A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

MORPHIC ETHICAL EQUITIES FUND

Monthly Report

November 2023

Fund Objective

The Morphic Ethical Equities Fund Limited (MEC) 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.

MEC 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.)
MEC[1]	4.73%	-10.14%	-2.16%	4.09%	3.75%	5.86%
Index[2]	4.30%	-0.79%	5.69%	13.14%	9.48%	10.57%

* Past Performance is not an indication of future performance.

Performance Summary

MEC increased +4.73% net during the month compared to the MSCI All Countries World Daily Total Return Net Index which increased by +4.30% over the same period.

Market Commentary

The portfolio's top three contributors Cellnex Telecom, Radnet and Webster Financial added 232bps to performance while Cardlytics, GFL Environmental and Flex detracted 41 bps during the month.

The month of November delivered a nice rebound for global equities as subdued inflation prints pressured the higher for longer narrative and global bond yields. The US 10yr bond yield effectively did an about face in November declining to about 4.2% after its rapid ascent to 5.0% between September and October and this underpinned a broad market rally.

Fed Chairman, Jerome Powell, was quite measured in his CPI commentary and when coupled with generally softer economic data, the market is beginning to price in some material rate cuts in 2024. This may prove premature as the Fed is not yet convinced its fight against inflation is complete with a risk of policy "overshoot" not out of the question.

Right now, it seems we have passed peak policy risk with the Fed seemingly on hold (with cuts priced in next year) as inflation continues to remain contained. The economy is slowing, albeit with expectations of a mild downturn in 2024 rather than a material drop in activity. We continue to have many industries and geographies in varying stages of business cycles however 2024 could see more of a convergence as supply chains, inventories and economies become more in sync.

Strategists are calling for a decline in US growth to 1.5% vs 2.5% this year with unemployment increasing as a result. Seemingly a softish landing built in with upside potential in the form of productivity benefits associated with Generative AI expanding margins, cooling inflation and potentially more breadth of returns in the overall market. Downside risks seem to be centered on the potential for a faster economic slowdown and yields remain stubbornly high. The market is used to the Fed stepping in to support the economy with rate cuts however this may be uncertain during an election year.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$1.0194
NTA value after tax[3]	$1.0554

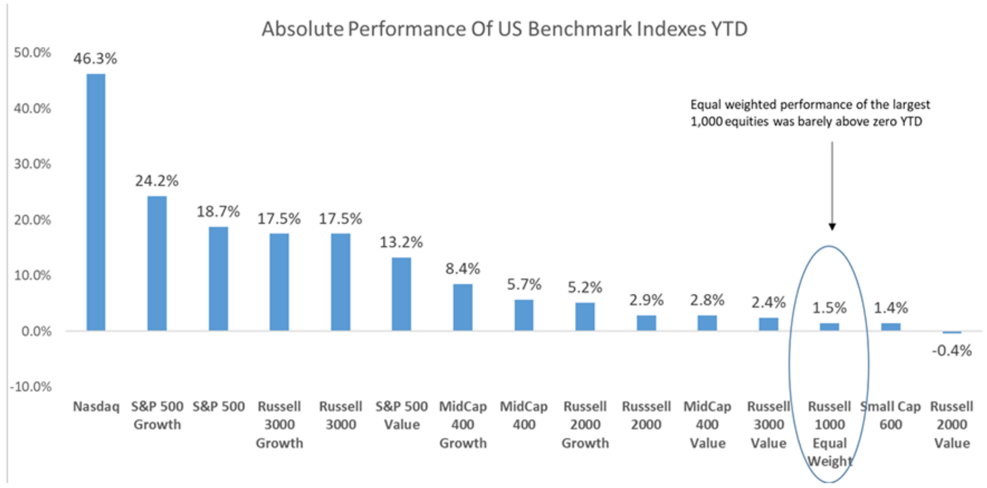
Investment Returns since inception[4]

During 2023 we have seen the market oscillating between a soft landing and recession, depending on the time of day and the latest economic print. What is impressive during the year is that the market has absorbed continued (expanding) geopolitical risks, a regional bank crisis in the US (which also impacted European entities) and negative earnings trends.

At the start of the year, many were anticipating and pricing in a recession during 2023 however this did not happen as nominal growth was sustained by a resilient consumer and continued fiscal stimulus. Then we got the Nvidia result which put a rocket under anything to do with Generative AI which has carried the largest tech stocks in the market to relative highs.

The divergence of returns so far in 2023 are quite dramatic with the Nasdaq up over 46% compared with the Russell 2000 which is up less than 3%. So outside of growth and large cap, returns have been actually quite flattish for "everything else".

Index Performance Was Biased Towards Growth And Large Cap, It's Been A Fairly Flattish Year For Most Equities



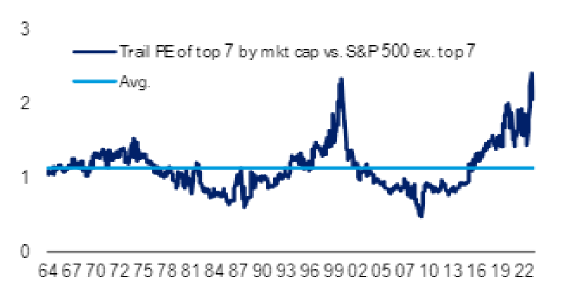
Source: FactSet, Raymond James research

With the strong performance of the largest seven stocks in the S&P500 driving the majority of returns CYTD, there is a clear distortion building in the market as valuation spreads have widened dramatically while concentration risk has materially increased. At the time of writing, the top 7 stocks represent almost 30% of the S&P500 weighting with a near record valuation premium relative to the rest of the index. If you believe in reversion to the mean, the setup for mid small caps is very attractive.

Exhibit 13: Top 7 S&P 500 companies account for nearly 30% of the benchmark
Weight of largest 7 companies in the S&P 500

Source: FactSet, BofA US Equity & Quant Strategy

Exhibit 14: Biggest 7 trade near a record premia to rest of index
Trailing PE of largest 7 companies in the S&P 500 vs. trailing PE of S&P 500 ex. largest 7 companies



Source: BofA US Equity & Quant Strategy, FactSet

BofA GLOBAL RESEARCH

Overall, global equity markets were quite strong during November. The S&P500 and Nasdaq were up 9.1% and 10.8% respectively while the Russell 2000 came in just below at 9.0%. The FTSE (up 2.3%) CAC (up 6.5%) and DAX (up 9.5%) were also quite solid while Japan's Nikkei 225 was also 8.5% stronger.

Portfolio Commentary

Turning back to November performance, key contributors for the month were:

Cellnex Telecom (+1.08%) is the largest independent owner of mobile tower assets across the European continent. The company reported its third quarter results during November which highlighted the earnings certainty of the group as it reconfirmed both 2023 and 2025 targets. Management indicated that with €130bn of contracted revenue in place and a focus on cost out strategies, it should see continued earnings growth. While earnings were solid, the real driver of the share price this month was the decline in bond yields and we have seen the stock increase c37% from its low late in October.

Radnet (+0.65%) is the largest independent provider of free standing diagnostic imaging solutions in the US and is benefiting from the shift of services out of hospitals into its facilities. In its third quarter report announced in early November, Management upgraded full year guidance as Imaging Center revenues grew >14% while EBITDA was up over 20%. Its AI segment continues to grow with revenues up 221% on last year (small base) with breakeven expected next year. It recently announced a deal with Walmart where it will provide breast screening services inside one of Walmart's Supercenters, this could prove to be a long term driver for the business.

Webster Financial (+0.59%) is a leading regional bank with operations focused on the US Northeast, primarily New York to Boston corridor. There was no company specific news during the month however it is likely benefiting from the soft landing narrative which takes pressure off credit risk while concurrently underpinning decent loan demand.

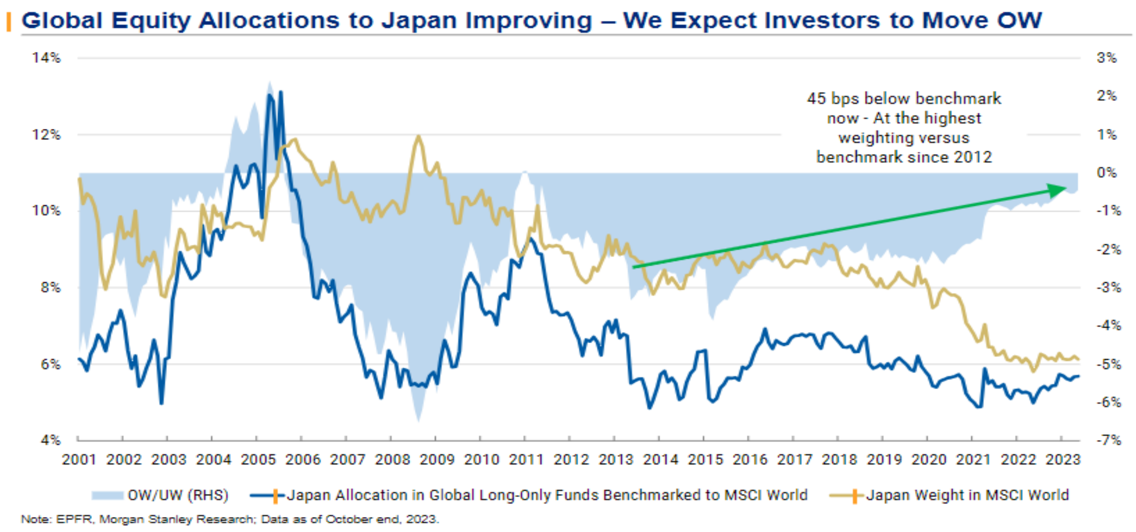
Conversely, the major detractors during November were:

Cardlytics (-0.30%) is a digital advertising platform which partners with leading US banks such as JP Morgan, Wells Fargo and Bank of America in providing the customer loyalty offers for the bank owned credit cards. It reported revenue and billings below expectations while EBITDA was slightly ahead. In this market any below expectations results were dealt with harshly as there seemed to be no bid for disappointments. While a small position, the move was dramatic and had a marked effect on returns in November.

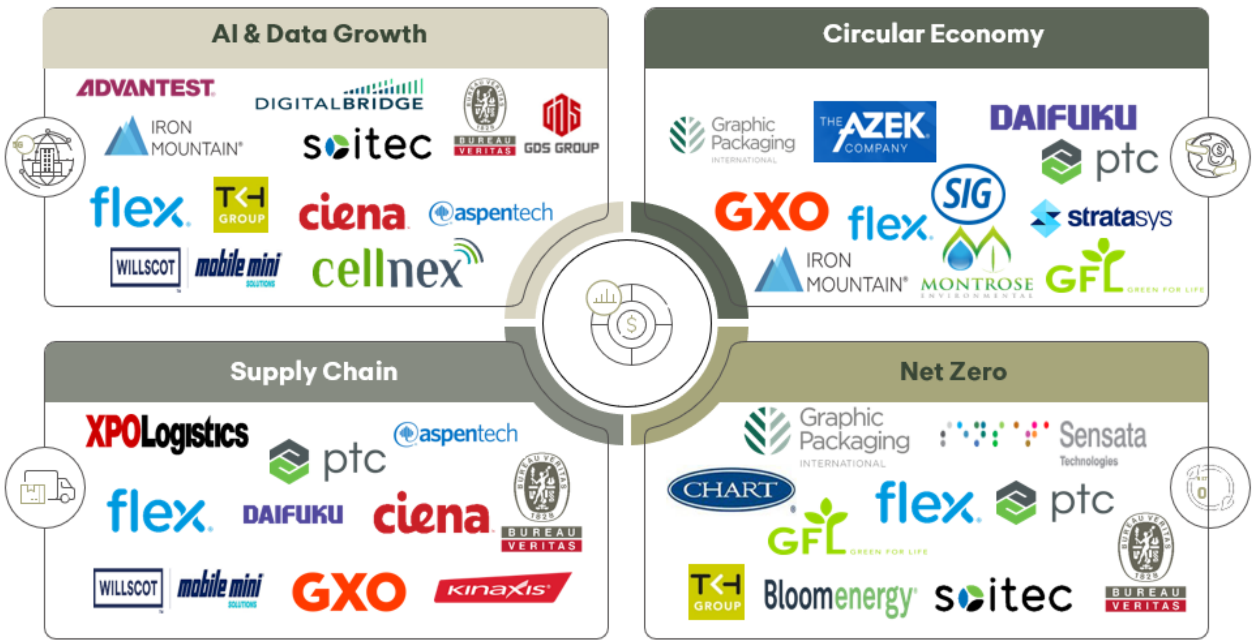
GFL Environmental (-0.06%) is the fourth largest waste management company in North America with leading market positions in the majority of its markets. In early November, Management delivered earnings above expectations and provided FY24 earnings guidance which was slightly ahead of the market. The story with GFL is the ability to deploy capital at very attractive rates of return, be it in tuck in M&A, RNG on its landfills and EPR opportunities. The market would like to see it deleverage faster however we agree with founder CEO, Patrick Dovigi, when he says these investments represent the best risk adjusted returns he has seen in decades and support his move to grow the business with very low risk, high return investments.

Flex Group (-0.04%) is one of the largest contract manufacturers in the world and is benefiting from reshoring, onshoring and increasing complexity of manufacturing products. It was actually only marginally down this month after a strong rebound at the end of October after it reported stronger than expected results. We await the spin off of its Nextracker business (largest solar tracking company in the world) early next year.

While we did some trimming and adding to existing positions during the month, the main adjustment to the fund is an increased exposure to the Japanese market. We consider 2024 will show Japan as one of the stronger economies with rates likely increasing (rather than decreasing around the world) which should support domestic earnings and a stronger Yen. Investors are still relatively underweight the region however we believe the flow of money into the Japanese market will continue to provide a strong underpinning while domestic rules to be initiated in the New Year will make it more attractive for retail investors to deploy high cash reserves into the stock market.



We continue to have differentiated exposure to some pretty powerful long term thematics which should drive long term compounding benefits to us all as investors. These include 5G and the growth in data as Industrial IoT, AI and large language networks such as ChatGPT and next generation applications associated with 5G drive data demand, companies that enable our push to a circular economy, beneficiaries of deglobalisation as well as those helping to improve supply chain efficiency and companies which are levered to the multi trillion-dollar spending required for our "Road to Net Zero".



Source: Ellerston Capital

These businesses, as well as idiosyncratic opportunities in the Fund, should provide solid absolute and relative returns over the long term as secular and structural business drivers help mitigate earnings risk in times of economic uncertainty.

As always, we thank you for your continued support and look forward to providing further updates in the future.

Top 10 Active Positions

Stocks	Industry	Region	Position Weighting %
GFL Environmental	Industrials	North America	6.10
PTC	Information Technology	North America	5.14
Cellnex	Communication Services	Europe	4.81
WillScot Mobile Mini	Industrials	North America	4.60
Option Care	Health Care	North America	4.44
Digital Bridge	Real Estate	North America	3.69
Chart Industries	Industrials	North America	3.59
Acadia Healthcare	Health Care	North America	3.53
Webster Financial	Financials	North America	3.42
Iron Mountain	Real Estate	North America	3.20

Risk Measures	
Net Exposure[5]	94.40%
Gross Exposure[6]	94.40%
VAR[7]	1.55%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.71%
Average Loss in Down Months	-2.99%
Annual Volatility	13.16%
Index Volatility	10.83%

Top contributor[8] (bps)

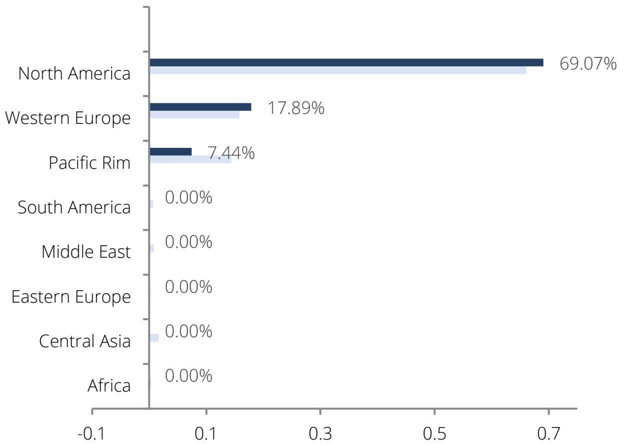
- **Cellnex** **108 bps**
- **RadNet** **65 bps**
- **Webster Financial** **59 bps**

Top detractor[8] (bps)

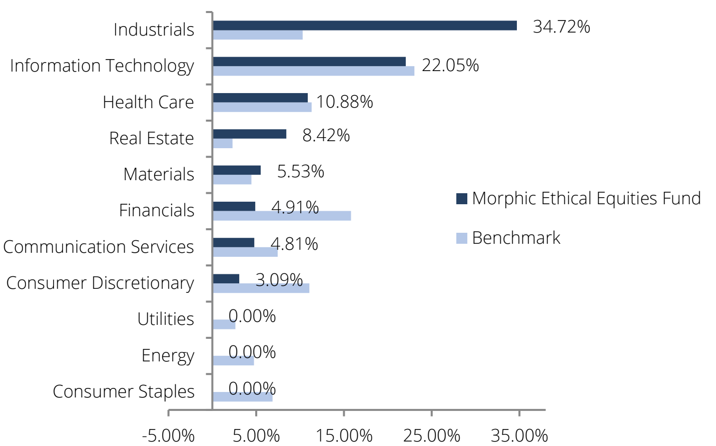
- **Cardlytics** **-31 bps**
- **GFL Environmental** **-7 bps**
- **Flex** **-4 bps**

Key Facts	
ASX code / share price	MEC / 0.975
Listing Date	3 May 2017
Profit Reserve[9]	$0.469
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$47.8m
Shares Outstanding	49,023,763
Dividend per share[11]	$0.14

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] Contribution; absolute returns against 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 MEC realises taxable profits and generates franking credits; [10] The Performance Fee is payable annually in respect of MEC's out-performance of the Index. Performance Fees are only payable when MEC 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.