

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
May 2022



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	-2.75%	-8.49%	-17.44%	-7.95%	8.82%	7.06%
Index ²	-0.82%	-4.81%	-10.40%	0.59%	10.42%	10.22%

* Past Performance is not an indication of future performance.

ESG in Focus

The European Union (EU) is receiving 40% of its natural gas imports and 25% of its oil from Russia. The EU's reliance on Russian fossil fuels is estimated to cost the European taxpayers ~€100 billion per year. This dependence has been used as a weapon by President Putin against the EU.

To achieve energy security and cease support for the Russian economy, the EU has committed to reduce gas imports from Russia by two thirds within a year. Recent surveys by the European Commission demonstrate that 85% of Europeans believe the EU should reduce its dependency on Russian oil and gas as soon as possible to support Ukraine.

The Russian invasion has highlighted the need to establish secure energy sources and investing in green hydrogen production is one of the key avenues in achieving this goal. While the energy transition remains a key priority for the EU, the drive for energy independence will require diverse energy sources including international sources of gas to secure supply while its economy continues to invest in decarbonisation.

Portfolio Commentary

If you looked at the markets at the start of May, went away and then looked at them at the end of the month, you would have thought that it was a fairly benign period. The S&P ended basically flat, the Nasdaq was lower by just under 2% while European indices were also pretty well behaved despite the continued Russia/Ukraine crisis.

While the final market outcomes were relatively stable, what really happened was incredible volatility throughout the month with violent swings in both directions. If we isolate the S&P 500, the index initially rallied as the US Federal Reserve (Fed) increased rates 50bps while indicating that a 75bps move was not on the cards (the market took this as a dovish outcome). Then it subsequently dropped over 10% until mid-May when a higher than expected inflation print put the risk of a 75bps move back on the table. The market continues to sell rallies rather than buy dips as it continues to grapple with a plethora of macro concerns. The index flirted with bear market territory of 20% down from its highs only to recover significantly in the final week to finish relatively unchanged.

The Morphic Ethical Equities Fund declined 2.75% net during the month while the MSCI ACWI (AUD) Index declined by 0.82% over the same period.

Net Tangible Assets (NTA)

NTA value before tax ³	\$ 1.1635
NTA value after tax ³	\$ 1.1889

Investment Returns since inception⁴



The portfolio's top three contributors **First Watch Restaurant Group, Olaplex and Sensata** added **93bps** to performance while **Digital Bridge, Under Armour and Workiva** detracted **137bps**.

The Fund had 11 portfolio companies reporting quarterly results during the month with generally positive outcomes and commentary. We will be following up with company calls over the coming weeks to keep our finger on the pulse of operating conditions in this uncertain environment.



Chart Industries (Chart) is a global leader and independent global manufacturer of highly engineered equipment servicing multiple applications in the Clean Energy and Industrial Gas markets. Chart is a leading provider of technology, equipment and services related to liquefied natural gas, hydrogen, biogas and carbon capture applications. Its equipment is also used in the food and beverage, medical and life sciences and water treatment industries, among other sectors. Its portfolio of products and services are used in every phase of the liquid gas supply chain including industrial engineering, in field service/repair and more recently an expanded leasing business.

The business is structured into 4 main product categories and is exposed to every energy transition fuel (with the exception of wind and solar) thereby rendering the business agnostic to the successful application or fuel molecule (hydrogen, biogas, ammonia etc) that will be paramount in addressing the urgent need to reduce global greenhouse gas (GHG) emissions and security of energy supply. Its Specialty division will drive the lion's share of growth over the coming decade with growth coming from strong end markets as well as M&A.



Specialty Markets TAM Continues to Grow

Market	End-use of Products	Near-term TAM ⁽¹⁾	2030 TAM	Drivers of Size Opportunity
Hydrogen & Helium	<ul style="list-style-type: none"> H₂/He Liquefaction Transports and storage Fueling stations and bunkering 	\$3,100M	\$25,000M	<ul style="list-style-type: none"> Development of "green hydrogen" industry Buildout of hydrogen fueling infrastructure Government stimulus packages
Carbon Capture	<ul style="list-style-type: none"> Industrial scale carbon capture Small scale applications (CICI®, ELM®) Distribution and storage 	\$850M	\$6,000M	<ul style="list-style-type: none"> CO₂ emission reduction targets CO₂ supply shortages Tax incentives, fuel standards, carbon trading systems
Over-the-Road Trucking	<ul style="list-style-type: none"> LNG as alternative fuel to diesel for heavy duty vehicles (lower emissions, engine noise, etc.) 	\$750M	\$2,000M	<ul style="list-style-type: none"> Regulations Tax incentives
Water Treatment	<ul style="list-style-type: none"> Improving water quality and wastewater treatment utilize liquid oxygen and CO₂ in purification process Technology for removal of wide range of contaminants including arsenic, PFAS and PFOS. 	\$1,500M	\$6,000M	<ul style="list-style-type: none"> Regulation on water treatment Population growth
Food & Beverage	<ul style="list-style-type: none"> Food preservation equipment Nitrogen dosing equipment 	\$500M	\$1,000M	<ul style="list-style-type: none"> Nitro-beverage changeover
Cannabis	<ul style="list-style-type: none"> Liquid CO₂ storage and supply / delivery systems Used in grow houses, CBD oil extraction and packaging 	\$250M	\$550M	<ul style="list-style-type: none"> Legalization of cannabis Regulatory approval for CBD.
Molecules By Rail	<ul style="list-style-type: none"> Gas by rail tender cars approved for use 	\$250M	\$500M	<ul style="list-style-type: none"> Legalization of LNG by train in the U.S. Expected growth in EU
Lasers	<ul style="list-style-type: none"> High purity liquid nitrogen (gas assist) provides a faster cut and superior edge, free of impurities 	\$200M	\$500M	<ul style="list-style-type: none"> Uptime requirements in manufacturing Reducing steps in production
Space	<ul style="list-style-type: none"> Cryogenic liquid propellants are used as fuel for rocket propulsion 	\$250M	\$1,000M	<ul style="list-style-type: none"> Proliferation of private space travel industry
Total		\$7,650M	\$42,550M	

Source: Potential Market Size are Chart Management estimates.
 (1) Reflects Total Addressable Market (TAM) for current and potential application of Chart technology and products.
 GTLS: GAS TO LIQUID SYSTEMS®

Chart's hydrogen business includes liquid hydrogen storage and transport trailers. Chart is the market leader in cryogenic liquid hydrogen storage with over 800 tanks in service across aerospace, FCEV fuel stations, forklift fueling and industrial applications. Chart has leading market share in core hydrogen storage and transport equipment and liquefaction in the EU (~40%) and US (~60%). As the hydrogen industry matures, order activity is moving from gaseous to liquid requirements or a combination due to its more compact and energy dense nature. This is a clear opportunity for Chart to help facilitate the energy transition with its market leading technology.

Management has identified its near term hydrogen and helium addressable market as ~\$3.1bn, growing to ~\$25bn by 2030. It is clear that urgent investment is needed for the EU to secure its energy supply over the near and long term. Companies such as Chart are uniquely positioned to facilitate the EU in reducing their reliance on Russian gas imports as the US enters another investment cycle. Alongside this, Chart will continue to help customers transition to renewable energy sources such as green hydrogen.

We are approaching our first year of ownership in Chart. During that time Management has provided solid market outlooks, continued to expand its operating capabilities via small tuck in acquisitions and provided a very comprehensive Investor Day in early May which covered not only the hydrogen opportunity but also carbon capture, water treatment and a solid earnings growth outlook out to 2025.

STRATEGIC FINANCIAL PLAN	2022 Target	3-Year Target (incl-Big LNG)
Revenue	\$1.725 – 1.85 billion	> 17% CAGR
Gross Margin	Exiting at 30%	33-36%
Earnings per share	\$5.35 – 6.50	> 25% CAGR
Net Leverage	Under 2.5x	Under 1.0x

Note: 3-Year targets represent FY23 through FY25

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
CellInx	Communication Services	Europe	4.62%
Sensata	Industrials	North America	4.58%
WillScot Mobile Mini	Industrials	North America	4.54%
Assurant	Financials	North America	4.49%
Flex	Information Technology	North America	4.28%
GXO Logistics	Industrials	North America	4.03%
Graphic Packaging	Materials	North America	4.02%
Option Care Health	Health Care	North America	3.81%
Webster Financial	Financials	North America	3.69%
PTC Inc	Information Technology	North America	3.67%

Risk Measures	
Net Exposure ⁵	82.18%
Gross Exposure ⁶	92.02%
VAR ⁷	1.63%
Best Month	8.60%
Worst Month	-8.44%
Average Gain in Up Months	2.40%
Average Loss in Down Months	-2.12%
Annual Volatility	10.84%
Index Volatility	10.50%

Top two alpha contributors⁸ (bps)



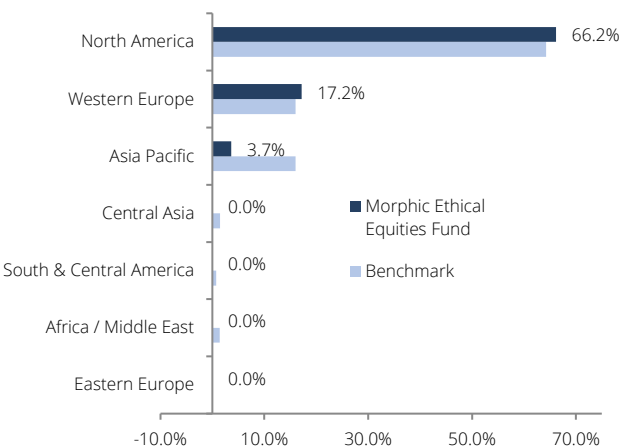
Top three alpha detractors⁸ (bps)



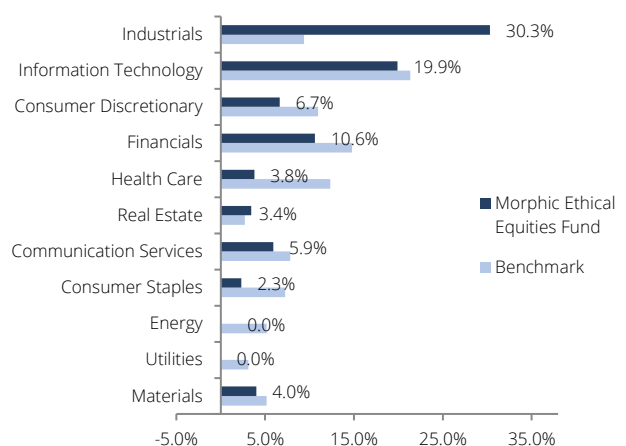
Key Facts

ASX code / share price	MEC / 1.040
Listing Date	3 May 2017
Profit Reserve ⁹	\$ 0.406
Management Fee	1.25%
Performance Fee ¹⁰	15%
Market Capitalisation	\$55m
Shares Outstanding	53,231,448
Dividend per share ¹¹	\$0.06

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 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. ¹² Exposure Summary charts do not take into account derivative positions.