

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
August 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 | -0.29% | 4.58% | 0.63% | 3.47% | -0.69% | 7.73% | 7.28% |
| Index ² | -1.31% | 4.40% | 6.09% | 17.83% | 8.42% | 11.98% | 12.03% |

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

Performance Summary

MEC decreased by 0.29% net during the month, outperforming the MSCI All Countries World Daily Total Return Net Index which decreased by 1.31% over the same period.

Market Commentary

The portfolio's top three contributors **Acadia Healthcare**, **GFL Environmental** and **Aspen Technology** added 188bps to performance while **Chart Industries**, **GXO Logistics** and **DigitalBridge** detracted 148 bps during the month.

August marked somewhat of a reversal of performance from July, with most large cap indices rallying through the month (S&P500 +2.4%) and smaller companies underperforming (Russell 2000 -1.5%). Outside of the US, most markets increased, with the exception of Japan, where the TOPIX fell -2.9%.

While most markets finished the month up, this wasn't achieved in a straight line. There was significant volatility through the month, first with the partial unwind of the yen 'carry trade' as the Bank of Japan raised interest rates for the second time in 17 years, and then the market's response to weak US payrolls. On the latter, July numbers fell short of expectations and the largest revisions since 2009 were made to historic 12-month payroll figures. Sectors with the largest payroll revisions included Professional & Business Services, Retail trade and Leisure & Hospitality. In addition to this, the ISM manufacturing print came in well below expectations, with a print of 46.8, a miss to expectations and the lowest reading since November-23.

These weak figures added to concerns that the US economy was slowing faster than previously thought, with further evidence of this in a number of weak 2Q results from US consumer discretionary companies.

Net Tangible Assets (NTA)

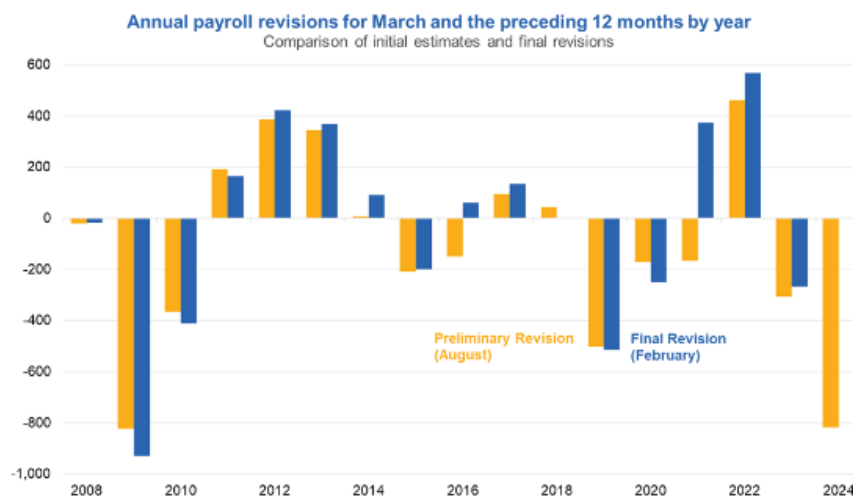
| | |
|-----------------------------------|----------|
| NTA value before tax ³ | \$1.1277 |
| NTA value after tax ³ | \$1.1171 |

Source: Ellerstun Capital

Investment Returns since inception⁴



Source: Ellerstun Capital



Source: Bureau of Labor Statistics and The Conference Board.

With July CPI data in line with expectations, Jerome Powell used his Jackson Hole speech to underline his focus and support for the labour market, assuaging concerns that the Fed was 'behind the curve' in terms of the pace and level of required rate cuts to support the economy, with the market rallying on the back of this.

The market still remains broadly divided on the outlook for the economy, and thus the impact of interest rate cuts. Historically, interest rate cutting cycles during periods where the economy is still growing have resulted in very strong periods for equity markets, particularly smaller companies. However, rate cutting cycles during a recession have had a largely negligible impact on stocks.

For now, the market seems to be treating the prospect of a recession with increased seriousness, Sectors that are either direct beneficiaries of rate cuts, or those with defensive earnings characteristics have been rewarded, with Staples (+5.9%), Healthcare (+5.1%), Utilities (+4.9%) and Financials (+4.5%) the best performing, and Consumer discretionary (-1%) and Energy (-1.7%) the weakest.

Outside of shifts in macro sentiment, the 2Q reporting season finished, with 70% of companies beating/matching revenue estimates, and 80% of companies beating EPS estimates, slightly above the long-term average.

Regional discussion

United States: In August 2024, the S&P 500 gained 2.43%, driven by improving consumer confidence and easing inflation expectations. The Russell 2000, representing small-cap stocks, declined by 1.49% as smaller companies faced greater pressure from economic uncertainties. While the labor market showed signs of softening, with a slowing pace of job growth and a rising unemployment rate, the overall sentiment remained cautiously optimistic. This resilience, particularly in consumer attitudes toward inflation, suggests the economy may be stabilizing rather than heading into a recession.

Europe: European markets were mostly positive in the past month, with the MSCI Euro index rising by 1.75%. Eurozone inflation stood at 2.2%, close to the European Central Bank's medium-term target of 2%. However, the Eurozone Manufacturing PMI signaled a further deterioration in operating conditions across the region's manufacturing sector. Despite these challenges, Germany's DAX, which tracks the 40 largest companies on the Frankfurt Stock Exchange, gained 2.15%. France's CAC 40 also performed well, rising by 1.32% during the month.

Japan: In August 2024, Japan's Nikkei 225 fell by 1.09%, impacted by the Bank of Japan's decision on 31st July to raise its key short-term interest rate to 0.25%, up from the previous range of 0% to 0.1%. The yen has appreciated sharply since July, pressuring export-reliant sectors and contributing to an early-month selloff. However, the index saw a partial recovery later in August as investor sentiment improved. The stronger yen and rising borrowing costs remain key concerns for market stability.

Sector discussion

Information Technology: In August 2024, the global Information Technology sector faced mixed performance. While AI advancements and growing demand for cloud services continued to drive growth, the sector experienced some setbacks due to increased market volatility and concerns over the potential for slower economic growth globally. Additionally, tech companies with high exposure to cyclical industries and those facing supply chain disruptions saw more significant pressures.

Health Care: The healthcare sector maintained steady performance last month, benefiting from its defensive characteristics amidst broader market volatility. Pharmaceuticals and medical devices saw consistent demand, driven by ongoing medical advancements and the essential nature of their products. However, biotech companies faced challenges, particularly due to reduced research funding and delays in drug approvals.

Industrials: In August 2024, the Industrials sector experienced varied performance, with continued pressure from rising costs and economic uncertainty. Supply chain disruptions and weaker global demand weighed on several key industries within the sector, particularly in manufacturing. On the other side, aerospace and infrastructure saw moderate gains driven by increased government spending and renewed investment in sustainable infrastructure projects.

Portfolio Commentary

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

Acadia Healthcare (+0.72%): is the largest stand-alone behavioural healthcare company in the U.S., providing services to its patients in a variety of settings, including inpatient psychiatric hospitals, specialty treatment facilities, residential treatment centers and outpatient clinics. Demand for behavioural healthcare remains strong in the U.S., and Acadia is expanding its facilities to meet this growing need. The company reported its June quarter results on 31st July, surpassing market expectations for both revenue and earnings, which boosted its stock performance.

GFL Environmental (+0.69%): is the fourth largest diversified environmental services company in North America, providing a comprehensive line of solid waste management, liquid waste management and soil remediation services in Canada and in more than half of the US States. GFL reported strong second quarter results in early August which underpinned an upgrade to full year profit expectations. Additionally, Management indicated it had received preliminary interest in its Environmental Solutions business and would be conducting a sales process over the coming months. The implied multiple could be well above the existing trading multiple of GFL and thereby unlock substantial value to shareholders if a deal is successful.

Aspen Technology (+0.47): is a global software leader providing solutions that help industries optimize the asset design, operation and maintenance lifecycle in a profitable and sustainable manner. Aspen reported its June quarter results in early August, delivering stronger-than-expected results and demonstrating robust growth. This performance drove positive sentiment among investors, contributing to a strong stock performance.

Conversely, the major detractors for the month were:

Chart Industries (-0.78%): is a leading independent global manufacturer of highly engineered equipment servicing multiple market applications in Energy and Industrial Gas. On 2nd August, the company reported its June quarter results with revenue and earnings below consensus. However, we remain confident in this business, as demand remains strong, driven by global transition towards cleaner energy sources. Additionally, the company continues to deliver significant margin expansion through productivity improvements, solution innovation, and cost synergies.

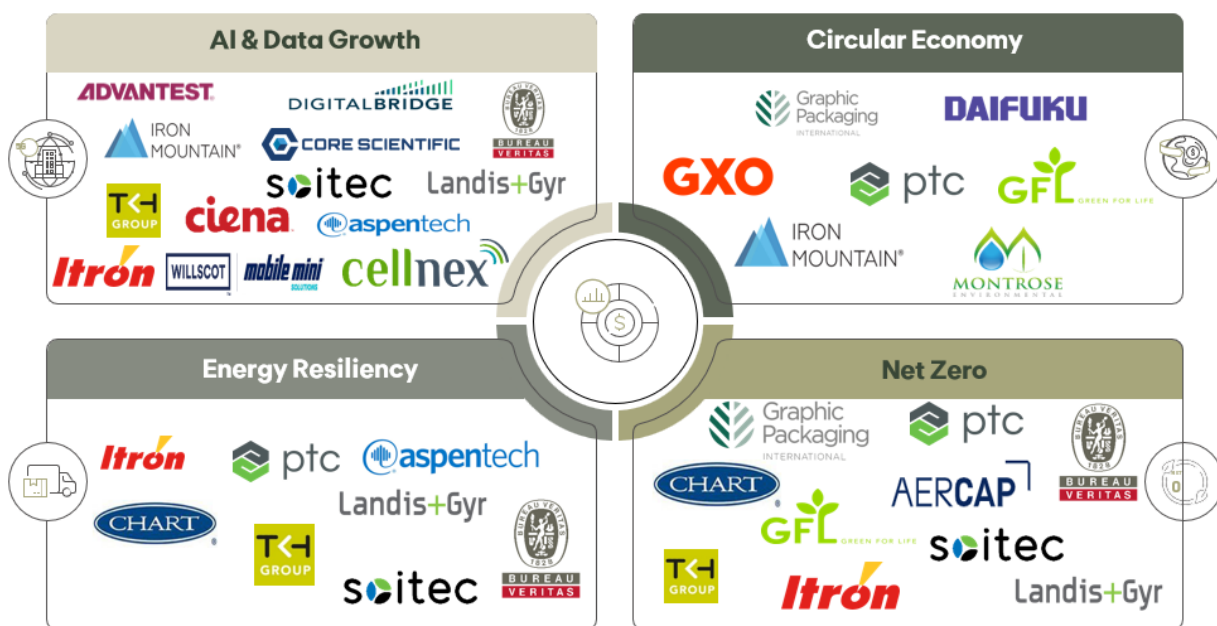
GXO Logistics (-0.44%): is the world's largest pure-play contract logistics provider, partnering with the world's leading blue-chip companies to solve complex logistics challenges with technologically advanced supply chain and ecommerce solutions. The stock price dropped in early August but partially rebounded after the company reported its June quarter results on 6th August, with both revenue and earnings ahead of market expectations. We remain positive on the business outlook, given improving volume trends in the market and the continued acquisition of new customers.

DigitalBridge (-0.26%): is a leading global alternative asset manager dedicated to investing in digital infrastructure, including cell towers, data centres, fibre, small cells, and edge infrastructure. In early August, the company reported June quarter results with double-digit growth in fee revenue and earnings, both exceeding market expectations. With robust AI demand, we believe DigitalBridge is underappreciated, given its leading position in data centre investment.

During the month we trimmed positions in Ciena and Zillow, taking advantage of favourable price movements in both stocks. We exited our position in Pinterest during the month. Pinterest is a unique, discovery focused platform in the early stages of a transition to a more profitable e-commerce model. While we like the long-term outlook for the business, the 2Q result pointed to weakening revenue and cost trends which are likely to weigh on near term earnings. Coupled with evidence of a fading consumer evident elsewhere across the economy, and ongoing execution risk with the e-commerce ramp, we deemed the risk/reward as less attractive. Conversely, we initiated a position in QXO via participation in a private placement. QXO is the next venture from serial entrepreneur Brad Jacobs, who is looking to consolidate the highly fragmented \$800bn building products distribution industry, borrowing from the highly successful playbook he has used to build United Waste, United Rentals, XPO, GXO and RXO. We believe this business has a long runway for accretive acquisitions. Through the month, we also added to existing positions, either taking advantage of stock price volatility through the month (AER) or following strong 2Q results, which increased our conviction (GPK, ITRON, TKO).

We continue to have differentiated exposure to some pretty powerful long term thematic 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.

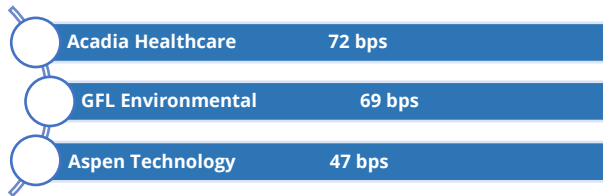
As always, we thank you for your continued support and look forward to providing further updates in the future.

Top 10 Active Positions

| Stocks | Industry | Region | Position Weighting % |
|---------------------------------|------------------------|---------------|----------------------|
| GFL Environmental Inc | Industrials | North America | 6.9 |
| Cellnex Telecom S.A. | Communication Services | Europe | 5.3 |
| AerCap Holdings NV | Industrials | North America | 4.4 |
| QXO, Inc. | Information Technology | North America | 3.9 |
| Bureau Veritas | Industrials | Europe | 3.8 |
| Option Care Health Inc | Health Care | North America | 3.5 |
| GXO Logistics | Industrials | North America | 3.4 |
| Acadia Healthcare Company, Inc. | Health Care | North America | 3.4 |
| TKO Group Holdings, Inc. | Communication Services | North America | 3.2 |
| Graphic Packaging | Materials | North America | 3.0 |

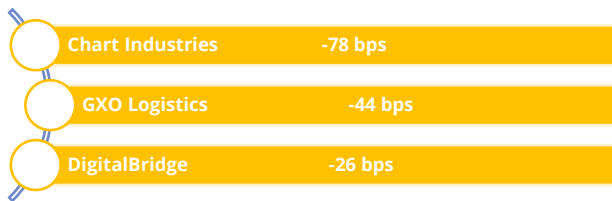
Source: Ellerston Capital

Top contributor⁸ (bps)



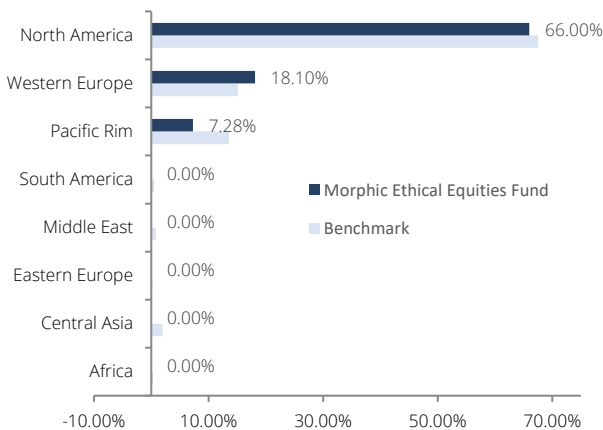
Source: Ellerston Capital

Top detractor⁸ (bps)



Source: Ellerston Capital

Equity Exposure Summary¹² By region



Source: Ellerston Capital

| Risk Measures | |
|-----------------------------|--------|
| Net Exposure ⁵ | 91.37% |
| Gross Exposure ⁶ | 91.37% |
| VAR ⁷ | 5.74% |
| Best Month | 9.59% |
| Worst Month | -8.94% |
| Average Gain in Up Months | 2.76% |
| Average Loss in Down Months | -3.01% |
| Annual Volatility | 13.22% |
| Index Volatility | 10.70% |

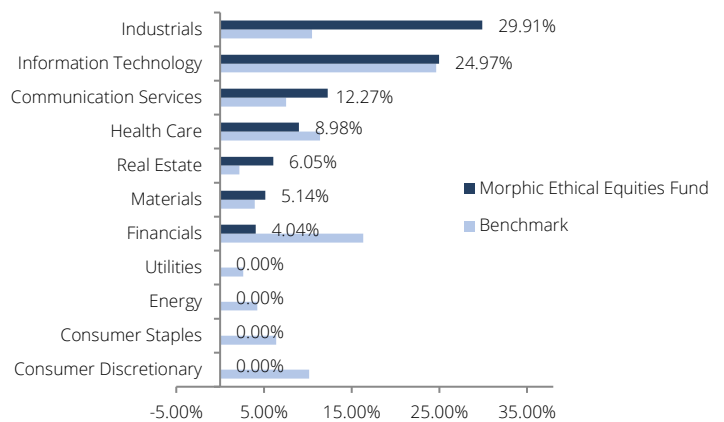
Source: Ellerston Capital

Key Facts

| | |
|----------------------------------|-------------|
| ASX code / share price | MEC / 1.000 |
| Listing Date | 3 May 2017 |
| Profit Reserve ⁹ | \$0.604 |
| Management Fee | 1.25% |
| Performance Fee ¹⁰ | 15% |
| Market Capitalisation | \$37.6m |
| Shares Outstanding | 37,631,243 |
| Dividend per share ¹¹ | \$0.06 |

Source: Ellerston Capital

Equity Exposure Summary¹² 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 Monthly VAR, gross return; 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.