



MORPHIC ETHICAL EQUITIES FUND

Monthly Report
February 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.

Morphic Ethical Equities Fund ¹	Investment returns*					ITD (p.a.)
	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	
	2.26%	3.12%	5.91%	-6.78%	5.95%	6.47%
Index ²	1.50%	-0.69%	5.04%	-1.28%	7.19%	9.54%

* Past Performance is not an indication of future performance.

ESG In Focus

Chronic diseases such as heart disease, cancer, and diabetes are long lasting conditions which can significantly impact a person's quality of life. Driven in part by ageing populations globally, chronic conditions are becoming increasingly common with many people experiencing two or more chronic conditions at the same time.

Many chronic conditions are challenging to treat as they are highly complex and unique to the individual. Even cancer cells in the same tumour can have different mutations and those that survive the treatment grow in number again. Autoimmune diseases are also highly complex as each person develops their own unique immune system. Researchers are increasingly looking for more specified and targeted types of medicine to treat chronic diseases.

The increased complexity and cost of bringing a biological drug to market has caused the traditionally vertically integrated pharmaceutical industry to increasingly outsource production capabilities to CDMO (Contract Development and Manufacturing Organization) partners.

CDMOs not only help pharma companies focus more time and resources on core R&D competencies, but also bring specialized manufacturing expertise and technologies which help accelerate time to market and save infrastructure costs. To read more please see our most recent blog [here](#).

Portfolio Commentary

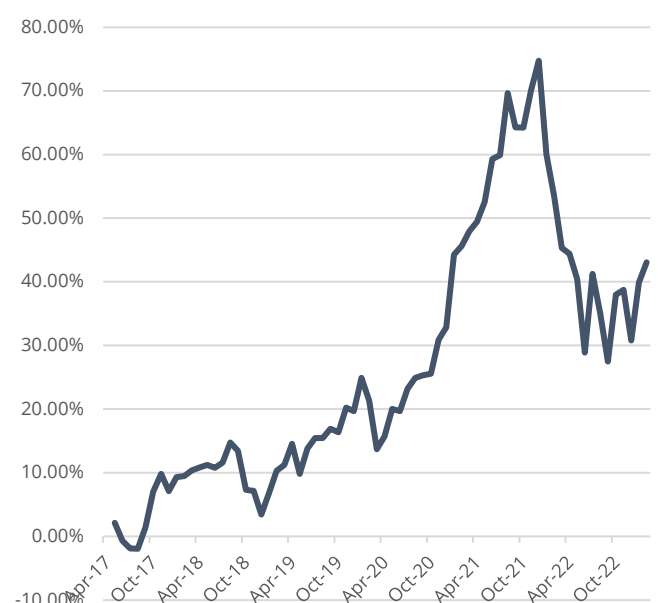
The Morphic Ethical Equities Fund increased 2.26% net during the month compared to the MSCI ACWI (AUD) which was up by 1.50% over the same period. The Australian dollar continues its volatile ride as it decreased just over 3% in February (augmenting absolute performance) after increasing 3.5% last month. The unhedged nature of the portfolio has proven to provide downside buffer in times of risk off in the market.

The portfolio's top three contributors **Advantest, Willscot Mobile Mini and Catalent added 94bps** to performance while **Digital Bridge, PTC and Ciena detracted 123bps** during the month.

With December quarter earnings coming in generally in line or slightly above expectations, the earnings cliff which was expected to drive markets substantially lower has yet to manifest itself. Economic data has proven to be quite resilient and this, along with sticky inflation data, has reduced the likelihood of a pause in rate increases, at least in the near term.

Net Tangible Assets (NTA)	
NTA value before tax ³	\$1.1192
NTA value after tax ³	\$1.1489

Investment Returns since inception⁴



Global index performance was quite mixed after the strong advance seen in January with the S&P 500 and NASDAQ closing down 2.4% and 1.0% respectively. In Europe, the DAX and CAC indices built on the January momentum increasing 1.6% and 2.6% respectively, while the Japanese Nikkei was basically flat during the month.

With company earnings and economic data not showing signs of cracking just yet and inflation data (while declining) showing aspects of wage stickiness, the market is now pricing in a higher for longer rate environment as global central banks aim to get inflation under control. Recent tightening of financial conditions are yet to work their way through the economy and the subsequent impact on economic growth remains to be seen. As a consequence, it is paramount to focus on earnings resilience underpinned by secular or structural growth in this environment.

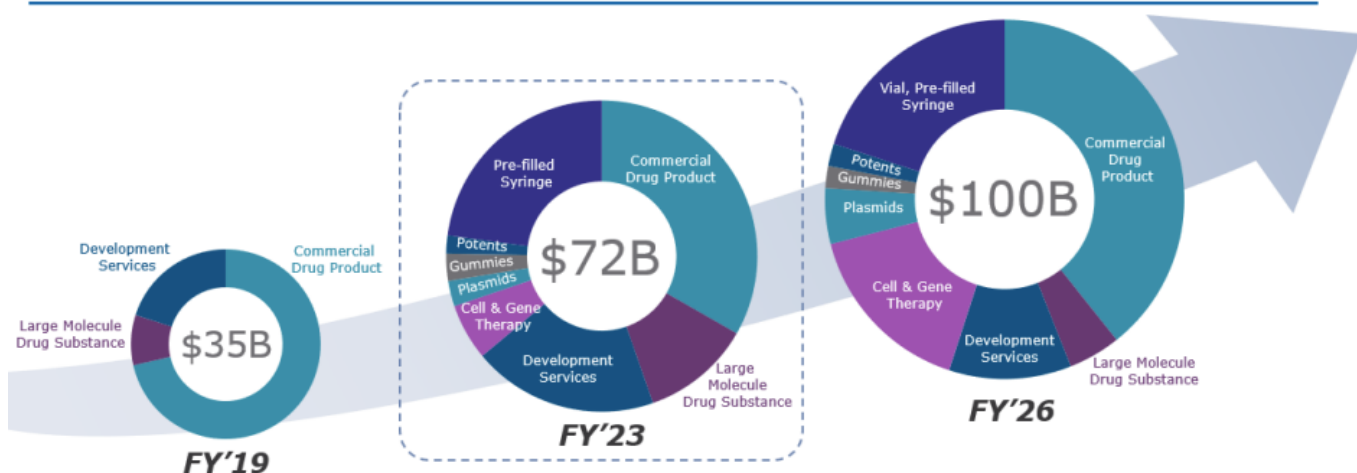
Catalent is the global leader in enabling pharma, biotech, and consumer health partners to optimize product development, launch, and full life-cycle supply for patients around the world. With broad and deep scale and expertise in development sciences, delivery technologies, and multi-modality manufacturing, Catalent is a preferred industry partner for personalized medicines, consumer health brand extensions, and blockbuster drugs.

Catalent helps accelerate over 1,000 partner programs and launch over 150 new products every year. Its flexible manufacturing platforms at over 50 global sites supply around 80 billion doses of nearly 8,000 products annually or approximately 1 in every 23 doses of such products taken each year by patients and consumers around the world.

Over the past several years, Catalent has been investing in its biologic capabilities especially in the cell and gene therapy areas which has dramatically increased its addressable market from \$35bn in FY19 to around \$72bn this year. Gene therapy holds the promise of treating the unmet needs of patients who suffer from a rare genetic disease. An estimated 4,000 medical conditions are a result of gene disorders with no previous targeted treatments.

It has also significantly increased its presence in sterile fill and finish, becoming one of the largest players in the space globally. These areas are expected to experience significant growth in the pipeline going forward, which should provide an additional 40% expansion of its addressable market by FY26.

Catalent Addressable Market



Over \$7B in investments since FY'17 have materially expanded our addressable market, transformed the company, and positioned Catalent as the partner of choice in pharma, biotech, and consumer health

In FY22 it conducted business with 87 of the top 100 branded drug marketers, 21 of the top 25 generics marketers, 24 of the top 25 biologics marketers, and 21 of the top 25 consumer health marketers globally. Selected key customers include AstraZeneca, Bristol-Myers Squibb, GlaxoSmithKline, Johnson & Johnson, Moderna, Pfizer, and Sarepta Therapeutics. With its extensive expertise and capacity, Catalent helps its customers bring products to market faster, including more than half of new drug products approved by the U.S. Food and Drug Administration (the "FDA") in the last decade.

It also has significant soft gel fill and formulation know-how, databases of formulated products, and substantial soft gel regulatory approval expertise. As a result, approximately 90% of approvals by the FDA over the last 25 years of new chemical entities presented in a soft gel format have been developed and supplied by Catalent.

Catalent's diverse portfolio creates sustainability and maximizes opportunities for growth

87 of the top 100 branded drug marketers

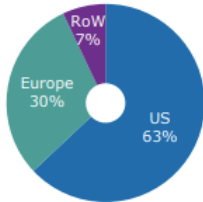
Top 3 market position across key target growth areas

1,200 customers

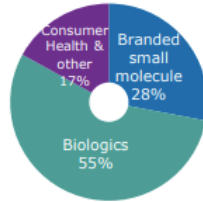
#1 or #2 CDMO by FDA/EMA approvals each of last 5 years¹

Breakdown of FY'22 Net Revenue (\$4.8B)

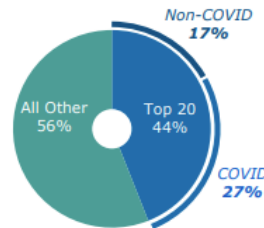
Geography



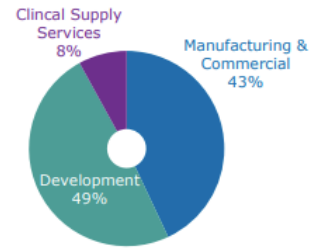
Product Type



Products



Type of Activity²



Catalent is uniquely positioned in the center of the pharmaceutical services ecosystem with leading positions in the most exciting areas of complex, advanced technology and differentiated dosage forms. We consider that as drugs get more complex and fragmented, large and small biopharma companies alike will look to outsource and partner more with leading players such as Catalent. Long term organic growth is expected to come in between 8% and 12% with expanding margins driving even faster earnings growth.

We consider Catalent to represent virtually irreplaceable assets in a large and growing market which is also incredibly important in enabling a healthier and safer society. A recent example is the COVID vaccine with roughly half of all vaccines being produced in Catalent facilities – paramount to our well-being. In addition to doing good, we should benefit from long term compounding in returns as the business grows along with its end markets.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Graphic Packaging	Materials	North America	5.89%
Cellnex	Communication Services	Europe	5.30%
Sensata	Industrials	North America	5.20%
PTC Inc	Information Technology	North America	4.40%
Webster Financial	Financials	North America	4.25%
Rentokil	Industrials	United Kingdom	4.25%
Bureau Veritas	Industrials	Europe	4.13%
WillScot Mobile Mini	Industrials	North America	4.06%
Ciena	Information Technology	North America	4.05%
TKH Group	Industrials	Europe	3.83%

Risk Measures	
Net Exposure ⁵	89.48%
Gross Exposure ⁶	89.48%
VAR ⁷	1.75%
Best Month	9.59%
Worst Month	-8.44%
Average Gain in Up Months	2.77%
Average Loss in Down Months	-2.68%
Annual Volatility	12.83%
Index Volatility	11.08%

Top alpha contributor⁸ (bps)



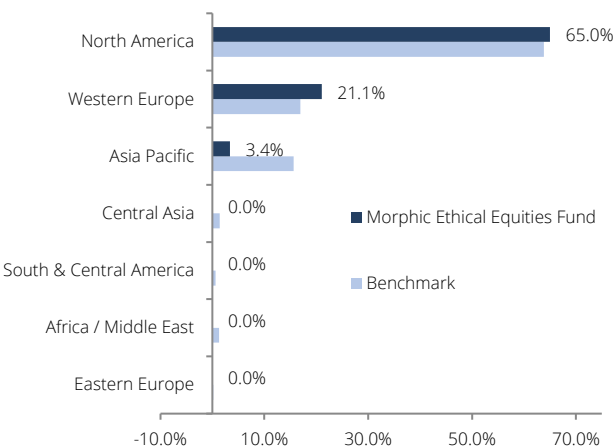
Top alpha detractor⁸ (bps)



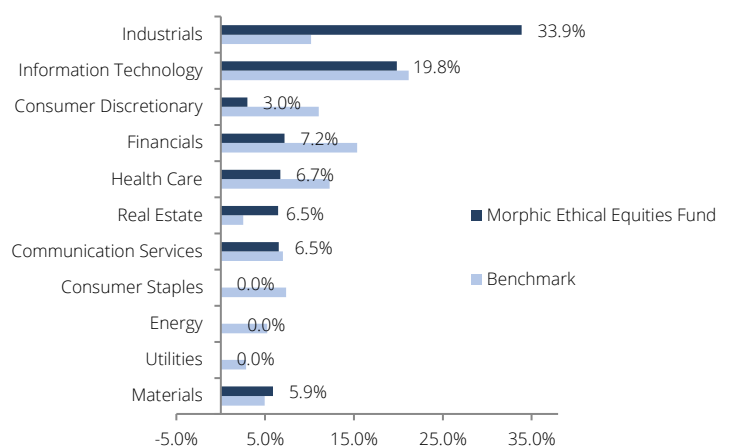
Key Facts

ASX code / share price	MEC / 0.970
Listing Date	3 May 2017
Profit Reserve ⁹	\$ 0.416
Management Fee	1.25%
Performance Fee ¹⁰	15%
Market Capitalisation	\$52m
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.