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MORPHIC ETHICAL EQUITIES FUND

Monthly Report

December 2021

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]	2.74%	6.37%	9.64%	33.13%	19.39%	12.88%
Index[2]	1.43%	5.99%	8.99%	25.81%	19.10%	14.17%

* Past Performance is not an indication of future performance.

Portfolio Commentary

The Morphic Ethical Equities Fund increased 2.74% net during December comparing well to the MSCI ACWI (AUD) which expanded 1.43% over the month.

For the calendar year ending December, the Fund increased 33.13% net representing 7.32% outperformance when compared with the same index which expanded 25.81% over the same period.

While CY21 was not nearly as volatile as that seen in the prior year, there was no shortage of issues to consider when positioning the portfolio for the most optimal outcome. We consider a balanced investment approach as the best way to participate in the market as we focus on both capital growth and capital preservation.

Right now, we have the highly transmissible Omicron variant rampaging around the world, however thankfully it appears the current COVID strain is much less lethal than that of Delta. The US Fed finally conceded that inflation is looking more structural than transitory, and as such provided a very hawkish outlook as it winds down its Quantitative Easing (QE) (likely ending in March) and subsequently raising interest rates once this is complete. The question will be when does it reduce its balance sheet (quantitative tightening) as this would reduce financial liquidity further. President Biden's Build Back Better (BBB) plan was rejected as it was deemed unnecessary, especially when considering the potential inflationary impact as the economic supply/demand set up is currently very stretched. We would not discount a trimmed down version over the coming months. Supply chains remain fragile with lead times still very stretched and not likely to be repaired until second half 2022. That said, we are hearing about small green shoots as we are now past peak demand season which should give the system a chance to breathe. Labour costs are escalating as wage inflation continues to build on a declining unemployment rate. We expect the deflationary impact of supply chain repair to be replaced with wage inflation in 2022.

The portfolio's top three contributors for the month Azek, Sensata and Option Care Health added 156bps to performance while Chart Industries, First Watch and Under Armour detracted 85bps. We only had two portfolio companies reporting results in December and will briefly touch on them here:

Ciena reported a very strong finish to its year (October year end) as it is benefiting from increased network spending from pretty much every cohort including webscalers, service providers and enterprise. It ended the year with its highest ever backlog at $2.2bn which was double that of the same time last year. Management guided for 11-13% FY22 revenue growth which compared well to the market which was expecting something closer to 8% while also implementing a $1bn buyback.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$ 1.5642
NTA value after tax[3]	$ 1.4149

Investment Returns since inception[4]

Overall, secular demand remains very strong, driven by increasing bandwidth needs, the shift to the cloud, and also the focus on edge applications as well as digital transformation and a growing need for network automation.

PVH reported its third quarter results with its Tommy Hilfiger and Calvin Klein brands delivering significantly ahead of guidance. Third quarter margins benefited from strong pricing power and much lower promotional activity although continued elevated freight costs and delayed shipping times remain an operational headache. Management expects revenues to come in at the top end of its prior guidance however with FY21 EBIT margins now expected to come in above pre-pandemic levels, it increased its EPS expectation to $9.25 up from $8.50 previously. We should note that PVH started out FY21 expecting EPS of $6.00 per share and have been upgrading throughout the year.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Tempur Sealy	Consumer Discretionary	North America	4.70%
Sensata	Industrials	North America	4.53%
PTC	Information Technology	North America	4.44%
DigitalBridge	Real Estate	North America	4.27%
Flex	Information Technology	North America	4.22%
Webster Financial	Financials	North America	3.92%
XPO Logistics	Industrials	North America	3.74%
Bureau Veritas	Industrials	Europe	3.72%
TKH Group	Industrials	Europe	3.64%
PVH Group	Consumer Discretionary	North America	3.55%

Risk Measures	
Net Exposure[5]	88.66%
Gross Exposure[6]	95.39%
VAR[7]	1.51%
Best Month	8.60%
Worst Month	-6.49%
Average Gain in Up Months	2.40%
Average Loss in Down Months	-1.57%
Annual Volatility	9.65%
Index Volatility	10.23%

Top three alpha contributors[8] (bps)

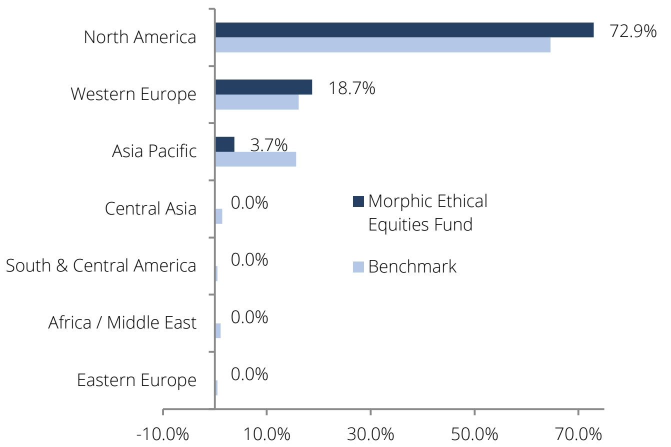
Azek	**55 bps**
Option Care Health	**51 bps**
Sensata	**50 bps**

Top three alpha detractors[8] (bps)

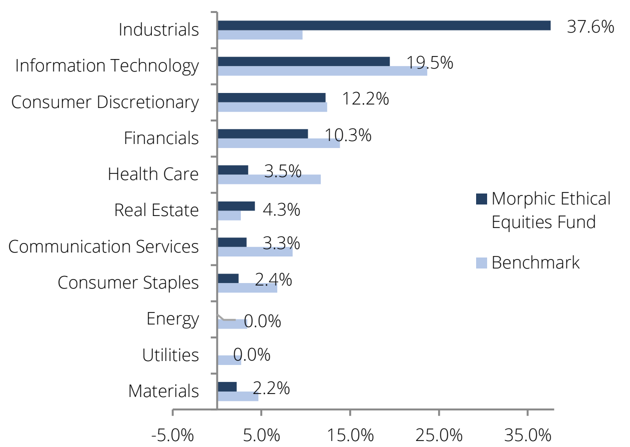
Chart Industries	**-24 bps**
Under Armour	**-30 bps**
First Watch Restaurant Group	**-31 bps**

Key Facts	
ASX code / share price	MEC / 1.335
Listing Date	3 May 2017
Profit Reserve[9]	$ 0.421
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$ 71m
Shares Outstanding	53,164,680
Dividend per share[11]	$0.06

Equity Exposure Summary By region



Equity Exposure Summary By sector



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] Based on gross returns since Fund's inception; [8] Attribution; relative returns against the Index 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 the Fund realises taxable profits and generates franking credits; [10] 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; [11] Annual dividend per share.