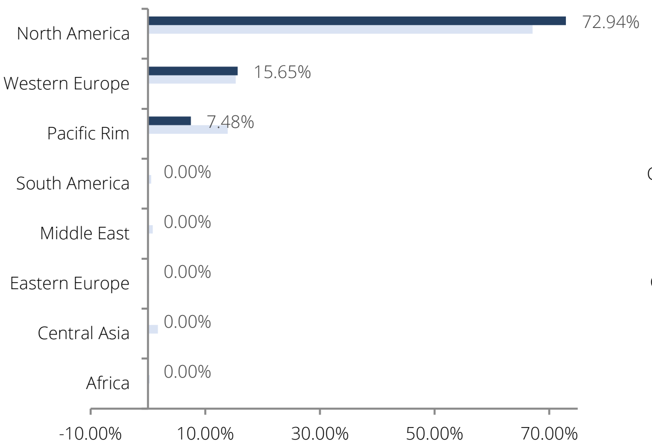
- **RadNet** **70 bps**
- **Chart Industries** **45 bps**
- **Graphic Packaging** **38 bps**

Top detractor[8] (bps)

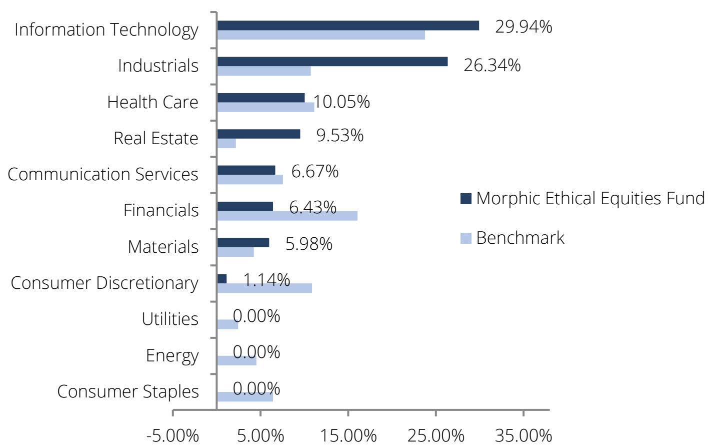
- **Soitec** **-75 bps**
- **Ciena** **-43 bps**
- **Zillow** **-31 bps**

Key Facts	
ASX code / share price	MEC / 1.060
Listing Date	3 May 2017
Profit Reserve[9]	$0.530
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$43.3m
Shares Outstanding	40,886,303
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.