

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
August 2025



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	2.7%	9.9%	11.5%	18.1%	13.3%	9.7%	8.5%
Index ²	0.8%	6.7%	5.7%	20.0%	19.5%	14.8%	13.0%

* Past Performance is not an indication of future performance. ^ Fund listing on the ASX 3 May 2017

Source: Ellerstyn Capital.

Performance Summary

MEC returned **+2.7%** net during the month, versus the MSCI All Countries World Daily Total Return Net Index which returned **+0.8%** over the same period.

Portfolio Commentary

August marked another month of uniformly positive returns, with both the S&P500 and Nasdaq setting new all-time highs. Unlike previous months, however, the rally was concentrated in smaller companies, with the Russell MicroCap index up over 9% vs the Nasdaq 100 up less than 1%, and the S&P500 equal weight index outperforming the S&P500 itself. The broadening of performance into smaller and less profitable companies was led by expectations of larger and quicker interest rate cuts in the US. This followed weak US payrolls, pressure on the US Federal Reserve by US President Trump to cut rates, and a dovish tone (read capitulation) by Jerome Powell in his Jackson Hole speech.

The other feature of August was a strong yet volatile 2Q25 earnings season. Per FactSet, over 80% of S&P500 companies beat EPS and Revenue estimates – the highest since 2021. EPS growth was also strong, growing double digits for the third straight quarter. Despite these strong numbers, stock price reactions were mixed – earnings misses were excessively punished (falling more than double the historic average) and beats were not rewarded (increasing less than half the historic average). We believe this is likely due to already lofty expectations embedded in prices (S&P500 PE >24x), as well as concerns around the impact of Artificial Intelligence on certain business models (i.e Software), particularly for those companies' missing earnings.

Key Monthly Contributors and Detractors

Nebius, an emerging AI neo-cloud business, contributed 62bps, after delivering a strong, strategy affirming 2Q result. The company increased its 2025 annual recurring revenue (ARR) guide, swung to EBITDA profitability and announced plans to secure more than 1GW of power by the end of 2026 (multiples of its previous ambitions) – all of these were well ahead of expectations. In addition to blue-chip enterprise customers, we believe Nebius has a reasonable chance of signing a hyperscaler tenant, which would accelerate its profile and growth.

Aercap, the world's largest aviation leasing company, contributed 57bps of performance. The company reported a solid 2Q and raised its FY25 annual EPS guidance again, which now sits ~17% above when it was first issued at the 4Q24 result. We believe book value per share is likely to keep compounding at attractive rates, supported by continued end-of-lease asset sales above book value, continued opportunistic buybacks, and a rise in the average yield of the book as new 'next-generation' aircraft are received.

Galaxy Digital, detracted 72bps from performance, giving back some of the strong performance from the prior month. Galaxy Digital is a diversified financial services firm focused on digital asset trading, with a significant data centre development as well. We believe the company remains well poised to capture increased interest in digital assets as well as growing demand for high performance data centres. We are particularly excited by the opportunities in the latter, with 800MW of contracted power with Coreweave, and significant growth potential. The Helios site now has 3.5GW of potential power capacity, which if granted, would make it one of the top five largest data centres in the world. Furthermore, we believe at <USD\$9b market cap and significant digital assets on balance sheet, little value is being placed on the growth potential.

Top 10 Positions*

Stocks	Industry	Region
AerCap Holdings NV	Industrials	North America
Cellnex Telecom S.A.	Communication Services	Europe
Clean Harbors, Inc.	Industrials	North America
Corpay, Inc.	Financials	North America
Galaxy Digital Inc. Class A	Financials	North America
GFL Environmental Inc	Industrials	North America
Nebius Group N.V. Class A	Information Technology	North America
Nexans SA	Industrials	Europe
TKO Group Holdings, Inc. Class A	Communication Services	North America
Warner Music Group Corp. Class A	Communication Services	North America

Source: Ellerston Capital. *Alphabetical Order.

Risk Measures	
Net Exposure ³	93.70%
Gross Exposure ⁴	93.70%
VAR ⁵	6.39%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.74%
Average Loss in Down Months	-2.92%
Annual Volatility	13.18%
Index Volatility	10.52%

Source: Ellerston Capital.

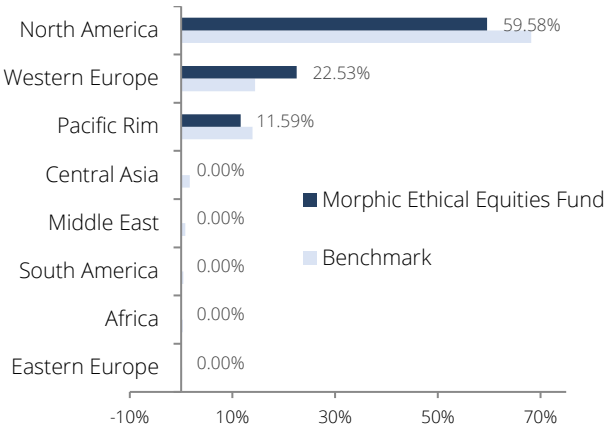
Key Facts	
ASX code / share price	MEC / 1.180
Listing Date	3 May 2017
Profit Reserve ⁷	\$0.831
Management Fee	1.25%
Performance Fee ⁸	15%
Market Capitalisation	\$38.7m
Shares Outstanding	32,758,204
Dividend per share ⁹	\$0.00

Source: Ellerston Capital.

Net Tangible Assets (NTA)	
NTA value before tax ⁶	\$1.3227
NTA value after tax ⁶	\$1.2707

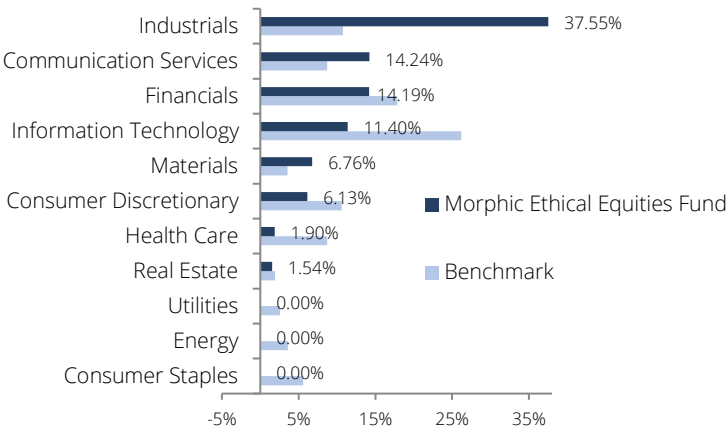
Source: Ellerston Capital.

Equity Exposure Summary¹⁰ By region



Source: Ellerston Capital.

Equity Exposure Summary¹⁰ 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 Includes Equities and Commodities - longs and shorts are netted; ⁴ Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; ⁵ Monthly VAR, gross return; ⁶ The figures are estimated and unaudited; ⁷ 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; ⁸ 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; ⁹ Annual dividend per share. ¹⁰ Exposure Summary charts do not take into account derivative positions.