

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
January 2023



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	6.98%	1.39%	-0.95%	-12.57%	4.10%	6.14%
Index ²	3.14%	0.67%	1.46%	-8.01%	5.02%	9.38%

* Past Performance is not an indication of future performance.

ESG In Focus

The PFAS family of chemicals are known as "forever chemicals" because they do not break down in the environment and can accumulate in the bodies of animals and humans over time. There are thousands of different forms of PFAS, some of which have been more widely used and studied than others.

Firstly, let's get the long form name out of the way! PFAS stands for per- and poly-fluoroalkyl substances and are man-made chemicals used in products that resist heat, oil, stains and water. The chemicals have been used around the world, as well as here in Australia, in many common household products and specialty applications since the 1940's because of their useful properties.

The trouble is that what made this family of chemicals (long lasting with components that break down very slowly over time ie forever chemicals) so attractive in many end applications is now the reason they are now creating widespread health concerns around the world. Concentrated levels of PFAS in humans have been linked to increased risk of cancer, reproductive issues and a reduction in immunity, to name a few.

This family of chemicals is certainly testing the old phrase that "nothing lasts forever" and for more colour around the topic, please see our latest blog [here](#).

Portfolio Commentary

The Morphic Ethical Equities Fund increased 6.98% net during the month compared to the MSCI ACWI (AUD) which was up by 3.14% over the same period. Very solid underlying stock performance was tempered by a strong Aussie Dollar which appreciated c3.5% in January, thereby detracting from returns by the same degree.

Global markets were quite solid during the month of January as the "Santa Claus" rally that went AWOL in December presented itself in spades during the first month of 2023. Markets were buoyed by China's re-opening and signs that disinflation is prompting a slower pace of policy tightening. Interestingly, the laggards of last year led the charge higher in January with semiconductors, media and consumer discretionary stocks leading the way.

Net Tangible Assets (NTA)

NTA value before tax ³	\$1.0995
NTA value after tax ³	\$1.1305

Investment Returns since inception⁴



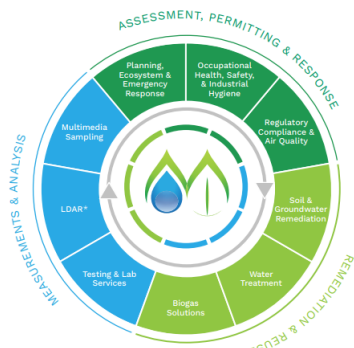
Most major markets ended substantially higher with the S&P 500 and Nasdaq closing up 6.3% and 10.7% respectively. In Europe, broad based strength was evident with the DAX and CAC up 8.7% and 9.5% while the Japanese Nikkei rose by 4.7%.

Although most market strategists expected a very weak start to the year, the US market seemed to approach "peak soft landing" as a continuation of weaker inflation prints have been met with earnings reports coming in much better than expected. If you remember, 2022 was characterised by a compression of the market multiple as global yields rose dramatically and the focus then shifted to earnings risk into 2023. The question remains as to whether the "earnings cliff" that was expected to drive the next leg lower in the market has been eliminated, moderated or merely postponed.

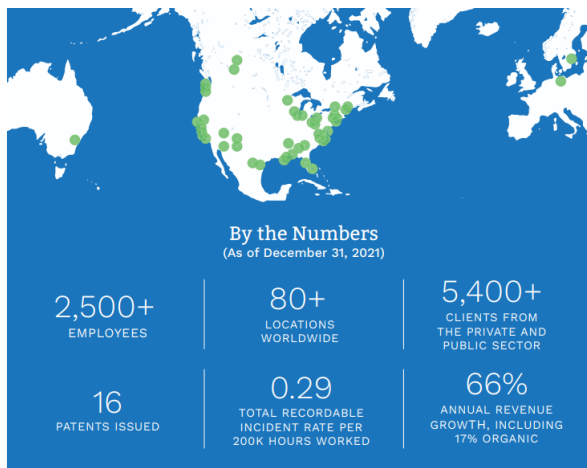
Montrose Environmental is a US based environmental services company providing a diverse range of innovative solutions to help clients and communities meet their environmental needs and goals to address the world's environmental challenges. It is organised into three business units, Assessment, Measurement and Remediation, which are vertically integrated thereby providing a one stop shop offering. It has an expansive customer base around the world (although predominately US) with a potential addressable market of >\$400bn in the US alone.

Its Assessment business basically determines what the client's environmental risk or liability is, which is especially important as regulations constantly change with each iteration typically more onerous than the previous. Then if there is an environmental risk, Montrose's measurement and analysis segment determines where the client stands today and what needs to be done to address the problem. On the back of this determination, its remediation and reuse division helps clients clean up or fix the problem. The majority of Montrose customers are private enterprises with very sticky and predictable revenues as c95% of business in any one year typically comes back the next.

Three Business Segments. One Montrose.



*Leak Detection and Repair



Source: Montrose

The PFAS issue highlighted earlier touches all three of Montrose's business units and with regulatory thresholds coming down, risk liabilities are going up for its client base. Business activity associated with PFAS currently represents about 20% of company revenues with the potential addressable market quite large as >\$160bn of spend is potentially required over the coming decades to address the issue just in the US alone.

Working Across Montrose to Help Solve the Global PFAS Problem



Our Team of Engineers, Geologists, Chemists, Scientists, Toxicologists, Risk Assessors, and Field Technicians Provide an Integrated, Cross-functional Continuum of Services to Address the Complexities Surrounding PFAS

(1) Environmental Business Journal, Volume XXXI, Number 5/6, 2019

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Source: Montrose

Montrose entered the portfolio in September 2022 after it declined from a high of over \$70 at the start of the year to our entry price of just under \$39.00 as market multiples were compressed as interest rates moved higher. The business itself remained quite strong over the period and represented a classic "Fallen Angel" opportunity for us as long-term shareholders. While we have taken some profit over the past month, we consider that Montrose will remain a steady contributor to our portfolio over the coming years.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Cellnex	Communication Services	Europe	5.34%
Sensata	Industrials	North America	4.70%
Graphic Packaging	Materials	North America	4.66%
Ciena	Information Technology	North America	4.26%
Webster Financial	Financials	North America	4.10%
TKH Group	Industrials	Europe	4.05%
Rentokil	Industrials	United Kingdom	4.03%
PTC Inc	Information Technology	North America	3.94%
Digital Bridge	Real Estate	North America	3.74%
WillScot Mobile Mini	Industrials	North America	3.73%

Risk Measures	
Net Exposure ⁵	85.08%
Gross Exposure ⁶	85.08%
VAR ⁷	1.68%
Best Month	9.59%
Worst Month	-8.44%
Average Gain in Up Months	2.78%
Average Loss in Down Months	-2.68%
Annual Volatility	12.91%
Index Volatility	11.16%

Top alpha contributor⁸ (bps)



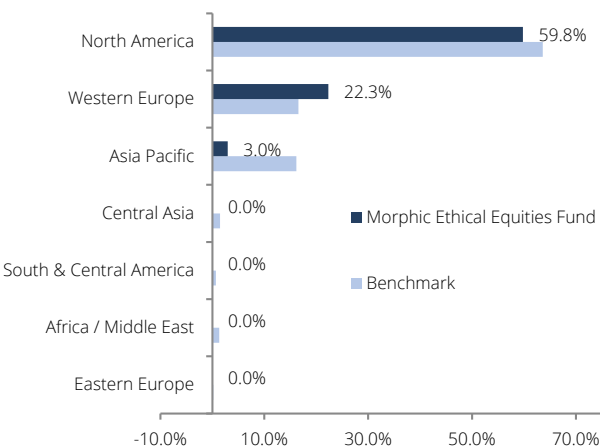
Top alpha detractor⁸ (bps)



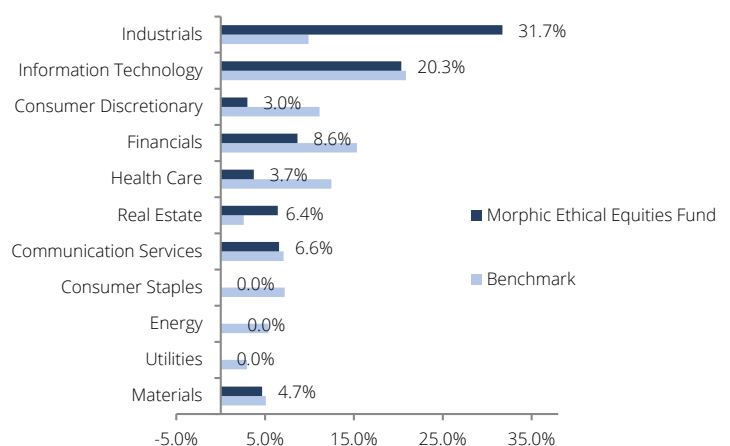
Key Facts

ASX code / share price	MEC / 0.950
Listing Date	3 May 2017
Profit Reserve ⁹	\$ 0.429
Management Fee	1.25%
Performance Fee ¹⁰	15%
Market Capitalisation	\$51m
Shares Outstanding	53,452,626
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 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.