A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
December 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.)	5 Years (p.a.)	ITD (p.a.)
MEC[1]	4.92%	0.06%	-2.81%	15.85%	4.89%	8.09%	6.54%
Index[2]	1.84%	5.02%	4.63%	21.45%	10.17%	12.42%	10.73%

* Past Performance is not an indication of future performance.

Performance Summary

MEC increased +4.92% net during the month. outperforming the MSCI All Countries World Daily Total Return Net Index which increased by +1.84% over the same period.

Net Tangible Assets (NTA)

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NTA value before tax[3]	$1.0691
NTA value after tax[3]	$1.0940

Market Commentary

The portfolio's top three contributors GFL Environmental, Zillow Group and Option Care added 204bps to performance while Resona Holdings, GDS and SIG detracted 41 bps during the month.

The global equity rally that really started in earnest during late October continued into December with both growth and value performing quite well. During this period, we have seen a sharp valuation re-rating, especially in the mid small cap space where the Mid Cap 400 went from a 25% relative discount to its 5yr average to just 7% at the end of the month.

P/Es went from 15-30% discounted from 5-year averages to 2-8% discounted in 9 weeks

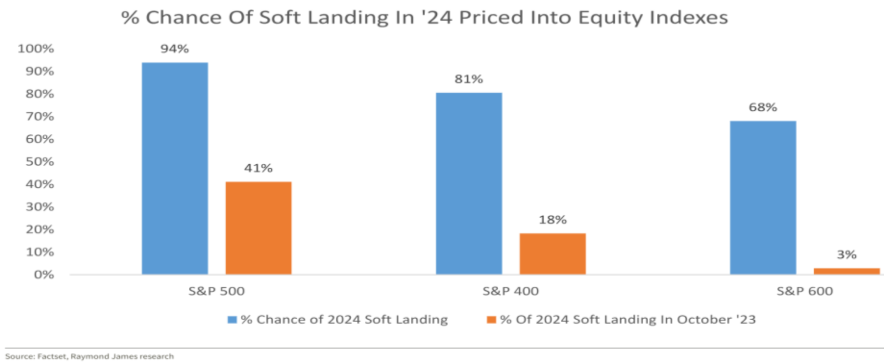
Median P/E Across Benchmark Indexes And Time Frame						Today	Oct. '23
	5-Year	10-Year	15-Year	20-Year	25-Year	2024 P/E	2024 P/E
Small Cap 600	15.0	16.9	16.1	16.2	16.5	14.4	10.9
MidCap 400	15.7	17.0	16.3	15.5	15.0	14.6	11.9
S&P 500	19.9	18.5	17.3	16.8	17.3	19.6	16.8
Russell 2000	25.7	26.8	25.5	25.1	25.1	22.2	16.5
Russell 1000 Growth	26.6	22.4	19.9	19.7	20.1	26.5	22.7
Russell 1000 Value	15.3	15.6	14.9	14.4	14.7	15.0	12.7

Source: FactSet, Raymond James research

Investment Returns since inception[4]

This was really driven by the stabilisation and subsequent decline in bond yields while economic data came in tepid but not outside expectations. So, with economic activity slowing (but not falling off a cliff), subdued inflation prints and a Fed that has telegraphed it is more biased to easing than tightening, we have a soft landing scenario priced into the market.

The market is convinced that we will have a soft landing in 2024, however it was just as convinced at this point last year that we would have a recession during 2023 – macro forecasting is tough.



The Fed left rates unchanged in its December meeting and indicated that the rate hiking cycle is now complete. The dot plot (what the Fed Governors anticipate doing with rates in the future) showed the potential for 3 rate cuts in 2024 however there is a wide range of expected outcomes here, clearly data dependent.

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 declines 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.

Overall, global equity markets were quite strong during December. The S&P500 and Nasdaq were up 4.5% and 5.6% respectively while the Russell 2000 benefited from the stronger rally in the mid small cap space as it appreciated >12%. The FTSE (up 3.9%) CAC (up 3.3%) and DAX (up 3.3%) were also quite solid while Japan's Nikkei 225 was quite flat during December.

Portfolio Commentary

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

GFL Environmental (+0.77%) is the fourth largest waste management business in North America with extensive operations across Canada and the US. There was no material news from the company during the month however we note that a broker highlighted the stock as a best idea for 2024. Market concerns over leverage levels continue to abate with the stabilisation in interest rates over the past couple of months.

Zillow Group (+0.67%) is the most visited real estate website in the United States with 224m average monthly unique users driving network benefits to the group. It has dropped materially from its high in early 2021 as existing home sales in the US have come under pressure from rising mortgage rates – this provided an attractive entry point for the Fund. While there was no specific news from the company during the month, the share price has benefited from a 50bps decline in the US 30yr mortgage rate, which at some point should release pent up home sale activity.

Option Care Health (+0.59%) is the largest independent provider in home infusion services in the US, covering 98% of the population with its broad scale. At a broker conference in early December, Management provided confidence in the double-digit growth rate underpinning the business as well as a solid pipeline of tuck in acquisitions which would augment this growth. Outside of this, the stock is recovering the declines experienced in October.

Conversely, the major detractors during December were:

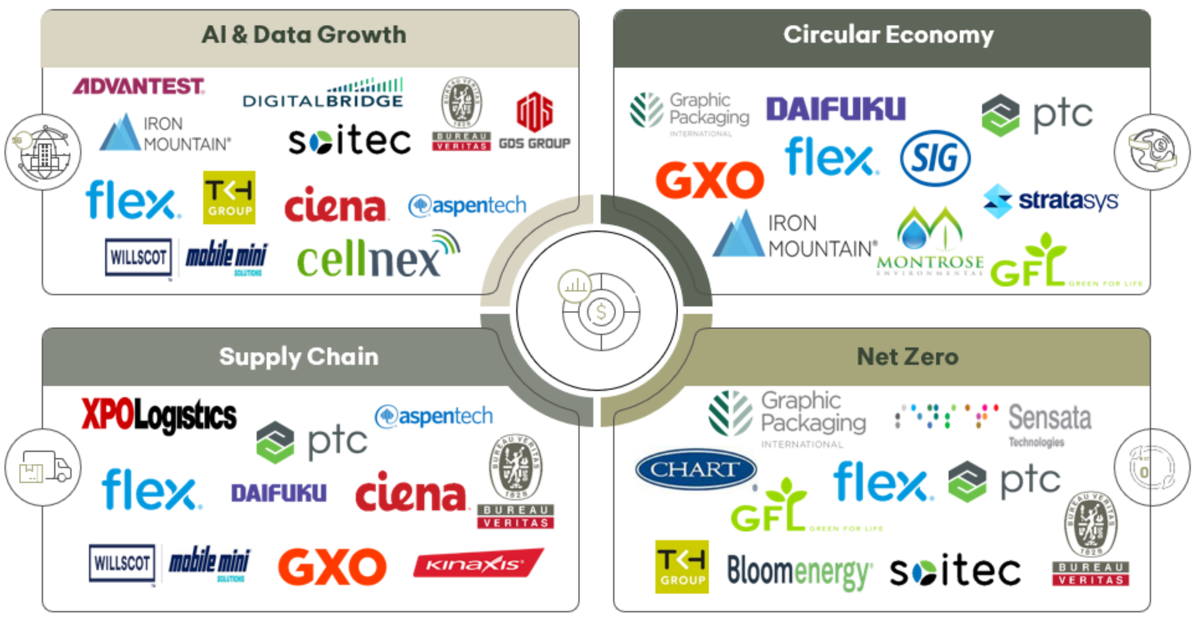
Resona Group (-0.17%) is one of the largest regional banks in Japan with significant excess liquidity and pent-up earnings growth if/when the negative interest rate policy (NIRP) is lifted in Japan. As global yields came down during the month, Resona's share price followed suit. We consider the Japanese rate market will look quite different to rest of world during 2024 as it will likely be one of the few economies raising rates which would be positive for banks.

SIG Combibloc (-0.14%) operates in a global duopoly in the aseptic packaging market alongside industry leader Tetra Pak. It had provided positive commentary at is Capital Markets Day at the end of November confirming its long-term organic growth of 4-6% with margins expanding to >27% over the medium term. The market is concerned about cycling tough comparisons from last year, however the long-term earnings algo remains unchanged.

GDS Holdings (-0.10%) is a recent addition to the fund and is the leading vertically integrated provider of high-performance data center and IT infrastructure services in China and South East Asia. No material company specific news flow during December, rather more caught up in the weak Hong Kong market which has been under pressure for the past several months.

With the markets providing a strong backdrop during December, we took the opportunity to trim some positions while exiting two positions which had become overvalued in our view. The trims were concentrated in Iron Mountain, Willscot Mobile Mini, PTC and Flex which have all had strong runs between November and December. The exits were in Floor and Décor and Azek Group which both increased materially from their recent lows and became overextended relative to their earnings prospects. We deployed the proceeds into additional sizing into GDS Holdings and Ciena as well as a new position in Alight which is a leading provider of enterprise grade employee benefits and program administration including payroll, health benefits and administering 401ks, counting 70% of the Fortune 100 as customers. Alight provides a single platform with personalized experiences that help employees make the best decisions for themselves and their families regarding their health and financial well-being.

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".



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	7.02
Cellnex	Communication Services	Europe	4.74
Option Care	Health Care	North America	4.65
PTC Inc	Information Technology	North America	4.04
WillScott Mobile	Industrials	North America	3.85
Webster Financial Corporation	Financials	North America	3.70
Chart Industries	Industrials	North America	3.60
Acadia Healthcare	Health Care	North America	3.59
Digital Bridge	Real Estate	North America	3.59
GXO Logistics	Industrials	North America	3.13

Risk Measures	
Net Exposure[5]	94.56%
Gross Exposure[6]	94.56%
VAR[7]	1.59%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.76%
Average Loss in Down Months	-2.99%
Annual Volatility	13.19%
Index Volatility	10.77%

Top contributor[8] (bps)

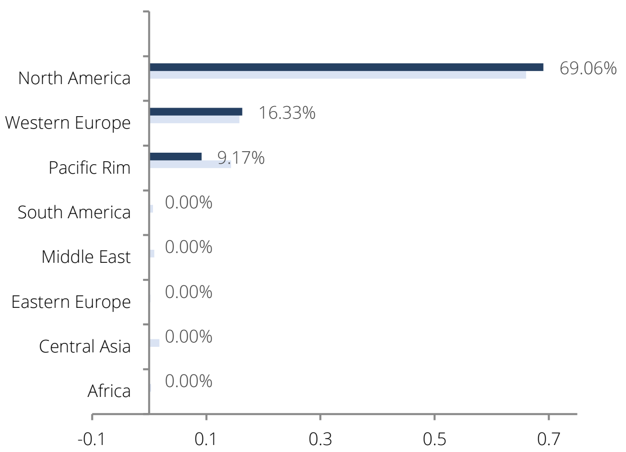
GFL Environmental	**77 bps**
Zillow Group	**67 bps**
Option Care	**59 bps**

Top detractor[8] (bps)

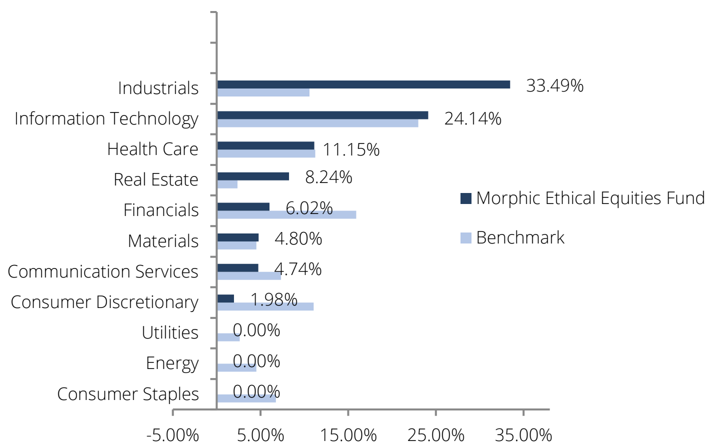
Resona Holdings	**-17 bps**
GDS Holdings	**-10 bps**
SIG Group	**-14 bps**

Key Facts	
ASX code / share price	MEC / 1.010
Listing Date	3 May 2017
Profit Reserve[9]	$0.484
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$49.1m
Shares Outstanding	48,654,376
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.