A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

MORPHIC ETHICAL EQUITIES FUND

Monthly Report

November 2020

Fund Objective

The Morphic Ethical Equities Fund Limited (the Fund) 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.

The Fund 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.)
Morphic Ethical Equities Fund[1]	4.26%	4.80%	9.03%	8.34%	5.85%	7.66%
Index[2]	7.05%	6.45%	10.17%	5.57%	10.08%	11.49%

* Past Performance is not an indication of future performance.

Ethical Investing in Focus

On December 9th, the European Commission presented its 'Sustainable and Smart Mobility Strategy' with an Action Plan of initiatives to outline how the EU transport system can achieve green and digital transformation. By 2030, high speed rail traffic will double and at least 30 million zero-emission cars will be on European roads.

By 2035, zero-emission large aircrafts will be market-ready; and by 2050, nearly all cars, vans, buses and new heavy-duty vehicles will be zero-emission. In addition, there will be a fully operational, multimodal Trans-European Transport Network (TEN-T) for sustainable and smart transport with high speed connectivity by 2050.

The transport sector accounts for a quarter of the EU's total GHG emissions and these initiatives, the latest as part of the European Green Deal, will result in a 90% cut in transport-related emissions by 2050, delivered by a smart, competitive, safe accessible and affordable transport system.

Portfolio review

We experienced one of the most pronounced asset rotations within equities during the month of November as the market pivoted from growth to value and stocks benefiting from re-opening. We got a Democratic victory in the US elections however not as large as expected and thereby resulting in a political gridlock which is market friendly. Additionally, Pfizer announced that its vaccine for COVID-19 had a >90% efficacy rate and the combination of favourable elections and hopes of a vaccine rollout set the markets alight.

While we participated from an absolute level, the sectors which rallied the hardest were ones that we would typically have little exposure to. The Energy complex was up significantly, which hurt the Fund as it does not invest in Energy companies, Cruise lines up >40% while Defence stocks were up over 25%.

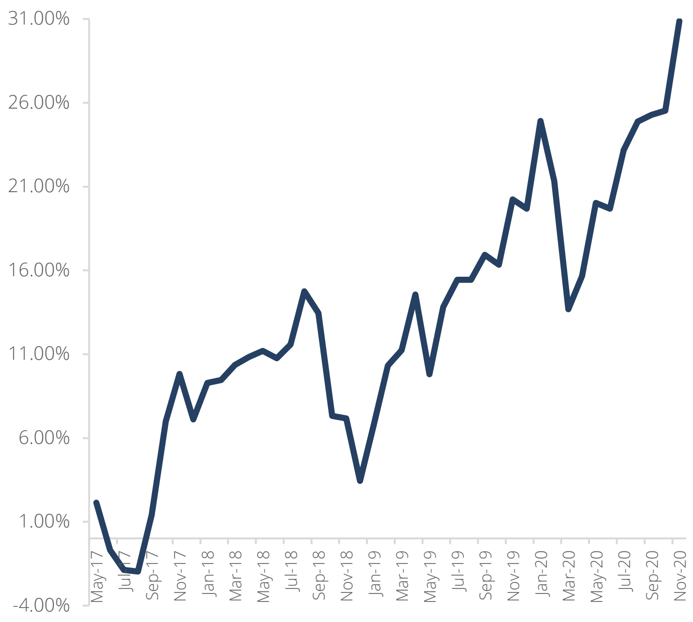
The Fund increased 4.3% during the month. While pleasing from an absolute perspective, relatively we underperformed the benchmark by 2.8%.

Option Care Health is the only scaled national provider of post-acute infusion therapy covering 96% of the US population with close to 3,000 highly skilled teams of clinicians providing quality care generally at home or alternatively in one of its infusion suites located across the country. The business generated 13% organic growth this quarter with EBITDA increasing an even more impressive rate as the model continues to generate EBITDA growth 2-3x revenue growth. Management upgraded full year earnings expectations and end year cash expectations as the business is performing ahead of plan despite the impact of COVID-19.

Net Tangible Assets (NTA)

NTA value before tax[3]	$ 1.2253
NTA value after tax[3]	$ 1.1832

Investment Returns since inception[4]



Past Performance is not an indication of future performance.

Tencent Music has two business segments, online social entertainment (230mn monthly active users) and online music (650mn MAU). We expect the pace of monetising the online music segment to accelerate and more than double from 33mn paying users in 2019 to over 67mn in 2021. The increase in online music paying users is being driven by increased number of subscriptions, which grew over 50% and advertising revenue which increase over 100% in its results released in November. We remain long-term positive on the monetisation of the 650mn online user base driving strong earnings growth.

STOCK IN FOCUS: Flex (FLEX US, €8.5bn Market Cap)

Flex is a global leader in providing outsourced manufacturing capacity while also owning the global #1 player in the highly attractive solar tracking business. Customers rely on Flex's expertise in design, manufacturing and supply chain services for a broad range of products, from medical devices, connected automotive systems and smart home appliances to cloud and data center infrastructures.

Two of Flex's new mission statements are to "make great products that contribute positively to the world" and "steward sustainable manufacturing and operations practices to minimize environmental impact." In the last year, it continued progress in creating circular economies, starting with products such as servers, computers, printers and other mobile devices, that often end up in landfills. It is creating processes to help its customers design products and source materials that minimize the environmental impact, repair and refurbish, and then maximize value recovery through end-of-life parts harvest and recycling.

Many of the products it makes are essential, the importance of which was highlighted during the global pandemic. It initiated and ramped multiple ventilator programs, scaled up production of new, and highly accurate virus and antibody testing equipment, and rapidly increased production of other critical care products such as ventilators, personal protective equipment, oxygen concentrators, infusion pumps, and ICU beds to meet the growing demand.

Flex is seeing continued increases in product complexity, as many traditional industries look to incorporate more features utilizing leading-edge technologies, including expanded capabilities around connectivity, data collection and compute. Another secular driver is the increasing number of companies and governments looking for more adaptive supply chains, manufacturing capabilities and partners, as the crisis reveals many weaknesses to the supply chain status

Source: FLEX Q3 Result Presentation

The untapped value within the business evolves around its ownership in Nextracker which is the largest player in the global solar tracking market with about 30% market share. Flex also owns TruCapture which is a software platform focused on smart monitoring of large solar fields. Solar tracking penetration outside the US (where Nextracker has larger share) is relatively low and thus provides strong revenue and earnings growth prospects going forward.

In a recent conference call Management indicated that Nextracker was generating revenues in excess of $1bn while generating double digit operating margins. IHS Market anticipates the global solar tracking market to grow at 17% CAGR between 2020-24 driven by installations of new ground-mounted solar generation as well as increasing penetration of tracker use in projects vs. fixed mounts.

We have recently seen two new solar tracking companies come to market, US listed Array Technologies and Spanish listed Soltec. These companies are currently trading on 27x and 20x forward EBITDA respectively and if we apply a conservative (especially given it is the largest player) 20.0x multiple to Flex's Nextracker business, we are paying just over 3x EBITDA for the remaining assets.

At the time of writing, Flex is trading at $16.25 which represents a nice uplift from when we first bought the stock in late October however we still see considerable upside in the name. Flex is currently trading on a forward PE of 11x, EV/EBITDA of 5.6x, >10% FCF yield with a prospective net cash balance sheet. Management has been active in the past in maximising shareholder value and we would anticipate this embedded value to be realised in the not too distant future.

Kind Regards,

Bill Pridham

Morphic Ethical Equities Fund Portfolio Manager

Top 10 Active Positions

Stocks (*Shorts*)	Industry	Region	Position Weighting
Fujitsu	Information Technology	Asia Pacific	4.6%
Bureau Veritas	Industrials	Europe	4.4%
Flex	Information Technology	North America	4.2%
SEB SA	Consumer Discretionary	Europe	4.1%
Cellnex	Communication Services	Europe	4.0%
PTC	Information Technology	North America	3.9%
Tempur Sealy	Consumer Discretionary	North America	3.9%
Tencent Music Entertainment	Communication Services	North America	3.9%
Sensata Technologies	Industrials	North America	3.8%
Techtronic	Industrials	Asia Pacific	3.8%

Risk Measures	
Net Exposure[5]	91.04%
Gross Exposure[6]	93.59%
VAR[7]	2.07%
Best Month	5.51%
Worst Month	-6.49%
Average Gain in Up Months	2.14%
Average Loss in Down Months	-2.13%
Annual Volatility	9.26%
Index Volatility	11.10%

Hedge Positions	Risk Limit Utilisation (%)[9]
None	

Top three alpha contributors[10] (bps)

- PTC Inc 48 bps
- Alstom 30 bps
- Fujitsu 27 bps

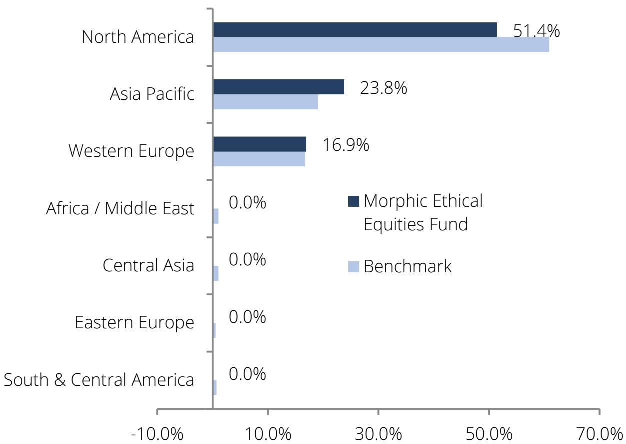
Top three alpha detractors[10] (bps)

- MultiPlan Corp -67 bps
- Techtronic -49 bps
- Cellnex -43 bps

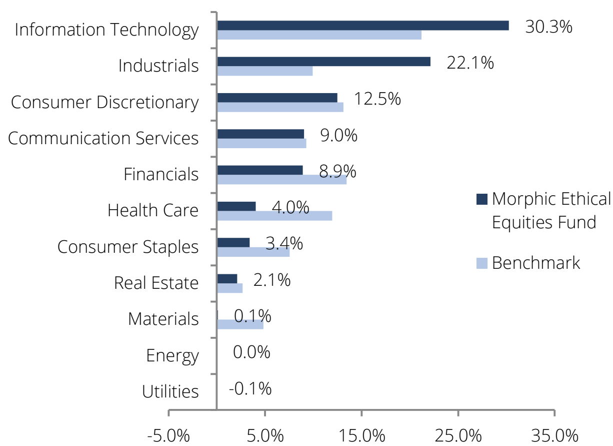
Key Facts

ASX code / share price	MEC / 1.06
Listing Date	3 May 2017
Management Fee	1.25%
Performance Fee[11]	15%
Market Capitalisation	$ 56m
Shares Outstanding	52,871,147
Dividend per share[12]	$ 0.015

Equity Exposure Summary By region



Equity Exposure Summary 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] As a percentage of the Fund's Value at Risk (VaR) Limit; [9] As a percentage of the Fund's Value at Risk (VaR) Limit; [10] Attribution; relative returns against the Index excluding the effect of hedges; [11] The Performance Fee is payable annually in respect of the Fund's out-performance of the Index. Performance Fees are only payable when the Fund achieves positive absolute performance and is subject to a high water mark; [12] Annual dividend per share.