



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	-6.35%	1.75%	13.84%	8.00%	1.66%	6.66%	6.76%
Index ²	-2.85%	5.89%	16.78%	19.54%	10.48%	11.22%	11.70%

* Past Performance is not an indication of future performance.

Performance Summary

MEC decreased -6.35% net during the month, underperforming the MSCI All Countries World Daily Total Return Net Index which decreased by -2.85% over the same period.

Market Commentary

The portfolio's top three contributors **GDS Holdings**, **Montrose Environmental** and **Resona** added 64bps to performance while **Willscot Mobile Mini**, **Webster Financial** and **Digital Bridge** detracted 182 bps during the month.

While global markets were very strong in Q124, they gave a lot back in April as the global macro has recently been dominated by increasing geopolitical risks and a higher for longer narrative around US interest rates following consecutive beats in recent inflation readings.

The S&P500 and Nasdaq fell 4.1% and 4.4% respectively while the Russell was down over 7%. Europe was less impacted by the selling as the French CAC declined by around 2% while Germany's DAX was down 3%. Japan has been strong this year, however it did not remain untouched as it closed down 4.9% in April.

Events in the Middle East drove concerns about a broader regional conflict after Israel and Iran locked horns, however this has seemingly faded of late. That said, the Ukraine-Russia conflict and now escalating tensions in the Middle East are likely to continue to provide heightened geopolitical risks for markets going forward.

US 10yr Bond yields have been incredibly volatile over the past several months rising 34% from 3.8% to 5.0% between July to October 2023 before doing a round trip back to 3.8% at the end of December (down 24%). At the time of writing, they stand at 4.5% representing an upward move of just over 18% since December. A lot of this volatility can be explained by stickier inflation and oscillating Fed communication as

Net Tangible Assets (NTA)

NTA value before tax ³	\$1.0841
NTA value after tax ³	\$1.0897

Investment Returns since inception⁴



6 cuts that were priced in at the start of the year has migrated to 2, or potentially even less depending on the data.

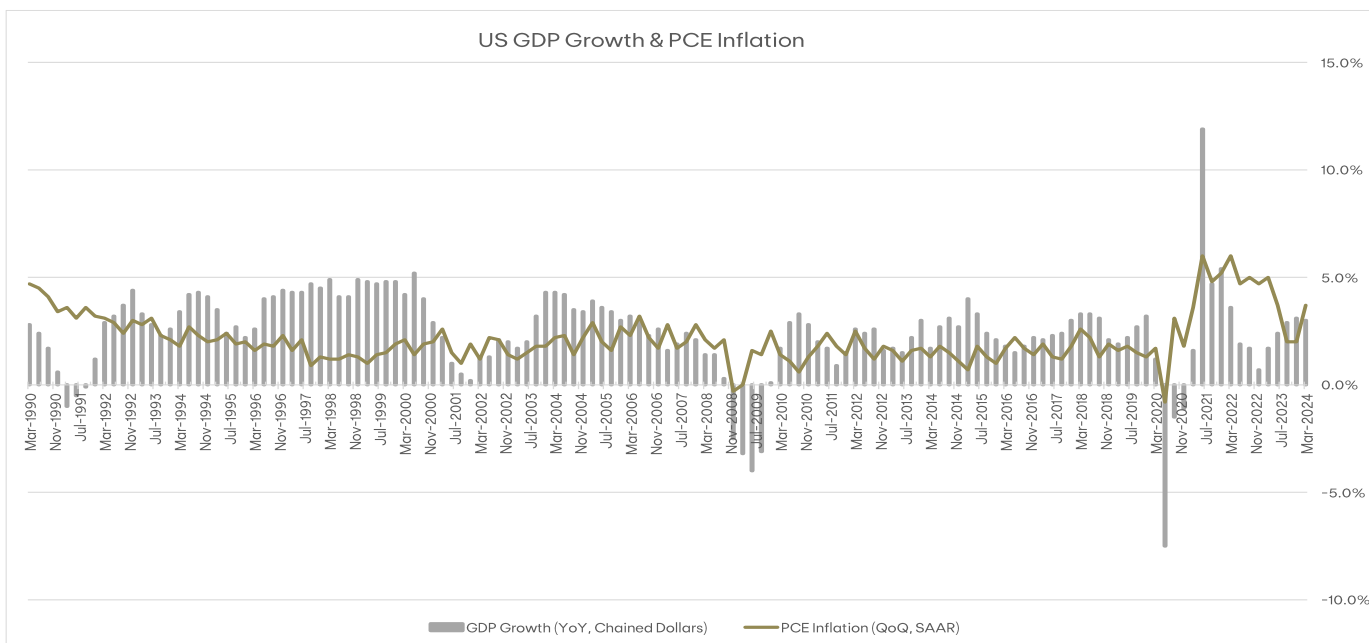
The last time markets were impacted by the "higher for longer" narrative back in October 2023, broader financial conditions tightened considerably. However, this time it appears that financial conditions have remained relatively accommodative as credit spreads have not widened which potentially signals that credit stress remains under control.

Interestingly, The ECB is likely to start cutting rates ahead of the Fed and could cut further as approximately 80bps of ECB cuts are priced into money markets vs 40bps in the US. The Bank of Japan was quite dovish recently despite rising wage inflation as it kept lending rates in a 0%-0.1% band. This resulted in a collapse in the Yen to levels not seen since the mid 1990's as the BOJ Governor Ueda also commented that the Yen's weakness has not significantly impacted inflation.

The Fed held its much anticipated meeting in early May and was actually quite dovish despite the higher inflation prints we have been experiencing. While Chairman Powell did indicate that he had lower confidence on the timing of the first cut, he pushed back on any expectations that the next move could be up. Additionally, quantitative tightening that has been in place for some time has been reduced by \$35bn, which in itself is quasi loosening of financial conditions.

Q1 GDP in the US economy grew 1.6% which was well below the 2.5% expected by the market. When coupled with inflation remaining stickier than expected, stagflation concerns (low growth, high inflation) have seeped into the market. While too early to call a trend, this is a risk around company margins that must be monitored, especially around the ability to hold or raise customer pricing to offset potential inflationary impacts in a slower growth environment.

While there have been concerns around stagflation, we note in the following chart that yes inflation has picked up recently, but economic growth has also remained relatively solid and at this point we don't see this as a material near term risk.



Regional discussion

In April, the U.S. stock market faced a downturn amid significant volatility. The S&P 500 retreated over 5% in the first three weeks before recovering some losses later in the month. Consumer spending showed continued growth despite the services sector contracting for the first time in 15 months. The March CPI data highlighted persistent inflationary pressures. These inflationary concerns tempered expectations for interest rate cuts, leading to heightened market uncertainty.

European stock markets experienced varied performances across the region, reflecting diverse economic conditions. Germany experiencing a notable downturn despite its strong industrial and technological base while Spain exhibited notable resilience. The broader European market remained cautious, influenced by mixed economic signals and ongoing inflation concerns.

In April, Japan's stock market faced a downturn, reversing some of the gains achieved in previous months. Despite substantial wage increases, which marked the largest in over three decades and bolstered consumer spending, the market was weighed down by broader economic concerns. This decline in the Nikkei index reflects a complex interplay of domestic economic challenges and fluctuating investor sentiment, tempering the initial optimism from earlier gains.

Sector discussion

The Utilities sector exhibited resilience and outperformed the broader market despite significant volatility. This strong performance was driven by persistent inflation concerns and market turbulence, prompting investors to seek safer havens like utilities. The sector's defensive nature, offering reliable income and high dividend yields, made it particularly attractive for stability-oriented investors even in challenging market conditions.

The Energy sector posted positive performance, modestly outpacing the broader market amid ongoing global uncertainties. This performance was supported by steady oil prices and sustained demand for natural gas. Persistent geopolitical tensions and inflation concerns also contributed to increased investor interest in energy stocks. Strategic investments in renewable energy and infrastructure added resilience.

The Consumer Discretionary sector faced a challenging month, particularly in mid- and small-cap stocks. The sector was marked by heightened investor risk as inflationary pressures and potential recession risks led to underperformance. Short-sellers heavily targeted consumer discretionary stocks, reflecting market concerns about the sector's exposure to discretionary spending reductions. Investors turned increasingly cautious, leading to a notable retreat from discretionary stocks.

Information Technology experienced a downturn, with the S&P 500 Information Technology index dropping by 4.38% over the month. Concerns around slower growth in cloud computing, declining demand for consumer electronics, and delays in enterprise spending impacted the sector's performance. While April saw a challenging performance, long-term trends such as the development and adoption of AI and digitization remain strong catalysts for growth in the Information Technology sector.

Portfolio Commentary

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

GDS Holdings (+0.34%) is the leading vertically integrated provider of high-performance data centre and IT infrastructure service in China and Southeast Asia. GDS reported fiscal year 2023 earnings in late March with solid results. Investors are optimistic about its potential for future growth, driven by advancements in AI and the continued expansion of cloud computing.

Montrose Environmental Group (+0.20%) is an environmental solutions company focused on supporting commercial and government organizations with a range of services. In early April, Montrose acquired Engineering & Technical Associates, Inc., a leader in Process Safety Management (PSM). Given the company's continued strong organic performance, the management raised its full year 2024 revenue and earnings guidance.

Resona Holdings (+0.10%) is a large commercial bank with full-line trust capabilities in Japan, holding a strong presence in the Tokyo area and Kansai region. Following the Bank of Japan's decision to raise short-term interest rates to 0% to 0.1% from -0.1% after its March policy meeting, Resona was upgraded by several global independent investment banking advisory firms due to improved sentiment surrounding its loan and deposit position.

Conversely, the major detractors during April were:

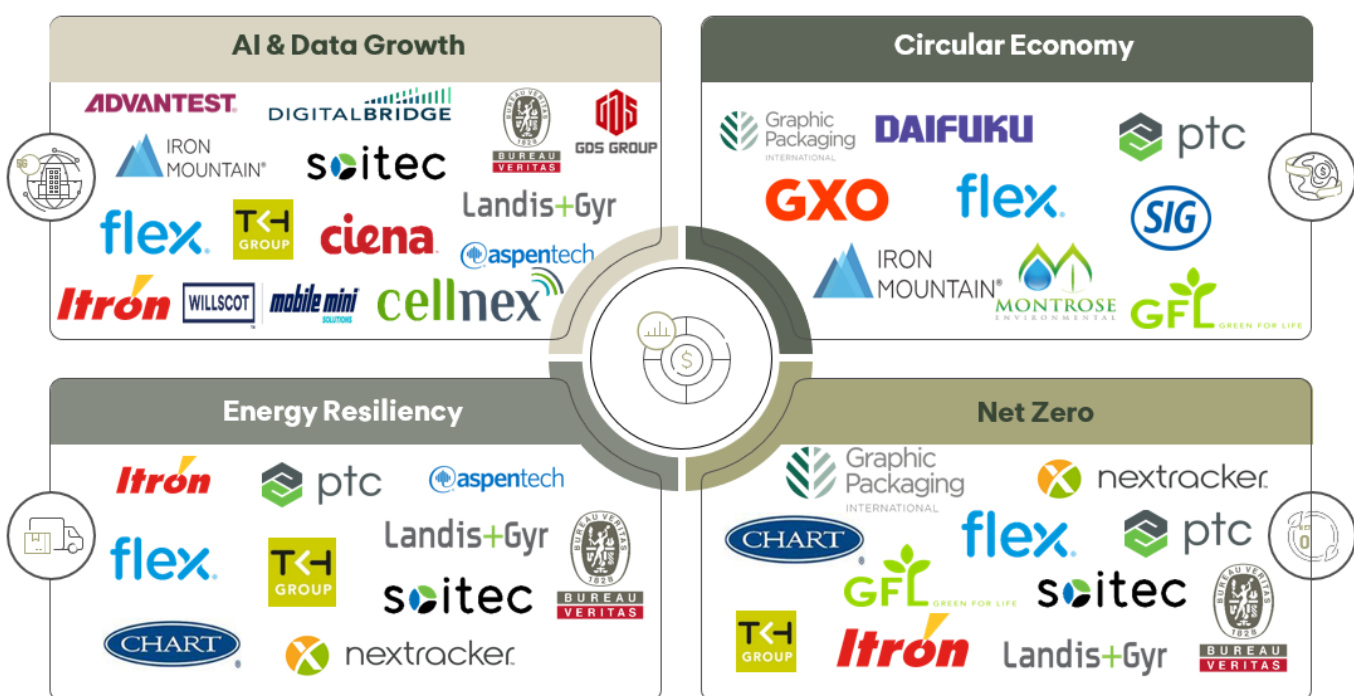
DigitalBridge Group (-0.63%) is a leading global alternative asset manager dedicated to investing in digital infrastructure, including cell towers, data centres, fibre, small cells, and edge infrastructure. In April, DigitalBridge closed a deal to sell a 40% stake in its portfolio company Landmark, thereby deconsolidating its operating segment. The company also issued an additional 8.2 million common shares to exchanging noteholders for exchanges and redemption of its 2025 exchangeable senior notes. Aside from these developments, there was no material company-specific news.

Webster Financial Corp (-0.60%) is a leading commercial bank in the Northeast of the U.S. that provides a wide range of digital and traditional financial solutions across commercial banking, consumer banking and healthcare financial services. The company reported its first quarter results with revenue and earnings below consensus numbers as loan growth becomes more second half weighted. Market sentiment remains cautious due to uncertainties surrounding the timing of potential federal rate cuts.

WillScot Mobile Mini (-0.59%) is a leading business services provider specializing in innovative and flexible temporary space solutions, servicing diverse customer segments from a network of approximately 260 branch locations throughout the U.S., Canada, and Mexico. WillScot was downgraded by several investment banking advisory firms due to concerns about soft demand from its end markets in the near term. In early May, Management released first quarter results which highlighted the robustness of its business model and cashflow profile while confirming its previous full year profit guidance.

During the month we made a number of changes to take advantage of the weak markets with particular focus on increasing exposure to our strongest conviction names such as GFL Environmental, Cellnex Telecom, Option Care Health and Bureau Veritas and trimming where we had earnings concerns such as Graphic Packaging and Flex. A notable exit was with XPO Logistics which we have held for some time. XPO is one of the largest “less than truckload” operators in the US and has performed extremely well for the fund. With the valuation having re-rated substantially over the past several months and indications that operating conditions remain suppressed; we considered the risk reward quite skewed to the downside at this point. We deployed these funds into a new position in Gerresheimer which is a leading developer and manufacturer of primary packaging for drugs and cosmetics operating globally. It should benefit from several megatrends around biopharma investment with strong growth expected over the coming years from its GLP-1 contracts which are already in place.

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

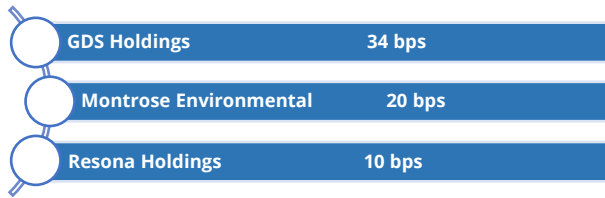
As always, we thank you for your continued support and look forward to providing further updates in the future.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting %
GFL Environmental Inc	Industrials	North America	5.96
Option Care Health Inc	Health Care	North America	4.59
Cellnex Telecom S.A.	Communication Services	Europe	4.60
PTC Inc.	Information Technology	North America	3.93
Webster Financial Corporation	Financials	North America	3.87
GXO Logistics Inc	Industrials	North America	3.81
Alight, Inc. Class A	Information Technology	North America	3.25
Acadia Healthcare Company, Inc.	Health Care	North America	3.07
Bureau Veritas SA	Industrials	Europe	3.02
Iron Mountain, Inc.	Real Estate	North America	3.04

Risk Measures	
Net Exposure ⁵	89.78%
Gross Exposure ⁶	89.78%
VAR ⁷	1.41%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.80%
Average Loss in Down Months	-3.10%
Annual Volatility	13.38%
Index Volatility	10.85%

Top contributor⁸ (bps)



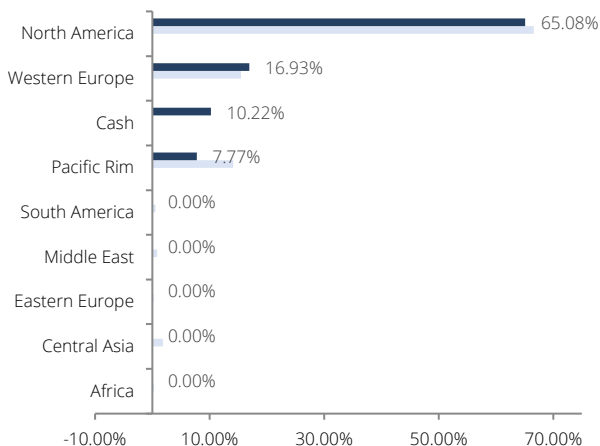
Top detractor⁸ (bps)



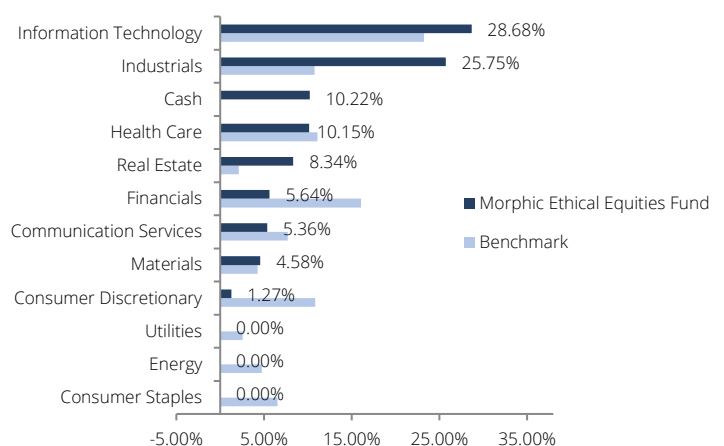
Key Facts

ASX code / share price	MEC / 1.020
Listing Date	3 May 2017
Profit Reserve ⁹	\$0.534
Management Fee	1.25%
Performance Fee ¹⁰	15%
Market Capitalisation	\$41.4m
Shares Outstanding	40,566,260
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.