MORPHIC ETHICAL EQUITIES FUND

Monthly Report
December 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]	-2.02%	7.16%	12.02%	16.55%	0.34%	8.25%	7.80%
Index[2]	2.73%	10.94%	13.86%	29.48%	11.23%	12.89%	13.01%

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

Performance Summary

MEC decreased by -2.02% net during the month, underperforming the MSCI All Countries World Daily Total Return Net Index which increased by 2.73% over the same period.

Market Commentary

The portfolio's top three contributors, Nebius, Aritzia and Advantest added 101 bps to performance while GXO Logistics, Core Scientific and Corpay detracted 287 bps during the month.

Market hopes of a 'Santa rally' were dashed by a weak finish to an otherwise strong year. The S&P500 fell -2.4%, though the true magnitude of declines was significantly worse and masked by the continued relative strength of the 'Magnificent Seven'.

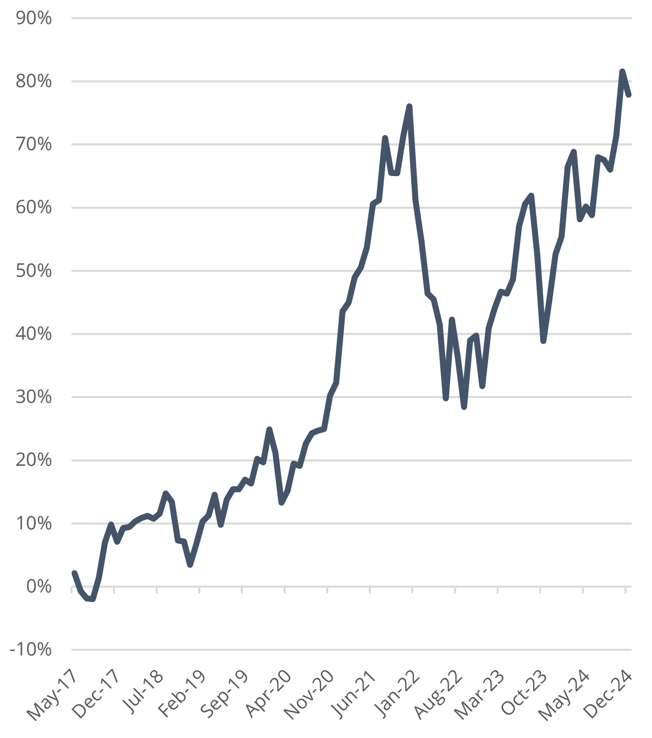
The catalyst for the December declines was the US Federal Reserve's FOMC meeting in the middle of the month. Overnight borrowing rates were cut 0.25% as expected, though the published 'dot plot' of individual board members showed total expected 2025 rate cuts halving from 100bps to 50bps. Strong recent US job openings data, which was the highest since May 2023, as well as robust US Services PMI, have further added to the idea that rates may not fall as fast as the market initially thought, at least in the US.

Given optically high US equity valuations (S&P500 PE now 25% above long-term average), and negligible risk premia compared to US 10Y Government bonds (now yielding nearly 5%), investors remain skittish about equities more broadly heading into 2025. This is particularly the case given the historically high concentration in indices, with the top 10 stocks accounting for nearly 40% of the S&P500 (a record) and over 50% of market returns for two straight years.

Net Tangible Assets (NTA)	
NTA value before tax[3]	$1.1936
NTA value after tax[3]	$1.1642

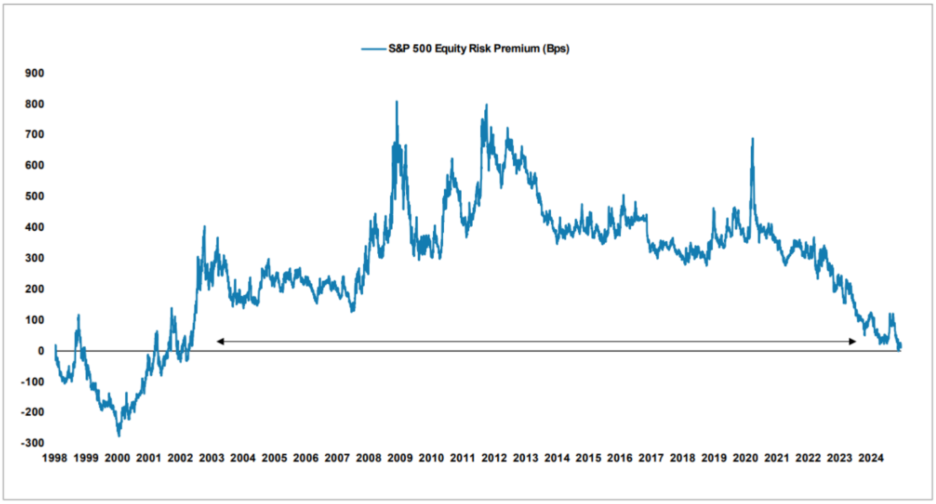
Source: Ellerston Capital

Investment Returns since inception[4]



Source: Ellerston Capital

S&P 500 Next Twelve Month Equity Risk Premium



Source: Morgan Stanley

Despite this backdrop, we believe the outlook for small to mid-sized companies remains favourable.

Starting valuation for the S&P490, which removes the impact of the ten largest companies, remains far more reasonable at 18x PE, which is only a 15% premium compared to the long-term average. The small and mid cap segments of the market look better again, trading ~20% below their median valuation of the last 4 years. When coupled with strong 'double-digit' EPS growth expected for 4Q24, and further growth expected in 2025 on the back of a more business friendly Trump administration, we expect to keep finding attractive investment opportunities.

Regional discussion

In December, U.S. equity markets fell following the Federal Reserve meeting, discussed above. The S&P 500 dropped -2.38%, with the S&P500 equal-weight index falling -6.3%, the S&P500 Midcap 400 falling -7.1% and the Russell 2000 declining -8.3%. The Nasdaq Composite index gained 0.55% for the month, helped entirely by the 'Magnificent Seven', which increased +6.3% on continued AI enthusiasm.

European markets had another mixed month in December. France's CAC 40 index increased by 2.14%, led by luxury companies including Hermès and LVMH. Germany's DAX index rose by 1.44%, despite minimal GDP growth and higher-than-expected inflation. The UK's FTSE 100 fell 1.29%. The Bank of England opted to maintain rates during its December meeting, balancing concerns over rising inflation and economic growth.

The Japanese stock market had a positive December, with the Nikkei 225 index rising 4.53%. After the Bank of Japan's decision to maintain interest rates at 0.25%, a government report projected a moderate recovery, supported by improving employment and income conditions. Inflation remained moderate and the latest manufacturing Purchasing Managers' Index signalled potential stabilisation in the sector.

The local currency returns of non-US markets were offset by the rise in USD, with the US Dollar Index (DXY) rising 3%.

Sector discussion

The Communication Services sector increased +3.6%, outperforming the broader market. Growing reliance on digital infrastructure supported strong performance among telecom providers and internet service companies. Companies involved in interactive media and services also benefited from investor enthusiasm for AI developments.

The Consumer Discretionary sector increased +2.4%. The holiday season was strong than expected, despite ongoing inflationary pressures. The travel and leisure industry also experienced a significant resurgence during the month.

The Energy sector was one of the biggest underperformers, falling 9.5%. The supply side was affected by ongoing geopolitical tensions, particularly in the Middle East and Ukraine. Persistent concerns over global demand, especially due to China's slower-than-expected economic recovery, added further pressure on the sector.

Materials sector faced another challenging month, down nearly 11%. Industries such as metals and construction materials were overshadowed by ongoing concerns around China's economic slowdown. Producers of industrial chemicals and fertilisers also struggled with elevated input costs and weakened global demand.

The Real Estate sector fell 8.6%. The market saw a steeper-than-usual slowdown in residential real estate during December, with major markets like the US and Europe reporting lower transaction volumes. Persistent pressure from high global interest rates also weighed on the sector.

Portfolio Commentary

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

Nebius Group (+0.55%) is a technology company developing full-stack infrastructure to support the growth of the global AI industry. In early December, the company announced a USD 700 million strategic equity placement which included Nvidia. The funds will be used to buy latest generation GPUs from Nvidia to accelerate Nebius' AI GPU cloud business.

Aritzia (+0.30%) is an apparel retailer offering lifestyle products online to customers in over 180 countries and through more than 125 boutiques across North America. Through December, the stock benefited from the positive performance of the Consumer discretionary sector, as well as the reopening of its flagship locations in New York and Chicago last quarter.

Advantest (+0.17%) is a leading global provider of semiconductor testing solutions, offering System on Chip (SoC) and memory testers for various semiconductor types, as well as testers for AI-driven data infrastructure. The rise of generative AI has significantly increased demand for testing and enthusiasm for the stock.

GXO Logistics (-1.43%) is the world's largest pure-play contract logistics provider. In early December, GXO announced an abrupt CEO transition, alongside media reports that a potential sale process for the company had been discontinued. This combination triggered a sharp decline in the stock price.

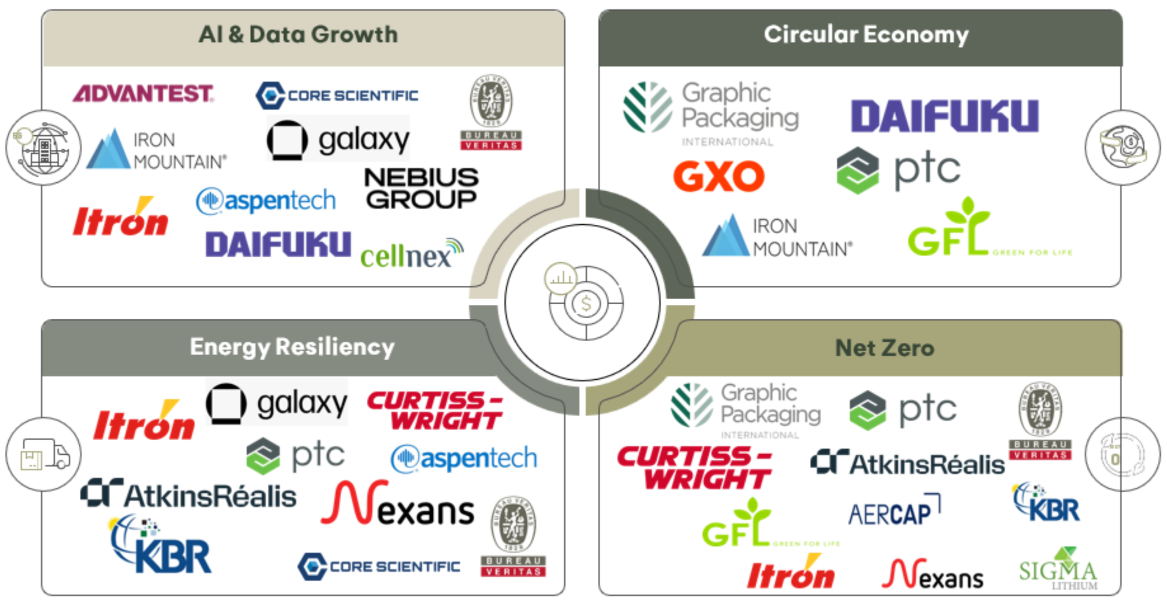
Core Scientific (-0.94%) is a leader in digital infrastructure for bitcoin mining and high-performance computing. The stock price declined in December following a strong rally over the past three months. We remain confident in Core Scientific's ability to become one of the largest independent AI data centre businesses globally.

Corpay (-0.50%) is a leading business payments and spend management company. The stock fell on small unfavourable moves in US petrol prices and FX and the potential impact this may have on their fuel card earnings. While there is some variability to short term earnings, we still see significant structural growth ahead due to large 'white space' in the group's payments and FX verticals, as well as a long history of accretive M+A.

New positions added to the portfolio in December are all from the break-up and spin-offs from an existing holding, Vivendi: Canal+, a leading provider of television and film content; Havas, a global communications and marketing agency; and Louis Hachette, a prominent publishing and media company.

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	Industrials	North America	5.8
TKO Group Holdings	Communication Services	North America	5.5
AerCap Holdings	Industrials	North America	4.7
Cellnex Telecom	Communication Services	Europe	4.3
Corpay	Financials	North America	4.2
GXO Logistics	Industrials	North America	3.9
Bureau Veritas	Industrials	Europe	3.8
Core Scientific	Information Technology	North America	3.7
Nebius Group	Information Technology	North America	3.5
Curtiss-Wright Corporation	Industrials	North America	2.9

Source: Ellerston Capital

Risk Measures	
Net Exposure[5]	89.76%
Gross Exposure[6]	89.76%
VAR[7]	5.77%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.68%
Average Loss in Down Months	-3.01%
Annual Volatility	13.15%
Index Volatility	10.59%

Source: Ellerston Capital

Top contributor[8] (bps)

Nebius Group	**55 bps**
Aritzia	**30 bps**
Advantest	**17 bps**

Source: Ellerston Capital

Top detractor[8] (bps)

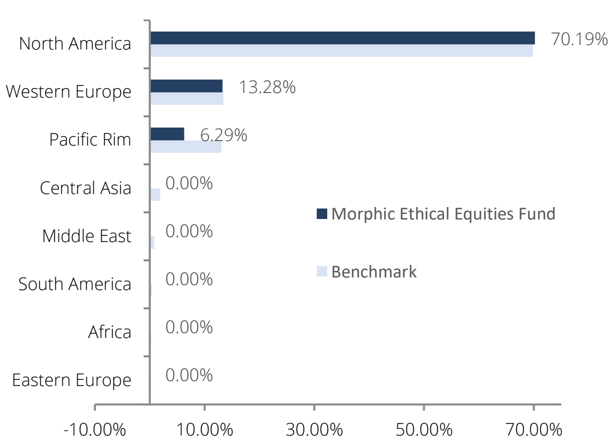
GXO Logistics	**-143 bps**
Core Scientific	**-94 bps**
Corpay	**-50 bps**

Source: Ellerston Capital

Key Facts	
ASX code / share price	MEC / 1.020
Listing Date	3 May 2017
Profit Reserve[9]	$0.688
Management Fee	1.25%
Performance Fee[10]	15%
Market Capitalisation	$36.7m
Shares Outstanding	35,966,721
Dividend per share[11]	$0.06

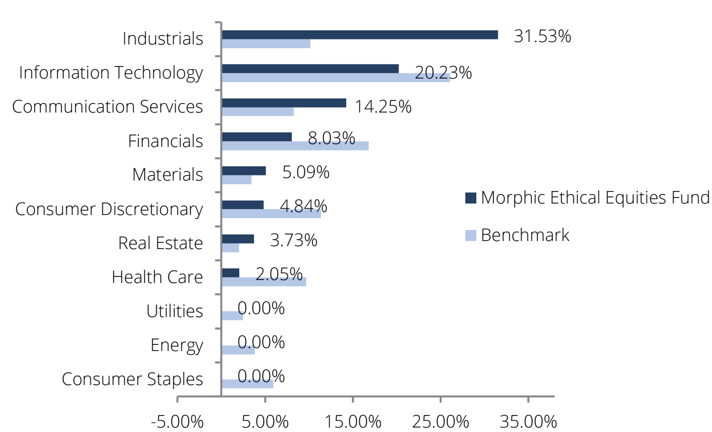
Source: Ellerston Capital

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.