

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
September 2024



A proud founder of:



Signatory of:



## 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 <sup>1</sup>	-0.91%	4.53%	-1.70%	8.82%	0.09%	7.26%	7.07%
Index <sup>2</sup>	0.07%	2.63%	3.14%	22.57%	9.55%	11.56%	11.90%

\* Past Performance is not an indication of future performance.

Source: Ellerstun Capital

## Performance Summary

MEC decreased by 0.91% net during the month, underperforming the MSCI All Countries World Daily Total Return Net Index which increased by 0.07% over the same period.

## Market Commentary

The portfolio's top three contributors QXO, Greatland Gold and Zillow Group added 130 bps to performance while Acadia Healthcare, GFL Environmental and Gerresheimer detracted 179 bps during the month.

As the post pandemic inflationary impacts continue to recede, we are seeing global central banks beginning the process of shifting interest rates back to a more neutral setting. The Fed embarked on its rate cutting cycle with a 50bps cut in September, which was well received by the markets. The move helped reduce the odds of a recession, while opening the door for other central banks to ease policy to support economic activity.

The question leading into the Fed rate cutting cycle was whether it would be accompanied by significantly weaker economic activity (recession) or a more benign outcome. Admittedly the actual motivation for lower rates is yet to be seen and while global growth forecasts have been ratcheted down over the past few months, it does appear that forecasters continue to call for a slowing, yet growing, backdrop.

### Net Tangible Assets (NTA)

NTA value before tax <sup>3</sup>	\$1.1166
NTA value after tax <sup>3</sup>	\$1.1096

Source: Ellerstun Capital

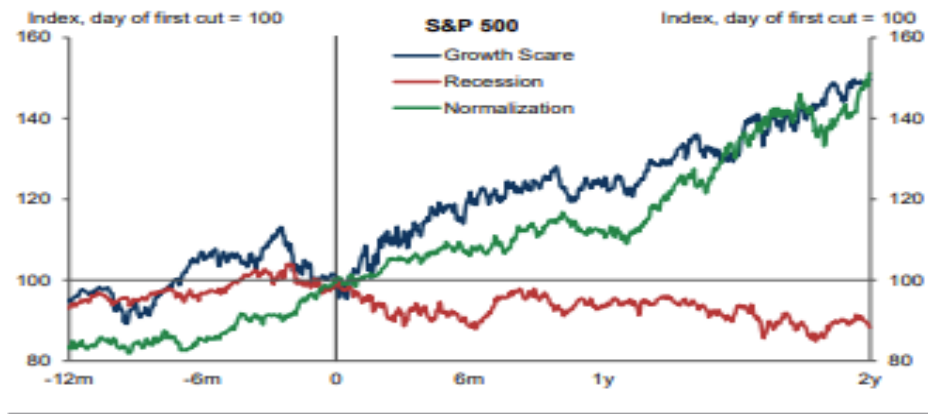
## Investment Returns since inception<sup>4</sup>



Source: Ellerstun Capital

## Exhibit 4: Equities have tended to rally after the first cut when there is not a recession

Median across each sample



Source: Goldman Sachs Global Investment Research

Geopolitically we still have to endure another month of US election headlines and while the general consensus is that Kamala Harris had a stronger night in the second presidential debate, the outcome is too early to call. One of the lessons during the 2016 elections (where Donald Trump defeated Hilliary Clinton) was that trying to guess the election result, let alone the actual market reaction, is incredibly difficult. The market, and companies, like certainty and once the rules of the game are known, they can move forward.

At the time of writing, continued escalations in the Middle East, and the risk of a bigger conflict, are driving oil prices higher and risk appetite lower. Over the past several months the market has largely ignored the Iran/Israeli geopolitical risks, however it now seems to be pricing some of this in.

As always, we are mindful of the macro however continue to focus on the micro of stock specific fundamentals.

### Regional discussion

In September, U.S. markets posted solid gains, with the Nasdaq up 2.76%, the S&P 500 rising 2.14%, and the Russell 2000 gaining 0.70%. The Federal Reserve's 50bps rate cut was the primary driver. Despite U.S. consumer confidence missing consensus estimates and dropping to its lowest level since August 2021, supportive monetary policy, stable GDP growth, and a positive earnings outlook continued to sustain the market's momentum.

European markets delivered mixed results in September. The European Central Bank's second 25bps rate cut helped ease monetary policy, driving Spain's IBEX 35 up by 4.17% and Germany's DAX by 2.21%. Conversely, the Swiss Market Index dropped by 2.29%, led by declines in major stocks like Nestlé, Novartis and Roche. The UK's FTSE 100 fell by 1.54%, weighed down by stagnant real GDP growth, with three of the last four months showing flat output, signaling potential economic stagnation.

In September, Japan's stock market experienced its third consecutive month of decline, with the Nikkei 225 dropping by 1.24%. As Japanese stocks continued to unwind from the end of the carry trade, the yen's appreciation further pressured export-reliant sectors, impacting corporate earnings. Manufacturing and technology sectors were particularly affected, as higher borrowing costs and weaker global demand weighed on market performance.

## Sector discussion

The Communication Services sector delivered solid performance, driven by strong growth in digital advertising and increased demand for AI-powered communication platforms. Investments in AI and digital infrastructure helped the sector's robust growth trajectory, further boosting investor confidence.

The global Industrials sector faced mixed performance. While infrastructure and aerospace saw moderate gains, other industrial segments faced pressures from rising costs and weaker global demand. Ongoing supply chain disruptions and broader economic uncertainty further weighed on the sector's overall performance.

Financials experienced uneven performance in the past month. While rate cuts in the U.S. and Europe offered some support to banks and lending institutions, they also squeezed margins in certain areas. Asset managers and insurers delivered mixed results, as volatile market conditions limited potential gains.

Healthcare underperformed in September. Pharmaceutical companies experienced slower growth, despite steady demand for essential products, as market volatility dampened investor confidence and reduced capital inflows. Additionally, cost pressures in medical devices and uncertainty in regulatory environments contributed to the sector's weak performance during the month.

## Portfolio Commentary

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

**QXO, Inc (+0.55%):** QXO aims to become a tech-forward leader in the \$800 billion building products distribution industry through accretive acquisitions and organic growth. Investors are confident in both the company's strategic direction and its management team's ability to execute its growth plans.

**Greatland Gold (+0.46%):** is a leading mining development and exploration company focused on precious and base metals, listed on London Stock Exchange. The company is developing the world-class Havieron gold-copper deposit in the Paterson region of Western Australia while delivering multi-project exploration upside in a low-risk jurisdiction. Greatland Gold is a new addition to the portfolio.

**Zillow Group (+0.28%):** is the No. 1 U.S. residential real estate app. Along with its for-sale and rental listings on Zillow.com, the company provides home loans, mortgage pre-approvals, financing, and real estate professional services. Zillow was recently upgraded by several brokerages as the company continues to expand its market share and grow revenue.

Conversely, the major detractors for the month were:

**Acadia Healthcare (-0.77%):** is the largest stand-alone behavioral healthcare company in the U.S., offering services in various settings, including inpatient psychiatric hospitals, specialty treatment facilities, residential treatment centers, and outpatient clinics. The stock price declined after the company disclosed on 27th September that it received a request for information and a jury subpoena from a U.S. Attorney, as well as a jury subpoena in two separate jurisdictions. Despite the attractive growth profile of its underlying assets, we deemed the headline risk as too great and have exited the position in early October.

**GFL Environmental (-0.54%):** 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 service in Canada and in more than half of the U.S. states. Stock price declined slightly after a surge over the past three months. We remain positive on the business outlook, anticipating further growth driven by organic expansion and M&A opportunities.

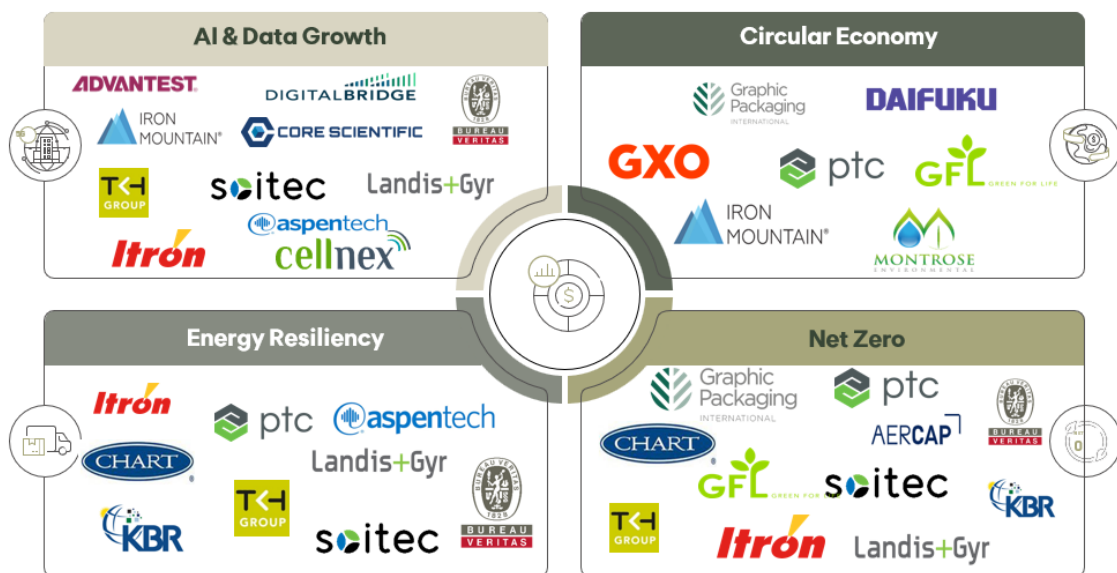
**Gerresheimer AG (-0.49%):** provides medicine packaging, drug delivery devices, and solutions with a broad product range for pharma, health, well-being, and biotech. On 30th September, the company disclosed its preliminary third-quarter results, which revealed a slower-than-expected recovery in the vial market. As a result, Gerresheimer downgraded its revenue and earnings expectations for 2024 and 2025, leading to a substantial loss in its stock performance. With more questions than answers during its conference call and the impending Bormioli acquisition which will further leverage its balance sheet we exited the position in early October.

During the month we made some tactical shifts in positioning where we deemed the risk/reward had changed. Kinaxis announced that its long serving CEO would be leaving the company, although more telling was the subsequent departure of its Chief Sales Officer. Kinaxis has been falling behind in its sales efforts and these announcements created greater uncertainty around business performance, so we decided to watch from the sidelines for now. Wilscott was also exited during the month. The stock had appreciated c19% from its recent low despite withdrawing its very accretive bid for McGrath Rentcorp along with mounting concerns around rental volumes. Webster Financial and Ciena were also exited during the quarter as they appreciated 22% and 29% respectively over the past few months thereby reaching full value.

We have deployed the funds into exciting new opportunities including Corpay which is a leader in providing businesses and consumers with a simple and controlled platform on which to pay and manage expenses. KBR, which delivers science, technology and engineering solutions to governments and companies around the world. It is a global leader in providing technology and expertise in sustainable energy focusing on helping to solve the energy trilemma of sustainable, secure and affordable energy. And finally, Aritzia, which is a fully integrated design and retail house with an innovative global platform offering everyday luxury to its growing customer base.

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.

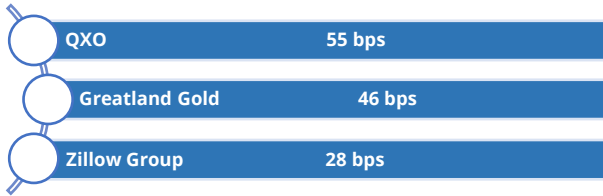
As always, we thank you for your continued support and look forward to providing further updates in the future.

## Top 10 Active Positions

Stocks	Industry	Region	Position Weighting %
GFL Environmental Inc	Industrials	North America	6.3
Cellnex Telecom S.A.	Communication Services	Spain	5.6
QXO, Inc.	Information Technology	North America	4.4
AerCap Holdings NV	Industrials	North America	4.3
Bureau Veritas SA	Industrials	Europe	3.8
Corpay, Inc.	Financials	North America	3.6
GXO Logistics Inc	Industrials	North America	3.5
Option Care Health Inc	Health Care	North America	3.4
TKO Group Holdings, Inc.	Communication Services	North America	3.3
Graphic Packaging	Materials	North America	3.0

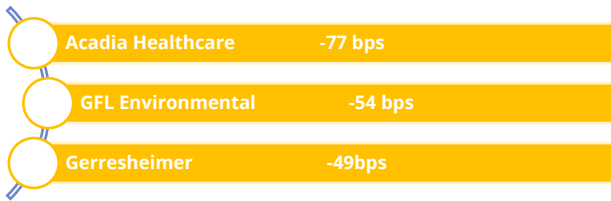
Source: Ellerston Capital

## Top contributor<sup>8</sup> (bps)



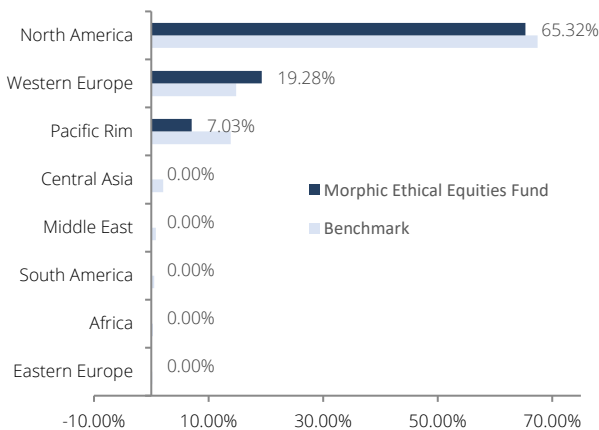
Source: Ellerston Capital

## Top detractor<sup>8</sup> (bps)



Source: Ellerston Capital

## Equity Exposure Summary<sup>12</sup> By region



Source: Ellerston Capital

Risk Measures	
Net Exposure <sup>5</sup>	91.64%
Gross Exposure <sup>6</sup>	91.64%
VAR <sup>7</sup>	5.27%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.69%
Average Loss in Down Months	-3.01%
Annual Volatility	13.16%
Index Volatility	10.65%

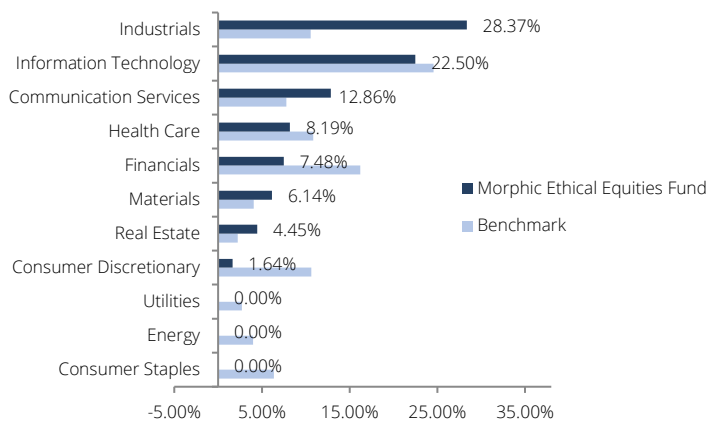
Source: Ellerston Capital

## Key Facts

ASX code / share price	MEC / 0.980
Listing Date	3 May 2017
Profit Reserve <sup>9</sup>	\$0.609
Management Fee	1.25%
Performance Fee <sup>10</sup>	15%
Market Capitalisation	\$36.6m
Shares Outstanding	37,304,760
Dividend per share <sup>11</sup>	\$0.06

Source: Ellerston Capital

## Equity Exposure Summary<sup>12</sup> By sector



Source: Ellerston Capital

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<sup>1</sup> Performance is net of investment management fees, before company admin costs and taxes; <sup>2</sup> The Index is the MSCI All Countries World Daily Total Return Net Index (Bloomberg code NDUJACWF) in AUD; <sup>3</sup> The figures are estimated and unaudited; <sup>4</sup> 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; <sup>5</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>6</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>7</sup> Monthly VAR, gross return; <sup>8</sup> Contribution; absolute returns against excluding the effect of hedges; <sup>9</sup> 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; <sup>10</sup> 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; <sup>11</sup> Annual dividend per share. <sup>12</sup> Exposure Summary charts do not take into account derivative positions.