# MORPHIC ETHICAL EQUITIES FUND

## Monthly Report
*May 2024*

### 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] | 1.30% | -3.78% | 10.11% | 7.74% | 1.39% | 7.85% | 6.88% |
| Index[2] | 1.60% | 1.62% | 13.76% | 20.23% | 10.57% | 12.60% | 11.80% |

* Past Performance is not an indication of future performance.
*Source: Ellerston Capital*

### Performance Summary

MEC increased 1.30% net during the month, underperforming the MSCI All Countries World Daily Total Return Net Index which increased by 1.60% over the same period.

### Net Tangible Assets (NTA)

| Net Tangible Assets (NTA) | |
|---|---|
| NTA value before tax[3] | $1.0815 |
| NTA value after tax[3] | $1.0850 |

*Source: Ellerston Capital*

### Investment Returns since inception[4]


*Source: Ellerston Capital*

### Market Commentary

The portfolio's top three contributors Itron, RadNet and Nextracker added 136bps to performance while DigitalBridge, Alight and Acadia Healthcare detracted 118 bps during the month.

Markets were very strong through May, more than reversing April's declines, finishing the month close to all-time highs. The NASDAQ composite increased 7%, followed by the S&P500 and Russell 2000 (both up 5%). The Dow Jones was the laggard, up 2.6%. Global markets were also positive, with Europe +2.1%, Asia (ex Jpn) +1.5% and Japan +1.2%.

Mega-cap tech companies were again the strongest performers, driving the US Technology GICS sector up 10%. Market concentration also remains elevated, with just four companies (NVIDIA, AAPL, MSFT and GOOG) accounting for more than half of the S&P500's return. Nvidia today has a $3t market capitalisation and is up 121% CYTD, overtaking Aramco to become the world's third most valuable company. Energy was the weakest sector, down -0.4%, on the back of declines in crude.

Offsetting frothy markets, economic data remains mixed with further evidence of a cooling US economy, led by flat retail sales (suggesting negative real retail spend), lower than expected job creation, declining crude oil prices and ISM new orders contracting. In addition, a weakening consumer has been increasingly evident throughout the most recent earnings season, with many large consumer facing businesses reporting sluggish sales, particularly to low end customers who are increasingly value conscious.

Offsetting this, while core inflation remains above Federal Reserve's target, it continues to moderate slowly (+3.6% YoY in April vs +3.8% in March), with the potential for further help in the coming months from weakening crude, opening the door to US rate cuts at some point in the second half of this year.

Outside of the US, other central banks like the Bank of Canada and ECB have now begun cutting, with the latter cutting rates for the first time since 2019, despite inflation rising MoM from 2.4% to 2.6% in May.

## Regional discussion

In the US, the S&P 500 and the Nasdaq Composite showed resilience, buoyed by strong earnings reports from major technology companies. However, concerns about the Federal Reserve's hawkish stance and potential rate hikes to combat inflation kept gains in check. The Federal Reserve’s meeting minutes revealed a continued focus on curbing inflation, which remains above target levels despite some signs of moderation.

European markets saw a varied performance in May. The Euro Stoxx 50 Index managed modest gains, driven by better-than-expected corporate earnings and a more stable energy market. Italy's market was bolstered by strong performances in its financial and industrial sectors, while Germany struggled with weak economic data and concerns about energy supplies due to the war in Ukraine.

In Japan, the stock market faced a challenging month in May. The Nikkei 225 Index experienced some volatility, reflecting mixed investor sentiment. Although there were gains earlier in the year, investors remained cautious about the economic environment and corporate earnings projections. The Bank of Japan's accommodative policies provided some support, but overall, market sentiment was cautious due to external economic pressures.

## Sector discussion

The Utilities sector within the MSCI All Countries World Daily Total Return Net Index performed well, driven by stable demand and its defensive nature. The transition towards renewable energy sources also supported growth. Key contributors included electric and multi-utilities benefiting from consistent demand and supportive government policies. Heightened geopolitical tensions, persistent inflation concerns, and market turbulence further enhanced the sector's appeal, making it attractive for stability-oriented investors despite challenging conditions.

In May, the Communication Services sector demonstrated strong performance, reflecting the ongoing strength in digital communications and media consumption. Interactive media and services, entertainment, and diversified telecommunication services were the key contributors to this positive performance. This sector's resilience was bolstered by a favourable macroeconomic environment, where persistent inflation concerns, and market volatility prompted investors to seek stability.

The Consumer Staples sector underperformed the MSCI All Countries World Daily Total Return Net Index, facing challenges from inflation and global economic uncertainties, which impacted investor sentiment. Key contributors like food products, beverages, and household items provided some support, yet the sector could not fully offset the broader market pressures.

The Health Care sector within the MSCI All Countries World Daily Total Return Net Index experienced a slight decline in May. Companies in health care equipment, supplies, and services were affected by investor concerns about inflation and potential changes in regulatory environments. Additionally, the biotechnology and pharmaceuticals industries faced increased uncertainty regarding future regulatory policies, further dampening investor confidence.

## Portfolio Commentary

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

Itron (+0.51%) is a global leader in energy, water, smart city, IIoT (Industrial Internet of Things) and intelligent infrastructure services. The company reported its first quarter results on 2 May, showcasing impressive performance. The company achieved strong top-line growth and a remarkable 150% year-on-year increase in earnings per share. This robust financial performance was well-received by the market, driving positive sentiment and contributing to a strong stock performance in May.

RadNet (+0.44%) is the largest provider of freestanding, fixed-site outpatient diagnostic imaging in the United States. Radnet reported first quarter results on 8 May surpassing market expectations for both revenue and earnings. In addition to the strong quarterly performance, the company also upgraded its guidance for the full year 2024, reflecting confidence in its continued growth and operational strength. This positive outlook and better-than-expected results a positive response in Radnet's stock performance.

Nextracker (+0.42%) is a leading provider of intelligent, integrated solar tracker and software solutions used in utility-scale and distributed generation solar projects around the world. Nextracker released its quarterly financial results with impressive performance. The company reported double-digit revenue growth and triple-digit earnings growth. This solid performance was positively received by the market, driving a notable increase in its stock price.

Conversely, the major detractors during May were:

DigitalBridge Group (-0.50%) is a leading global alternative asset manager dedicated to investing in digital infrastructure, including cell towers, data centres, fibre, small cells, and edge infrastructure. The company reported first quarter earnings on 30 April showing double-digit year-over-year growth in fee revenue and fee-related earnings. This marked the first quarter since the company's transition to a pure-play alternative asset manager. Despite the strong financial performance, the market has not fully adjusted to this strategic shift, resulting in a subdued response in the company's stock performance.

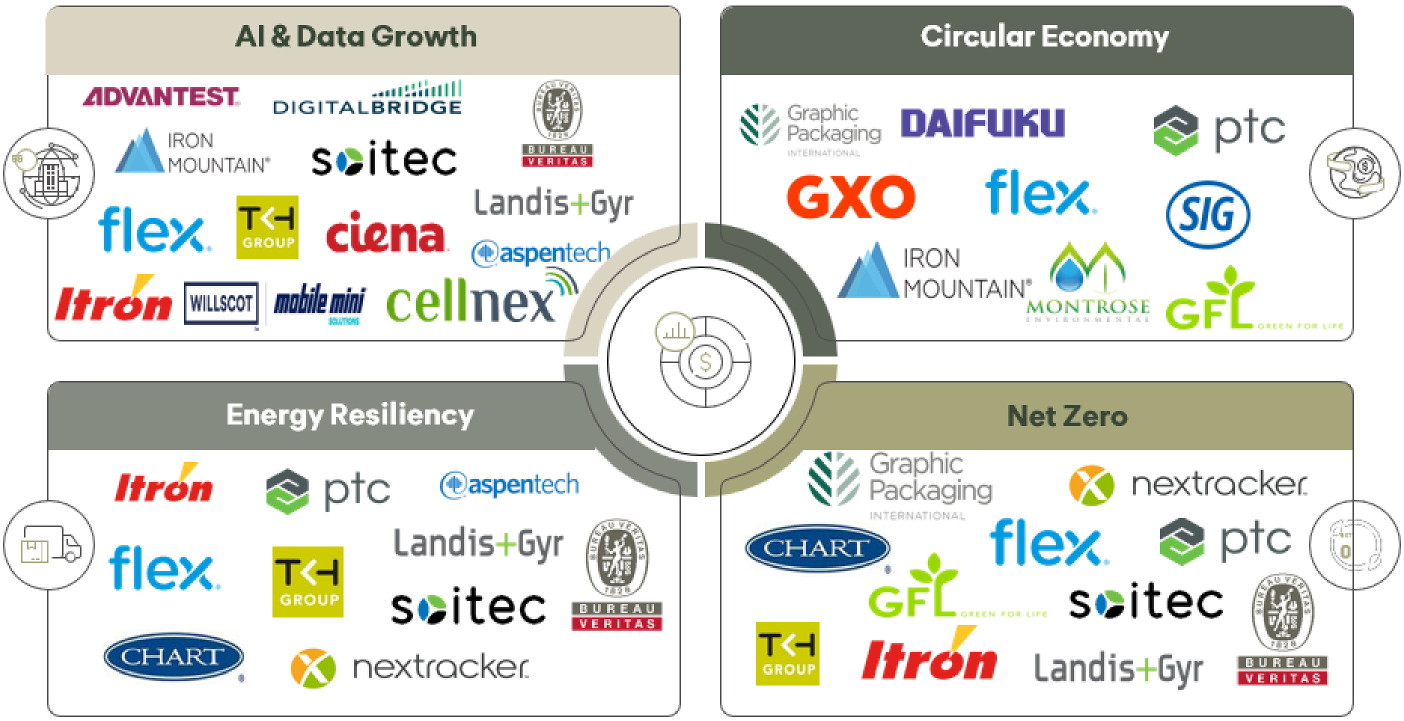
Alight (-0.47%) is a leading cloud-based human capital technology and services provider that powers confident health, wealth and wellbeing decisions for people around the world. Alight reported its first quarter results on 8 May which fell below market expectations. In a separate announcement, the company disclosed that the previous CFO would be stepping down from the position. These factors contributed to a negative market reaction and a decline in Alight's stock performance.

Acadia Healthcare (-0.21%) is a leading provider of behavioral healthcare services across the United States, operating a network of 253 behavioral healthcare facilities across the nation.  The company reported results in early May and while first quarter patient growth was a touch lower than expected, Management is confident that it will continue to benefit from new facilities contributing to earnings growth in the second half and confirmed full year profit guidance.

During the month we made minor adjustments to position sizing, taking advantage of strength in Aspen Technology and Itron, trimming CIEN into what we anticipated to be weaker short term earnings result (long term thesis unchanged) while adding to Gerresheimer, LiveRamp, Pinterest and Zillow.

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:

- AI and the growth in data as Industrial IoT and large language networks such as ChatGPT and next generation applications drive data demand;
- companies that enable our push to a circular economy;
- beneficiaries of deglobalization; and
- those helping to improve the resilience of our energy grids as the world looks to electrify 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

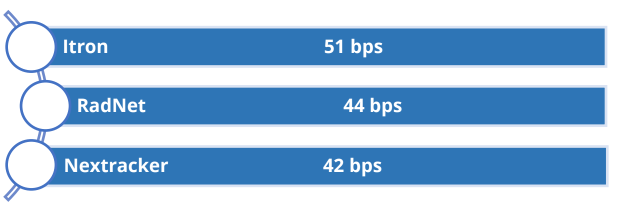
| Stocks | Industry | Region | Position Weighting % |
|---|---|---|---|
| GFL Environmental Inc. | Industrials | North America | 6.03 |
| Cellnex Telecom S.A. | Communication Services | North America | 5.17 |
| Option Care Health Inc. | Health Care | Europe | 4.70 |
| Webster Financial Corporation | Financials | North America | 4.00 |
| PTC Inc. | Information Technology | North America | 4.00 |
| GXO Logistics Inc. | Industrials | North America | 3.96 |
| Iron Mountain, Inc. | Real Estate | North America | 3.25 |
| Chart Industries, Inc. | Industrials | North America | 3.20 |
| Bureau Veritas SA | Industrials | Europe | 3.17 |
| Acadia Healthcare Company, Inc. | Health Care | North America | 2.93 |

*Source: Ellerston Capital*

| Risk Measures | |
|---|---|
| Net Exposure[5] | 90.94% |
| Gross Exposure[6] | 90.94% |
| VAR[7] | 1.35% |
| Best Month | 9.59% |
| Worst Month | -8.94% |
| Average Gain in Up Months | 2.77% |
| Average Loss in Down Months | -3.10% |
| Annual Volatility | 13.30% |
| Index Volatility | 10.79% |

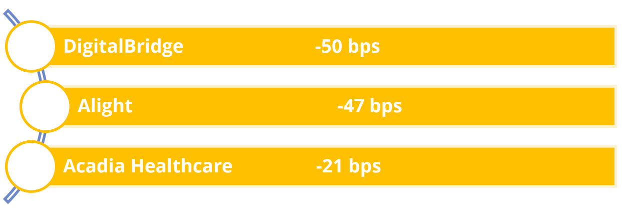
*Source: Ellerston Capital*

**Top contributor[8]** (bps)




*Source: Ellerston Capital*

**Top detractor[8]** (bps)

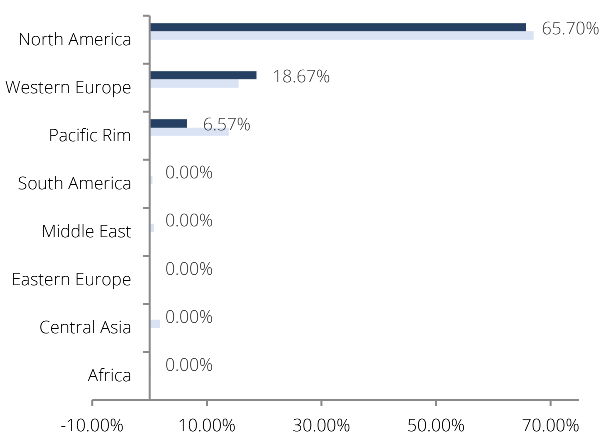



*Source: Ellerston Capital*

| Key Facts | |
|---|---|
| ASX code / share price | MEC / 1.000 |
| Listing Date | 3 May 2017 |
| Profit Reserve[9] | $0.543 |
| Management Fee | 1.25% |
| Performance Fee[10] | 15% |
| Market Capitalisation | $38.7m |
| Shares Outstanding | 38,770,369 |
| Dividend per share[11] | $0.14 |

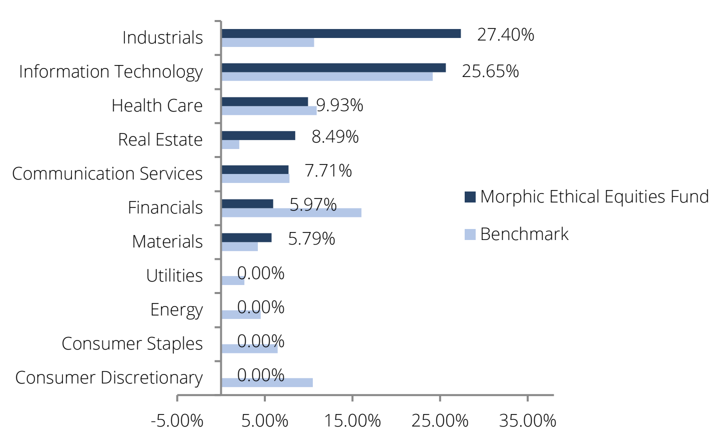
*Source: Ellerston Capital*

**Equity Exposure Summary[12]** By region




*Source: Ellerston Capital*

**Equity Exposure Summary[12]** By sector




*Source: Ellerston Capital*

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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.