A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
March 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]	1.80%	11.37%	14.23%	0.21%	8.99%	6.70%
Index[2]	3.79%	8.65%	13.07%	3.78%	11.95%	10.08%

* Past Performance is not an indication of future performance.

ESG In Focus

Food Security is the physical and economic access to sufficient quantities of safe food to meet the basic nutrition requirements for an active and healthy lifestyle, as described by the United Nations. Food security is a fundamental necessity for economic growth and development.

Approximately 9% of the world's population is classed as severely 'food insecure'. By geography, concentrations occur in Africa, South America, the Middle East and Southeast Asia. Without guaranteed access to safe food, emerging nations will continue to be disproportionately burdened.

Crucial to solving the issue of food security is ensuring that food stays safe at every step of the supply chain; from farming to harvest, processing, storage, distribution and consumption. Food Safety is a social and economic issue that requires significant investment and innovation. A great solution is underpinned by aseptic packaging which is being increasingly used globally by Fast-Moving Consumer Goods (FMCG) companies to ensure that regardless of geography, their products are both safe and nutritious by the time they reach the end consumer.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$1.1227
NTA value after tax[3]	$1.1481

Investment Returns since inception[4]

Portfolio Commentary

The Morphic Ethical Equities Fund increased 1.80% net during the month compared to the MSCI ACWI (AUD) which was up by 3.79% over the same period.

Despite all the gyrations during March, global equity index performance was actually quite solid, although the flow of funds was clearly steered towards large and mega cap stocks as yields came down and risk went up. The S&P 500 and NASDAQ closed up 3.7% and 6.8% respectively while the smaller capitalised Russell 2000 index closed down 4.8% - massive divergence in March. In Europe, the DAX and CAC indices both closed a good month increasing 1.7% and 0.9% respectively, while the Japanese Nikkei was up >3.0% during March.

There is an old saying that to combat inflation central banks will tighten monetary conditions until something breaks, well something broke. Over the past year, the US Federal Reserve has raised rates at the fastest pace since the 1980's and this new rate regime is now manifesting itself in the world's banking system and primarily in the US regional banks.

Firstly, it does appear that this is more about near term liquidity rather than capital or asset quality issues. The failures of Silicon Valley Bank (SVB) and Signature Bank (SBNY) were very specific to the concentration of exposures within each bank. There was an asset/liability mismatch, a weakness which an elevating rate environment uncovered at the expense of equity and bond holders. Subsequently, we have seen Credit Suisse being purchased by UBS and continued liquidity speculation around large and small banks alike.

Although we have just experienced the second and third largest bank failures in US history, the resolution of a globally systematic important bank (G-SIB) in Credit Suisse and a $300bn expansion of the US Federal Reserve's (Fed) balance sheet in a matter of days, the Fed continued to raise short term interest rates as it maintains its focus on getting the job done on inflation.

Global economic conditions remain relatively solid at this point and while the most recent inflation print in the US was roughly in line with expectations, the previous report came in higher than market expectations at 0.5% month on month (0.4% was expected) when it was reported mid-March. Following the March release, expectations for the next Fed meeting quickly moved from a 25bps increase to 50bps with the forecast of potential cuts being pushed out to 2024.

This was enough to break the back of Silicon Valley Bank and we all know the outcome. Interestingly, following the bank failures, rate cut expectations quickly moved from 2024 to mid-summer 2023 as rate volatility skyrocketed.

The events during March have exposed some idiosyncratic issues regarding mismanagement of balance sheet rate risk however they don't appear to be endemic in the broader financial system – look how fast these defunct bank books are being bought by other players. Going forward these events are likely to weigh on near term economic growth (and potentially the pace of further rate increases) as regional banks hoard capital, restrain loan growth and increase provisioning to bolster balance sheets. The key from here is remain mindful and vigilant around any further contagion flow on effects and focus on earnings resiliency, cash flow and balance sheet strength.

The portfolio's top three contributors Rentokil Initial, Graphic Packaging and Advantest added 156 bps to performance while Webster Financial, Willscot Mobile Mini and Montrose Environmental detracted 186 bps during the month.

Rentokil reported its full year 2022 results on 16th March which highlighted its attributes as a global pest control powerhouse now that the Terminix acquisition has been completed. FY22 organic revenue and earnings came in at the top end of expectations and with early synergies from the Terminix deal coming through, Management upgraded its synergy target to "at least" $200m which was a nice increase from previous guidance of $150m. With organic growth of its US pest control business now expected to outpace the industry by 1.5x, overall organic growth guidance was increased from 4-5% to 5%+ with operating margins increasing by 460bps to ~19.0% in the next couple of years – solid growth on expanding margins creates a nice long-term compounding set up for us as shareholders.

There was little stock specific news on Graphic Packaging or Advantest however Graphic Packaging Management had been quite active during the month at broker conferences (we met with CFO Steve Scherger this month in the US as well) with a clear and consistent message around organic growth benefits associated with the shift from plastic to paper packaging and confidence around its new Waco plant development in positioning it as the lowest cost producer for the foreseeable future.

Advantest was seemingly driven by the expectations of high performance compute needs (and associated testing) as the fever around ChatGPT and other large language networks gained airplay. As the stock has reached our fair value we took some profits but remain exposed for the long term benefits associated with increased semiconductor testing needs as chips get more plentiful and smarter.

Webster Financial was obviously caught up in the regional bank storm despite holding a very comprehensive and positive investor day which we attended in early March. The comment I left with the investor relations was "a very solid set of hands" running this business. Despite the industry issues overhanging the sector, we consider Webster as best in class in terms of loan growth, asset quality and deposit relationships. We had a position in Comerica at the start of March however a concern from its past result regarding deposit outflow was accentuated in a broker presentation during the first week of the month and we fortunately exited the position before the Silicon Valley bank storm hit or close to 40% higher than where it is currently trading.

Montrose Environmental reported its FY22 result on 1st March which came in below expectations as it continues to spend on growth initiatives such as PFAS pilot projects in Europe, carbon capture developments as well as building on its M&A path which has a short term drag on margins. In talking with Management, it is clear that better guidance is required as the business has long cycle environmental testing, measurement and remediation drivers rather than short term guideposts that the market likes to hang its hat on. It is currently our smallest position in the fund however will look to add to it when we have greater visibility of PFAS pilot projects becoming reality.

Willscot Mobile Mini was impacted on two fronts. Firstly the stock has been an absolute winner this year, appreciating >59% FYTD so likely some profit taking and secondly with the regional banking storm there are increasing concerns around funding for small scale projects which could impede near term growth prospects. We get the logic behind both drivers but remain very positive on Management and the ability to drive earnings and cash flow regardless of economic conditions.

STOCK IN FOCUS: SIG Combibloc (SIGN SW, €8.9bn Market Cap)

SIG Combibloc is headquartered in Neuhausen am Rheinfall, Switzerland and operates in a global market duopoly with Tetra Pak in aseptic packaging. The global aseptic packaging market size was valued at $15.5 billion in 2020, and is projected to reach $32.3 billion by 2028, growing at a CAGR of 9.8% from 2021 to 2028. The industry itself is growing as the world shifts to more sustainable packaging solutions in developed markets and safer packaging solutions in emerging markets.

SIG is also slowly taking share from Tetra Pak at about 0.5% a year on average due to the advantages and increased efficiency of their filler machines which help its customers deliver billions of litres of food to consumers around the world every year, keeping food safe for months without the need for refrigeration or preservatives. Critically reviewed life-cycle assessments, conducted in line with recognised international standards, show that SIG's aseptic cartons have a 28–70% lower carbon footprint than alternative packaging such as plastic and glass bottles and aluminium cans for dairy, noncarbonated soft drinks and food.

SIG IS A LEADING PROVIDER OF PACKAGING SOLUTIONS FOR A MORE SUSTAINABLE WORLD

Well-positioned & strengthened system offering

= Global market position = China market position

Strong profile & capabilities

- Best-in-class ESG profile, focus on circularity & lowest impact packaging
- Proprietary, fast and flexible filling technology, most versatile pack offer + proven lowest TCO
- Well-established global service network + Digital service solution offering
- Industry partner with strong solution orientation & product development capabilities

Expanding global footprint

- 31 Production sites
- 49 Sales & Service locations
- ~2,400 Number of fillers[1] in the field
- 2,671 Pro-forma revenue 2021[2] (€M)

Aseptic carton filler = ~1,300
Pouch/bag-in-box filler = ~730
Chilled carton filler = ~380

[1]Fillers include fillers and pouch makers [2]SIG reported 2021 revenue (MEA for 10 months only), Evergreen Asia and Scholle IPN unaudited USD 2021 revenue translated to EUR at a rate of 1.183 EUR/USD

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Every day, it meets the needs of millions of people around the world as well as here in Australia (look at the bottom of some of the long life products on the supermarket shelves) filling over 48bn packs a year in over 50 categories (with use cases expanding). SIG operates in over 100 countries and partners with >200 of the leading food and beverage producers around the globe.

HOW WE CREATE VALUE FROM OUR ENLARGED PLATFORM

1 ATTRACTIVE INDUSTRY AND END-MARKETS	**Global Leadership** – Strong #2 in aseptic carton & spouted pouch, #1 in BiB[1] **Resilient** and **growing** end-markets
2 WINNING BUSINESS MODEL ENABLING GROWTH	Leader in **sustainable** packaging innovation Multi-faceted **growth strategy** along geographies, categories & channels **Consumer-centric innovation** enabled by proprietary technology **Solutions selling** approach coupled with customer partnership model **Systems based** business model enabling long-term customer relationships
3 STRONG FINANCIAL PROFILE	**Above market growth** and **best-in-class margins** Strong **recurring** cash flows

4 … WITH OUR CORPORATE SUSTAINABILITY AMBITION FOCUSED ON NET POSITIVE

5 … DELIVERED BY A DIVERSE GLOBAL LEADERSHIP TEAM WITH PROVEN TRACK RECORD

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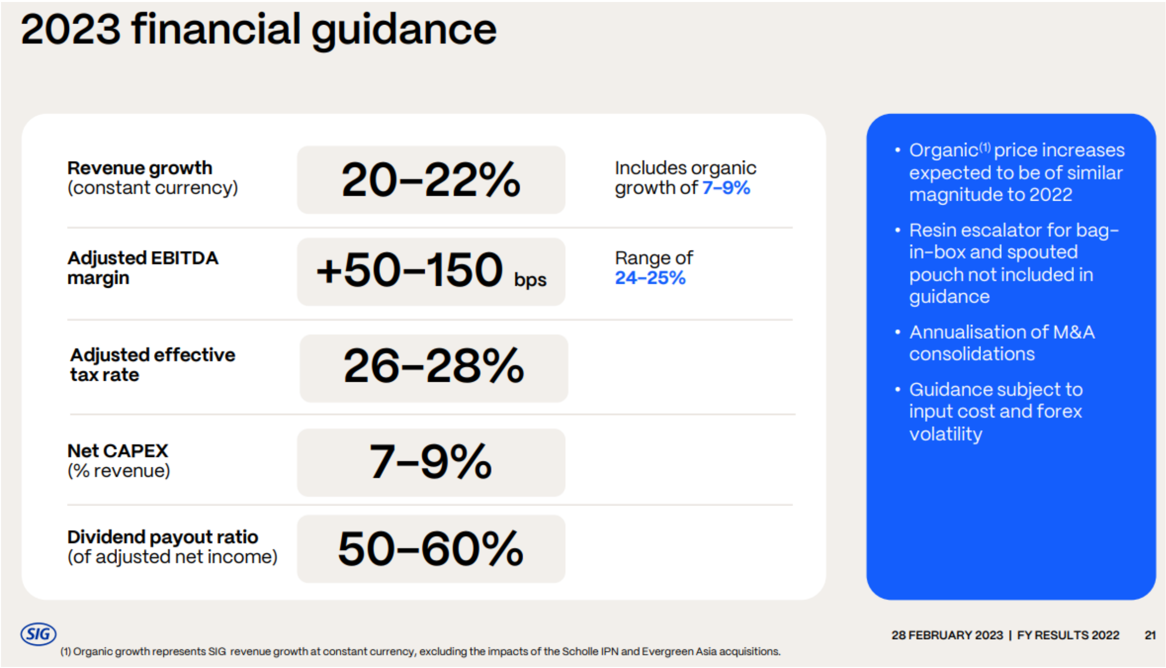
SIG reported a solid set of full year results with organic revenue growth of 8.0% (+34.8% with recent acquisitions) driving Adjusted EBITDA of €652m and >€260m of Free Cash Flow – all metrics were ahead of expectations. Return on Capital Employed came in at an impressive 27.3% which is clearly well ahead of its cost of capital and thereby generating positive economic returns to shareholders.

Management guided FY23 revenue growth of 20-22% (7-9% organic) as it continues to benefit from recent acquisitions, recent pricing initiatives and growth of its end aseptic markets. EBITDA margins are expected to expand 50-150bps to 24-25% as it marches towards its medium-term goal of 27% margin.



SIG will continue to innovate on its filler and sleeve technology to win share of the aseptic packaging market. In turn, its food and beverage customers have certainty that their products remain nutritious and safe for the end consumer in all regions of the globe. With the growing and urgent demand for access to nutritious food and beverages coupled with the enormous food loss between farmers to manufacturers and from retailer to consumers, better packaging is part of the solution. SIG's aseptic packs retain the nutrients and vitamins of their contents over many months without the addition of preservatives. The availability of different pack sizes helps the consumer to avoid overbuying. In addition, food and beverages can be transported and stored in ambient conditions, avoiding the need for energy intensive cold chains.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting
Cellnex	Communication Services	Europe	5.47%
Graphic Packaging	Materials	North America	5.37%
Sensata	Industrials	North America	5.15%
PTC Inc	Information Technology	North America	4.51%
Rentokil	Industrials	United Kingdom	4.51%
Ciena	Information Technology	North America	4.42%
TKH Group	Industrials	Europe	3.90%
GXO Logistics	Industrials	North America	3.85%
Soitec	Information Technology	Europe	3.79%
WillScot Mobile Mini	Industrials	North America	3.71%

Risk Measures	
Net Exposure[5]	90.27%
Gross Exposure[6]	90.27%
VAR[7]	1.73%
Best Month	9.59%
Worst Month	-8.44%
Average Gain in Up Months	2.75%
Average Loss in Down Months	-2.68%
Annual Volatility	12.75%
Index Volatility	11.07%

Top alpha contributor[8] (bps)

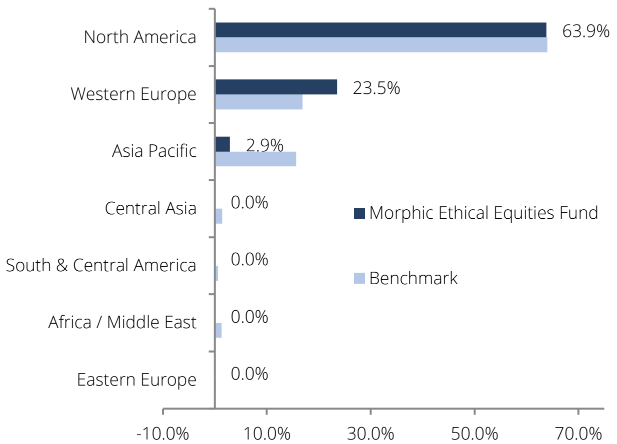
Rentokil	**70 bps**
Graphic Packaging	**44 bps**
Advantest	**42 bps**

Top alpha detractor[8] (bps)

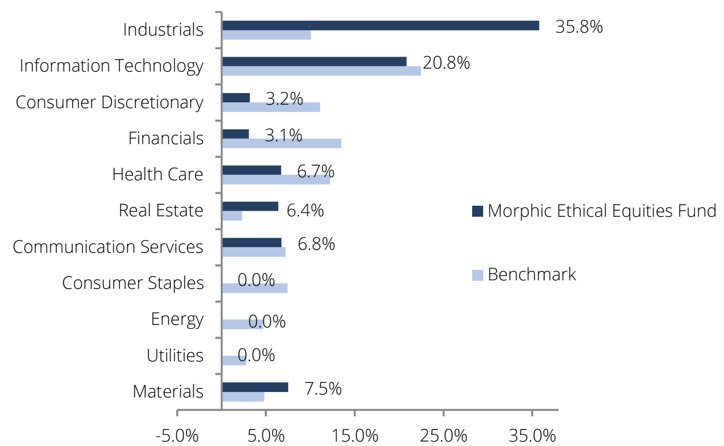
Montrose	**-32 bps**
WillScot Mobile Mini	**-40 bps**
Webster Financial	**-114 bps**

Key Facts	
ASX code / share price	MEC / 0.860
Listing Date	3 May 2017
Profit Reserve[9]	$0.430
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$46m
Shares Outstanding	53,572,420
Dividend per share[11]	$0.06

Equity Exposure Summary[12] By region



Equity Exposure Summary[12] 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

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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.