MORPHIC ETHICAL EQUITIES FUND

Monthly Report
November 2024

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

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]	5.96%	8.38%	13.34%	24.80%	1.94%	8.59%	8.18%
Index[2]	4.31%	8.08%	12.83%	28.36%	10.76%	12.20%	12.76%

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

Performance Summary

MEC increased by 5.96% net during the month, outperforming the MSCI All Countries World Daily Total Return Net Index which increased by 4.31% over the same period.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$1.2188
NTA value after tax[3]	$1.1818

Source: Ellerston Capital

Market Commentary

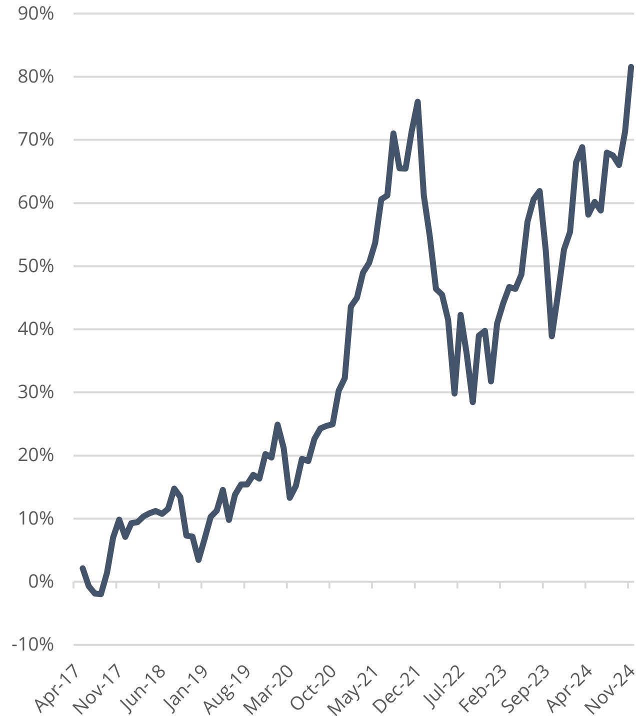
The portfolio's top three contributors, Core Scientific, GFL Environment and TKO Group Holdings added 271 bps to performance while TKH Group, Nexans and DigitalBridge detracted 110 bps during the month.

The S&P 500 delivered its strongest month of calendar year 2024 in November, thereby reaching all-time highs and stoking growing concerns around its valuation premium to the rest of world. While it is true that US equity valuations are higher than most other regions (in aggregate), so too is its inherent earnings growth profile, which could also get a further boost from pro cyclical Republican policies.

One seasonal factor to keep in mind is that history has shown that solid returns should continue, underpinned by the "Santa Claus Rally" so often cited by market commentators.

According to Morgan Stanley: December has historically been the second-best performing month for global equities, with the MSCI ACWI rising 76% of the time with an average return of +1.8% since 1990. Even when the S&P 500 has posted blockbuster returns in the first 11 months of the year (>25%), the S&P 500 has still usually seen December gains, rising an average of 1.4% in December and up 71% of the time.

Investment Returns since inception[4]



Source: Ellerston Capital

Trying to call short term market moves only opens up the probability of a coin toss, however with the new interest rate regime fortified by a declining, rather than increasing rate cycle, we should see continued broadening out in equity markets. The Republican sweep in the US is expected to be pro cyclical as de-regulation and certainty around tax extensions drive economic growth, while improving capital markets drive new IPO's and increasing M&A.

That said, concerns around a potential rollback of the Inflation Reduction Act (IRA which benefits renewables) is weighing on de-carbonisation plays, while potential tariffs could lead to lower growth assumptions for China and Europe.

There are many moving parts when trying to focus the lens on 2025, and we are already getting snippets of public policy change out of President-Elect Trump. The four pillars of change include tariffs, taxes, immigration and regulation however we have no idea on the timing of announcements, phasing in of these policies (if at all) and whether the social media statements from the incoming POTUS are merely aimed at opening up a dialogue to strike a deal. The key in all of this seems to be to understand the direction of various policies and invest accordingly.

With what is in front of us today, it does appear that the incoming regime is focused on driving domestic growth reinforced by improving productivity, access to capital and bolstering the supply of affordable, available energy. This backdrop should see small businesses deliver stronger growth than larger counterparts (broadening of earnings growth and therefore markets) and longer term, a manufacturing rebound as previously offshored capacity is repatriated under more favourable tax and regulatory frameworks.

Overall current equity valuations are embedding global growth coming in ok, global central banks easing interest rates while geopolitics remain in the back seat. This does seem to be an attractive backdrop for future equity appreciation, with the only main push back centering on the high multiple being paid for this investing backdrop. While there will always be pockets of excess, there are generally pockets of opportunity for investors.

Regional discussion

In November, U.S. equity markets experienced a robust rally, with the S&P 500 surging 5.87%, the Nasdaq up 6.29%, and the Russell 2000 leading gains with a remarkable 10.97% rise. This strong performance was underpinned by solid economic indicators. Retail sales during the early holiday season exceeded expectations, with consumer spending rising by 3.7% in the third quarter, its fastest pace since early 2023. On 7 November, the Federal Reserve implemented a 25-basis-point rate cut, lowering the target range to 4.50%–4.75% to sustain economic growth and support market momentum.

European markets showed mixed performance in November as Germany's DAX index rose by 2.88%, driven by a rebound in manufacturing, while the UK's FTSE 100 climbed 2.61%, supported by a recovery in real incomes and improved investor sentiment. In contrast, France's CAC 40 fell by 1.53%, pressured by weaker consumer confidence and increasing de-stabilisation of its political backdrop. Eurozone inflation rose to 2.3% in November from 2.0% in October, largely due to base effects, while core inflation remained steady at 2.7%, indicating stable underlying price pressures.

Japan's Nikkei 225 declined by 2.22% in November, weighed down by cautious corporate earnings. The reporting season revealed mixed performance across key sectors, with export-reliant industries such as automotive and electronics under pressure from a strengthening yen. Meanwhile, Tokyo's core consumer prices rose by 2.2% in November, reflecting broader price pressures and sustaining market expectations for a potential near-term interest rate hike.

Sector discussion

The Consumer Discretionary sector outperformed the broader market, supported by robust consumer spending and strong corporate earnings. Major retailers reported significant growth in both e-commerce and in-store sales, reflecting heightened consumer activity during the early holiday season. Additionally, the automotive industry experienced a resurgence, particularly in the U.S., with vehicle sales increasing year-on-year. These factors combined to drive the sector's strong performance during the month.

Financials delivered strong performance in November, supported by robust corporate earnings and favourable economic indicators. Banks reported improved loan growth and strong fee-based income, reflecting solid underlying demand. Asset managers and insurers also benefited from increased market activity, creating a conducive environment for capital deployment and earnings growth. The combination of healthy earnings reports and supportive monetary policy underpinned the sector's robust performance during the month.

Health Care underperformed in November amid global challenges. Investor sentiment weakened due to potential regulatory changes in major markets, including ongoing debates around pricing reforms in the U.S. and shifting healthcare policies in Europe. Slower growth in high-margin drugs and reduced funding in biotechnology also contributed to its decline during the month.

The Materials sector also faced challenges in November. China's weaker-than-anticipated industrial output and subdued construction activity in Europe led to lower demand for materials. Additionally, the sector was impacted by a temporary slowdown in markets for electric vehicles and silicon carbide semiconductors. Despite these headwinds, some segments showed resilience, supported by steady demand in energy-related materials and chemicals.

Portfolio Commentary

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

Core Scientific (+1.11%) is a leader in digital infrastructure for bitcoin mining and high-performance computing. The company held its third-quarter earnings call on 6 November, discussing plans to more than double its contracted high-performance computing over the next three years to become one of the largest independent AI data centre businesses globally. This was followed by government approval for its power purchase agreements and land leases in Texas, which buoyed investor sentiment given the solid industry outlook and the company's expansion.

GFL Environmental (+0.80%) is the fourth-largest diversified environmental services company in North America, providing a comprehensive range of solid waste management, liquid waste management, and soil remediation services in Canada and more than half of the U.S. states. The company exceeded market expectations for both revenue and profitability in its third-quarter results on 6 November, boosting its stock performance. Management confirmed that the sale of its Environmental Services business was progressing well with a minimum of C$6bn of net proceeds expected upon completion. Proceeds will be targeted towards paying down $3.5bn of debt and likely share buybacks.

TKO Group (+0.80%) is s a premium sports and entertainment company, including UFC, the world's premier mixed martial arts organisation, and WWE, the global leader in sports entertainment. TKO delivered robust results in early November with full year expectations now trending towards the top end of its guided range for both revenue and EBITDA. It should complete the $3.25bn acquisition of PBR, On Location and IMG in the first half of 2025 at which point it will also commence a $2bn share buyback.

TKH Group (-0.40%) is a Dutch technology company specializing in integrating hardware and software to enhance automation, digitalization, and electrification across various industries including Smart Vision, Smart Manufacturing, and Smart Connectivity. The company provided its third quarter update on 11th November, with lower-than-expected results and downgraded full-year guidance. Investor disappointment was reflected in the declining stock price.

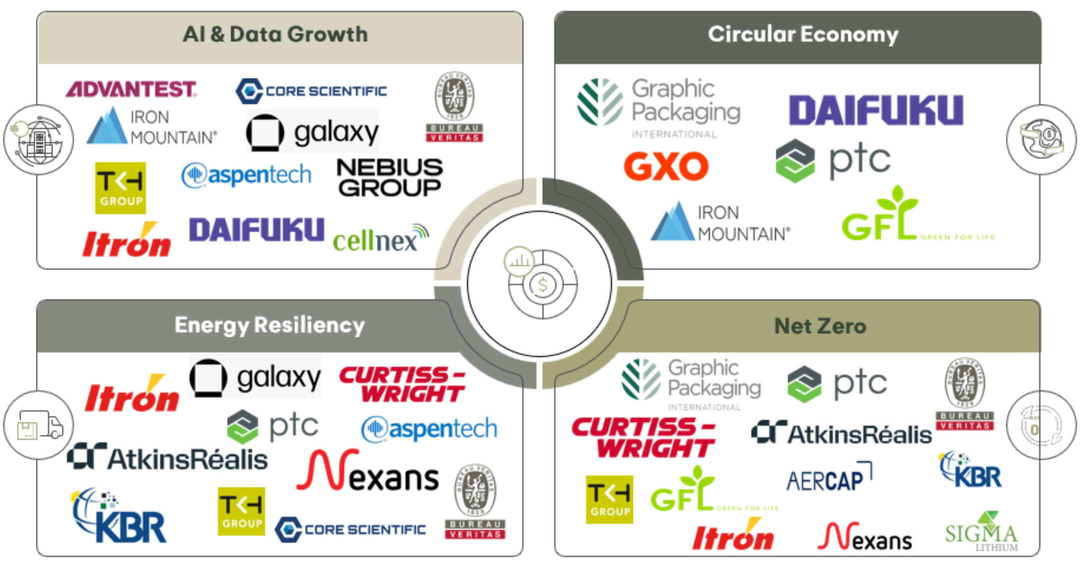
Nexans (-0.38%) is a French company leading in advanced cable and connectivity solutions, designing and installing cables that support renewable energy transition and efficient energy and data transmission globally. The company's third-quarter results, released on 30 October, showed revenue below expectations due to weak demand in certain markets. We remain positive on the business, given electrification megatrends and its strong backlog.

Digital Bridge (-0.32%) is a leading global alternative asset manager dedicated to investing in digital infrastructure. The company reported results in early November and despite reporting solid capital inflows, full year guidance was lowered as a timing push out of new closings in its most recent fund will impact results. While fee revenue was up 16%, the performance lagged expectations and there seems to be growing friction in fee margins. As such we have exited the position for the time being until we get a better view on profitability metrics relative to the digital investment opportunity.

In November, we trimmed and added to a number of positions to take advantage of share price moves. We initiated two new positions, which are Galaxy Digital Holdings, a New York-based financial services and investment management firm specializing in digital assets and blockchain technology, and Vail Resorts, a network of the best destination and close-to-home ski resorts which owns and operates 42 premier mountain resorts across North America, Australia, and Switzerland. These were funded with exits from Option Care Health (need to see where earnings level out post drug price changes) and Soitec.

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	5.6
GXO Logistics Inc	Industrials	North America	5.0
TKO Group Holdings, Inc. Class A	Communication Services	North America	5.0
Cellnex Telecom S.A.	Communication Services	Europe	4.5
AerCap Holdings NV	Industrials	North America	4.5
Corpay, Inc.	Financials	North America	4.4
Core Scientific Inc	Information Technology	North America	4.3
Bureau Veritas SA	Industrials	Europe	3.5
Curtiss-Wright Corporation	Industrials	North America	2.9
Warner Music Group Corp. Class A	Communication Services	North America	2.8

Source: Ellerston Capital

Risk Measures

Risk Measures	
Net Exposure[5]	91.43%
Gross Exposure[6]	91.43%
VAR[7]	5.98%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.76%
Average Loss in Down Months	-3.01%
Annual Volatility	13.19%
Index Volatility	10.63%

Source: Ellerston Capital

Top contributor[8] (bps)

Core Scientific Inc	111 bps
GFL Environment	80 bps
TKO Group Holdings	80 bps

Source: Ellerston Capital

Top detractor[8] (bps)

TKH Group	-40 bps
Nexans SA	-38 bps
DigitalBridge	-32 bps

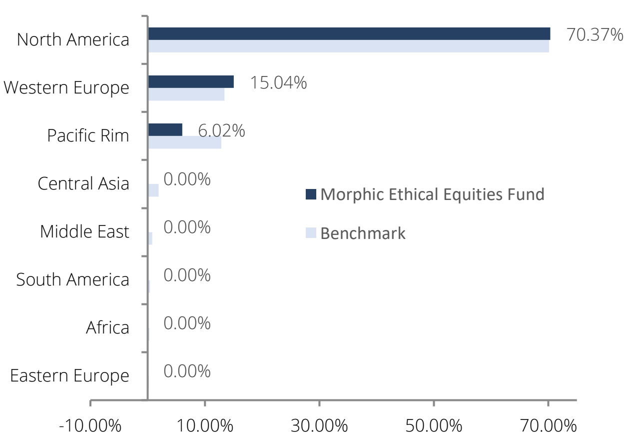
Source: Ellerston Capital

Key Facts

Key Facts	
ASX code / share price	MEC / 1.070
Listing Date	3 May 2017
Profit Reserve[9]	$0.681
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$38.8m
Shares Outstanding	36,307,302
Dividend per share[11]	$0.06

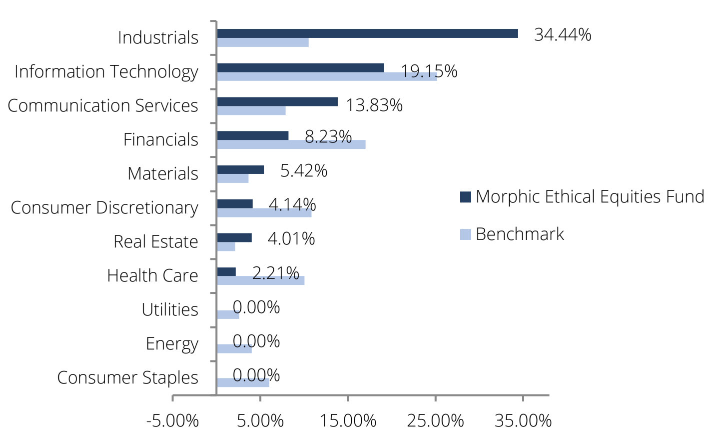
Source: Ellerston Capital

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]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.