MORPHIC ETHICAL EQUITIES FUND

Monthly Report
February 2025

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.)	5 Years (p.a.)	ITD (p.a.)
MEC[1]	-1.36%	-2.22%	5.97%	6.64%	4.71%	7.93%	7.60%
Index[2]	-0.30%	5.08%	13.56%	20.48%	14.90%	13.61%	13.05%

* Past Performance is not an indication of future performance.
Source: Ellerston Capital

Performance Summary

MEC declined by -1.36% net during the month, underperforming the MSCI All Countries World Daily Total Return Net Index which declined by -0.30% over the same period.

Market Commentary

The portfolio's top three contributors Daifuku, AerCap and Cellnex added 119 bps to performance while Galaxy, GXO and PTC detracted 156 bps during the month.

The biggest theme through February was the rotation out of US stocks (which performed poorly) and into other markets, such as China and Europe (which were strong) – representing a significant shift in equity flows and performance from recent years.

This rotation was triggered by a number of factors:

Firstly, the Artificial Intelligence (AI) trade, which has sustained much of the US market's performance over the last 24 months, hit another hurdle in February, with rumours that Microsoft had cancelled a number of leases for datacentres used to train and run AI models. Given MSFT is one of the largest AI spenders, this raised concerns around whether the AI infrastructure market may be in excess capacity, with potentially negative implications for power, GPU and hardware demand. This rumour, which Microsoft subsequently denied, sent a jolt through an already volatile sector (see DeepSeek in January), sparking another leg down in many AI/tech names, particularly former market darlings where hedge fund positioning had become crowded.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$1.1900
NTA value after tax[3]	$1.1613

Source: Ellerston Capital

Investment Returns since inception[4]

Source: Ellerston Capital

There have been many explanations offered for Microsoft's move, though from subsequent conversations with companies through the supply chain, we believe that it likely stems from a change in Microsoft's relationship with OpenAI (a key Microsoft AI infrastructure user), with the latter shifting much of its future compute needs from Microsoft to Oracle (which sits alongside OpenAI in the new 'Stargate' consortium). As a result, we do not see this as a fundamental shift in industry supply/demand equilibrium, which we believe remains healthy. The market however is likely to remain sceptical until proven otherwise.

Trump's 'steering' of the US real economy has also raised concerns around the growing possibility of a recession. Tariffs ('the most beautiful word in the dictionary') appear to be Trump's main stick in achieving the reshoring of manufacturing back to the US as well as tackling other policy issues (illegal migration, Fentanyl). What has shocked markets is not tariffs themselves, but their potential application to US allies and neighbours, with Canada and Mexico potentially suffering 25%-50% tariffs on certain goods. Companies we recently met with in the US had been preparing for tariffs on China (where supply chain diversification was already well underway), but were not expecting tariffs elsewhere. Management teams remain worried about the related impact of higher prices on consumers whilst also exhibiting some degree of paralysis in their investment plans given the policy flux.

Offsetting this, there are some positives, namely with the oil price firmly anchored and 'real-time' inflation readings in free fall, suggesting the Fed may have more capacity to cut interest rates going forward.

Source: Truflation

With the US market outlook appearing less clear than the past, money has been finding its way to markets with better growth. Surprisingly this has been Europe and China. For Europe in particular, the market appears buoyed by political stability in Germany, the potential reconstruction of Ukraine under a potential peace deal with Russia, as well as the prospect of German fiscal stimulus in the form of re-armament and infrastructure spent. The combined total of these spending initiatives could be in excess of US$1trn, representing a very significant boost to GDP.

Portfolio Commentary

Daifuku (+0.50%): provides consulting, engineering, design, manufacture, installation, and after-sales services for logistics systems and material handling equipment. The company reported its 4Q24 results, delivering strong performance alongside upgraded 2025 guidance.

AerCap (+0.38%): is the world's largest aircraft leasing company, providing aircraft leasing, financing, and fleet management services to approximately 300 customers. In February, the company released solid operating results, and announced a new $1 billion share repurchase program. In addition to this, 2nd hand aircraft values, particularly for wide-body aircraft, continue to appreciate, benefiting the company's book value.

Cellnex Telecom (+0.31%): is Europe's largest operator of telecommunications towers and infrastructure, managing a portfolio of over 130,000 sites with a prominent presence in Spain, France, the United Kingdom, Italy, and Poland. The company announced strong 2024 results with an €800 million share buyback program, representing a positive change in the group's capital management policy.

Galaxy Digital (-0.67%): is a New York-based financial services and investment management firm specializing in digital assets and blockchain technology. The share price pulled back over the past month, reflecting volatility in AI/tech stocks, as well as pressures across digital asset markets.

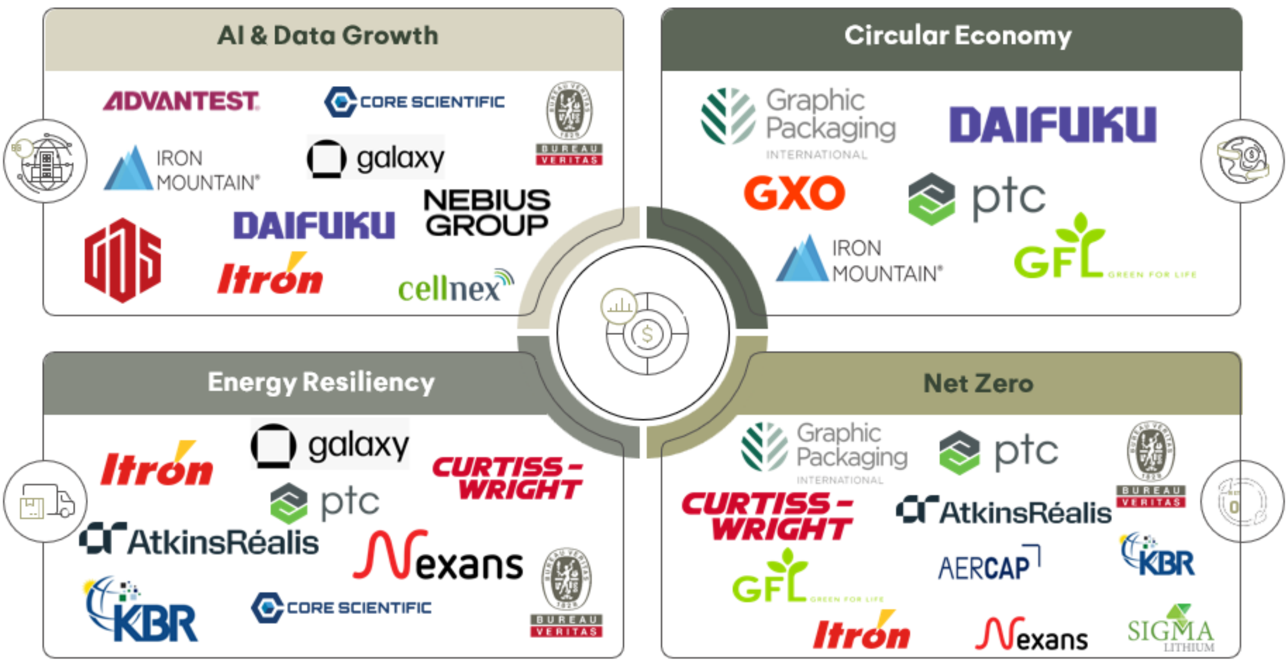
GXO Logistics (-0.49%): is the world's largest pure-play contract logistics provider. The stock fell after management downgraded the 2025 outlook, largely on FX and timing around customer contracts. This follows news that CEO was stepping down and that the business had spurned takeover offers.

PTC Inc. (-0.40%): is a global software company that enables industrial and manufacturing companies to digitally transform how they design, manufacture, and service physical products. The stock fell after management cut FY25 sales guidance, though this was largely due to FX. Otherwise, the market remains concerned about the pace and level of US industrial production

In February, we initiated three new positions, namely InterContinental Hotels Group, owner of 20 hotel brands and one of the world's largest hotel loyalty programmes; Heidelberg Materials, one of the world's largest integrated manufacturers of building materials and solutions with leading market positions in cement, aggregates, and ready-mixed concrete; as well as GDS Holdings, a leading developer and operator of high-performance data centres in mainland China, Hong Kong and South East Asia.

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 deglobalization; and
- 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".



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 Positions

Stocks	Industry	Region	Position Weighting %
Corpay, Inc.	Financials	North America	6.3
GFL Environmental Inc	Industrials	North America	6.2
AerCap Holdings NV	Industrials	North America	6.1
Cellnex Telecom S.A.	Communication Services	Europe	5.3
TKO Group Holdings, Inc. Class A	Communication Services	North America	4.3
Bureau Veritas SA	Industrials	Europe	4.1
Core Scientific Inc	Information Technology	North America	3.5
Warner Music Group Corp. Class A	Communication Services	North America	3.5
Daifuku Co., Ltd.	Industrials	Asia	2.9
GXO Logistics Inc	Industrials	North America	2.9

Source: Ellerston Capital

Risk Measures	
Net Exposure[5]	93.39%
Gross Exposure[6]	93.39%
VAR[7]	6.07%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.65%
Average Loss in Down Months	-2.96%
Annual Volatility	13.04%
Index Volatility	10.51%

Source: Ellerston Capital

Top contributor[8] (bps)

Daifuku	50 bps
AerCap	38 bps
Cellnex	31 bps

Source: Ellerston Capital

Top detractor[8] (bps)

Galaxy Digital	-67 bps
GXO	-49 bps
PTC	-40 bps

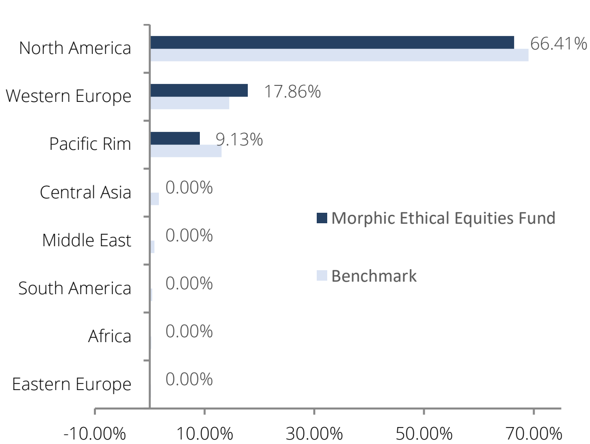
Source: Ellerston Capital

Key Facts

ASX code / share price	MEC / 1.050
Listing Date	3 May 2017
Profit Reserve[9]	$0.710
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$36.6m
Shares Outstanding	34,854,896
Dividend per share[11]	$0.06

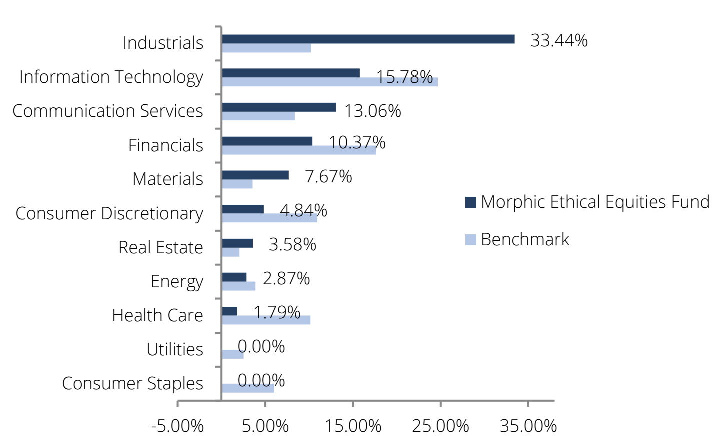
Source: Ellerston Capital

Equity Exposure Summary[12] By region



Source: Ellerston Capital

Equity Exposure Summary[12] By sector



Source: Ellerston Capital

Contact us

Morphic Asset Management Pty Ltd
Level 11, 179 Elizabeth St
Sydney 2000
New South Wales
Australia
www.morphicasset.com

Investor Relations
Phone: +61 2 9021 7701
Email: info@ellerstoncapital.com

[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]Monthly VAR, gross return; [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.