MORPHIC ETHICAL EQUITIES FUND

Monthly Report
August 2022

We're a proud Future Generation supporter

Certified Responsible Investment — Certified by RIAA

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

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.

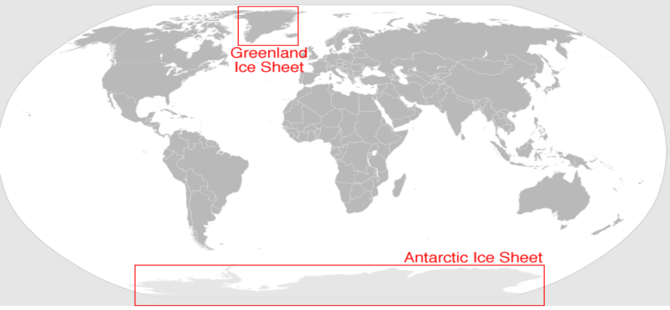
Investment returns*

	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	ITD (p.a.)
Morphic Ethical Equities Fund[1]	-4.37%	-3.81%	-11.98%	-20.43%	5.63%	5.94%
Index[2]	-1.96%	-1.26%	-6.02%	-10.33%	7.41%	9.45%

* Past Performance is not an indication of future performance.

ESG in Focus

There are two ice sheets on Earth today that cover most of Greenland and Antarctica which together, contain more than 99% of the freshwater ice on Earth and cover roughly the same area as the United States and Mexico combined.



However, we recently came across a headline none of us wanted to see – "Lowest July Antarctic sea ice on record", which is a prime example of what is going on in our climate, and that is one of increasing global temperatures. There is no doubt that some of these shifts in our climate are based on long term natural cycles, however, studies are providing strong evidence that as we industrialised our global economies over the past couple hundred years (aka Industrial Revolution), human activity has been the main driver of changes in our climate since the pre-industrial era. Researchers have observed that increases in greenhouse gas (GHG) concentrations were unequivocally caused by human activities and that each of the last four decades has been successively warmer than any decade that preceded it since 1850 – seems to be accelerating on itself.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$ 1.0981
NTA value after tax[3]	$ 1.1415

Investment Returns since inception[4]

Portfolio Commentary

Well, August started off strong however macro overhangs returned as the release of the US Federal Reserve (Fed) minutes, coupled with hawkish rhetoric from Chairman Powell, caused a massive rebound in US 10yr yields from 2.57% at the start of the month to close at almost 3.20%. Higher interest rates correlate to lower equity multiples, and therefore prices, and this manifested itself during the second half of August.

From a global market perspective, the S&P 500 and Nasdaq indices were lower by 4.1% and 4.5% respectively while Europe was not unscathed either with the FTSE 100 lower by 1.1%, French CAC 40 index down 5.0% and Germany's DAX down 4.8%.

The Morphic Ethical Equities Fund declined 4.37% net during the month compared with the MSCI ACWI (AUD) which was down by 1.96% over the same period. The portfolio's top three contributors Willscot Mobile Mini, Flex Group and Comerica added 53bps while Assurant, Cellnex Telecom and Digital Bridge detracted 169bps from performance.

The Fund had 15 portfolio companies reporting quarterly results or trading updates during the month. 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 however let's run through several of these now.

GXO Logistics is the largest pure play contract logistics player globally with key verticals of ecommerce and consumer staples driving the group. GXO reported 20% organic sales growth this quarter delivering both revenue and earnings ahead of expectations. Importantly it has a >$2.3bn contract pipeline which is well diversified across geographies and customer verticals. Management upgraded full year revenue and earnings guidance which now includes the potential Clipper acquisition approval by year end offset somewhat by negative FX headwinds.

Assurant is a global leader in protecting and securing large consumer purchases such as mobile phones, automobiles and housing. It reported revenue and earnings which were marginally below expectations as its Global Housing insurance business was impacted by higher claims costs associated with labour and materials inflation. Global Lifestyle, which includes mobile phone/auto insurance and services was ahead of expectations with Management upgrading full year growth for this division. The Global Housing earnings impact should prove temporary as Assurant has inflation guards built into its policies and will benefit from double digit rate increases over the next 12 months. That said, Management now expects earnings growth to come in between +14-18% compared with its previous guidance of +16-20%.

Willscot Mobile Mini is the largest modular office provider in the US with circa 45% market share and continues to benefit from pricing and economies of scale. This quarter was no exception with revenue and earnings well ahead of expectations. Pricing was up 16% in its North American modular business with units on rent now starting to inflect to the upside. Management expects the benefits of inflationary impacts on its prices will continue to roll through its income statement over the next 18-24 months supporting margin expansion well into 2023 and beyond. Management upgraded full year earnings guidance to $920m EBITDA midpoint with >$500m free cash flow run rate entering 2023.

Azek operates in an effective duopoly in the US composite decking market which is benefiting from a shift from wood as consumers appreciate the recycling benefits as well as lower total cost of ownership associated with composite decking. While quarterly revenues were ahead of expectations, Management indicated that it would curtail deliveries as a result of channel inventory destocking which should be completed over the next two quarters. Manufacturing and delivery lead times have improved markedly over the past few quarters and this has resulted in lower "safety" inventory to be held in the system. Pricing has remained firm and the business should benefit from lower commodity costs over the coming quarters.

TKH Group is a leading player in the 2D and 3D machine vision market, a clear market leader in next generation tyre manufacturing equipment (which will benefit from EV adoption) and a top provider of energy cables providing offshore wind farm interconnection in Europe. TKH delivered a strong first half with organic revenue growth of 15.7% underpinning EBITA growth of 37.0%. It has a strong order book for its products however supply chain constraints continue to dampen overall growth while concurrently increasing working capital requirements. Despite this, Management provided strong FY22 net profit guidance which was ahead of market expectations.

Digital Bridge is a leading infrastructure partner to the digital economy with a strong market presence in towers, data centres, small cells and fibre. It is substantially growing its asset light, fee management business with a doubling of fee earning assets expected over the next 3 years. It is already 2/3 of the way through its capital formation target for FY22 despite being only halfway through the year. Total company EBITDA increased from $15m last year to $31m this quarter with digital assets under management increasing 37% YoY to $48bn and on track to reach its $65bn proforma AUM when incorporating recent transactions. Management re-iterated FY23 EBITDA expectations of circa $300m increasing to $430m by 2025.

Floor and Décor is a disruptive high growth specialty retailer in the circa $50bn US hard surface flooring and accessory market. Hard surface flooring is taking share from a soft surface (carpet) annually with Floor and Décor a prime beneficiary of this shift. Second quarter same store sales increased 11.7% with full year expectations brought in slightly to 10-11% (previously 10.5-13.0%). One of the attractions of the business is its strong store rollout opportunity with 20% new store growth expected for the foreseeable future. The business generates incredibly strong cash returns on each new store and with only 32% of its addressable footprint built out, it has significant white space opportunities.

First Watch is a relatively recent IPO in the US casual dining market focusing on the daytime segment (7am to 2:30pm) which sets it apart for employees and customers alike. It is currently operating circa 450 stores and has estimated a total addressable opportunity of around 2,200 stores, again another strong rollout candidate. First Watch delivered same store sales growth of 13.4% and total sales growth of 19.8% to $184.5m this quarter. It has raised prices a couple of times this year to offset commodity cost inflation which now appears to be stabilising. On the back of the strong first and second quarter results, Management increased full year guidance with revenues now expected to grow 20% as same store sales grow 13-15%, underpinned by continued positive traffic trends.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Flex	Information Technology	North America	4.95%
Assurant	Financials	North America	4.89%
Cellnex	Communication Services	Europe	4.80%
WillScot Mobile Mini	Industrials	North America	4.58%
Graphic Packaging	Materials	North America	4.45%
PTC Inc	Information Technology	North America	4.37%
Chart Industries	Industrials	North America	4.04%
Webster Financial	Financials	North America	3.91%
Sensata	Industrials	North America	3.84%
Ciena	Information Technology	North America	3.67%

Risk Measures	
Net Exposure[5]	82.32%
Gross Exposure[6]	93.42%
VAR[7]	1.64%
Best Month	9.59%
Worst Month	-8.44%
Average Gain in Up Months	2.59%
Average Loss in Down Months	-2.44%
Annual Volatility	12.10%
Index Volatility	10.76%

Top alpha contributor[8] (bps)

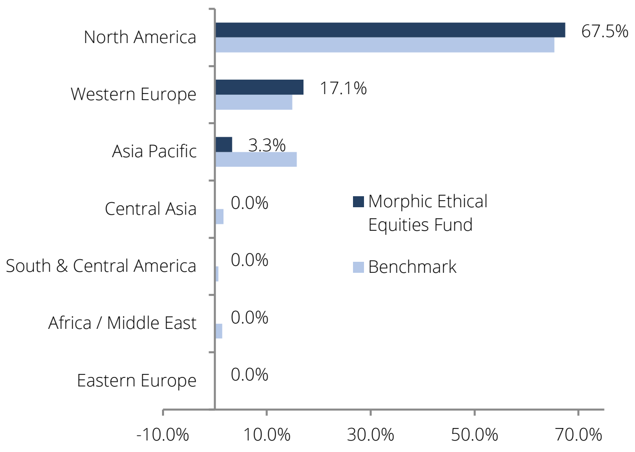
Willscot Mobile Mini	**24 bps**
Flex	**23 bps**
Comerica	**6 bps**

Top alpha detractor[8] (bps)

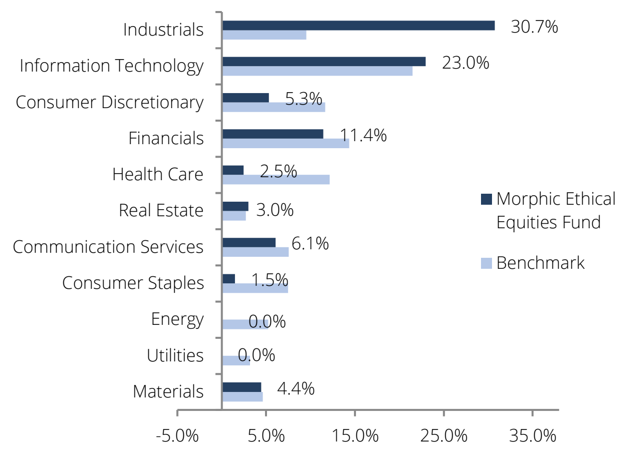
Assurant	**-49 bps**
Cellnex	**-56 bps**
Digital Bridge	**-65 bps**

Key Facts	
ASX code / share price	MEC / 1.050
Listing Date	3 May 2017
Profit Reserve[9]	$ 0.460
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$56m
Shares Outstanding	53,301,524
Dividend per share[11]	$0.06

Equity Exposure Summary[12] By region



Equity Exposure Summary[12] 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] 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.