

# MORPHIC ETHICAL EQUITIES FUND

## Monthly Report December



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.) <sup>^</sup>
MEC <sup>1</sup>	0.2%	-1.3%	5.2%	14.2%	15.5%	9.0%	8.5%
Index <sup>2</sup>	-0.6%	2.7%	9.2%	13.6%	21.3%	14.5%	13.1%

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

Source: Ellerstyn Capital.

### Performance Summary

MEC returned **+0.2%** net during the month, versus the MSCI All Countries World Daily Total Return Net Index which returned **-0.6%** over the same period. For 2025, MEC returned **+14.2%** after fees vs the benchmark return of **+13.6%**.

### Portfolio Commentary

The December quarter was broadly positive for global equity markets, with developed market equities increasing 3.2% (USD) and emerging markets increasing close to 5% (USD). Within the US market, the December quarter marked a continuation of recent trends, with large cap stocks and technology focused companies significantly outperforming small caps and cyclical – representing a relatively ‘narrow’ rally.

The high-level gains experienced across most markets and sectors belied the high volatility in certain pockets of the market. For example, the Morgan Stanley US momentum long index, which represents a basket of the top performing stocks over 12 months, was down -7% through quarter, and recorded a near +24% peak to trough decline through October and November, representing one of the larger drawdowns in this index over the last 10 years. For context, the drawdown of this index was -32% in March/April during the announcement of tariffs at the beginning of 2025.

The most recent drawdown was triggered by a number of factors, including declining liquidity, over-crowding in many stocks, as well as some concerns re-emerging around the broader AI trade, where much of the momentum basket, and some of the fund's investments lie.

The decline in AI related stocks, particularly those levered to AI infrastructure investment were triggered by Coreweave (an emerging AI neocloud provider) downgrading their 4Q revenue targets on small delays to data centres coming online, with these expected to come online in 1Q26 (i.e a delay of a few weeks). This saw Coreweave's credit spreads widen, which cast a pall over the broader sector, as investors questioned whether Coreweave could both meet their customer's contracted compute needs and adequately fund their ambitious growth targets. Broadly speaking, this incident highlighted the physical limitations and risks around the current AI buildout. This specifically impacted the fund's holdings in Nebius, Core Scientific and Galaxy Digital, with the latter two currently building data centres for Coreweave. Pleasingly, as of the last 2 weeks, Coreweave appears to have resolved these delays, with Coreweave's credit spreads now narrowing (though still high) and AI equities subsequently rallying, though still far below their prior peaks.

Looking ahead, we continue to see AI infrastructure as a major investment theme for 2026, with power access remaining a key constraint, which we believe is likely to benefit many of our AI holdings, which have the luxury of secured grid access.

### Select Quarterly Contributors and Detractors

**Greatland Resources (GGP-AU)** increased +41%, adding 108bps to the fund's performance. The company's feasibility study for its Haverton project was positively received and it generated significant cash flow – itself a function of the continued rally in the gold price. The stock still remains a core holding in the fund, though we have progressively trimmed the position as the gold price has rallied and the stock has approached our approximation of fair value.

**Aritzia (ATZ-CN)**, a Canadian apparel retailer, increased +39% through the quarter, adding 97bps to the fund's performance. The business reported exceptional 3Q25 earnings, upgraded its sales growth and reiterated its margin targets for the remainder of the year, despite the tariff headwinds. Subsequent to quarter end, ATZ has since reported another set of outstanding results, with the stock starting the year strongly.

**Nebius Group (NBIS-US)**, an emerging neo-cloud provider declined -25% through the quarter, detracting 86bps from MEC's performance. Nebius reported a strong set of 3Q25 earnings and announced a new \$3b contract with Meta, as well as a more than doubling of its

targeted contracted power capacity by 2026. Despite this, the stock declined alongside the broader AI market (as described above). We still view Nebius as one of the more compelling AI opportunities and see it as particularly well placed to continue building a customer base in a power and GPU constrained market.

**Galaxy Digital (GLXY-US)**, a diversified financial services firm focused on digital asset trading coupled with a large data centre development declined -34%, detracting 51bps from MECs performance. The stock's decline can be attributed to the AI concerns mentioned above, coupled with declines in digital asset prices (which impact the value of digital asset balance sheet holdings). Despite the disappointing recent performance, we continue to see Galaxy Digital as a unique play on digital asset adoption in the economy, with valuation also largely underwritten by the data centre development.

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
GFL Environmental Inc	Industrials	North America
InterContinental Hotels Group PLC	Consumer Discretionary	Europe
Nexans SA	Industrials	Europe
Telecom Italia Rsp	Communication Services	Europe
TKO Group Holdings, Inc.	Communication Services	North America
Warner Music Group Corp.	Communication Services	North America

Source: Ellerston Capital. \*Alphabetical Order.

Net Tangible Assets (NTA)	
NTA value before tax <sup>6</sup>	\$1.3483
NTA value after tax <sup>6</sup>	\$1.2925

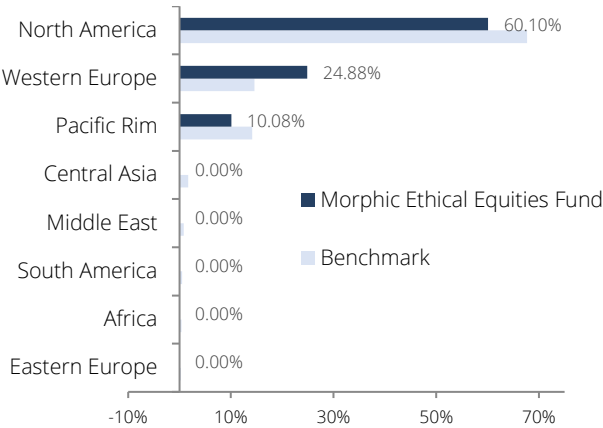
Source: Ellerston Capital.

Risk Measures	
Net Exposure <sup>3</sup>	95.06%
Gross Exposure <sup>4</sup>	95.06%
VAR <sup>5</sup>	4.85%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.73%
Average Loss in Down Months	-2.82%
Annual Volatility	13.01%
Index Volatility	10.39%

Key Facts	
ASX code / share price	MEC / 1.165
Listing Date	3 May 2017
Profit Reserve <sup>7</sup>	\$0.906
Management Fee	1.25%
Performance Fee <sup>8</sup>	15%
Market Capitalisation	\$36.8m
Shares Outstanding	31,558,149
Dividend per share <sup>9</sup>	\$0.00

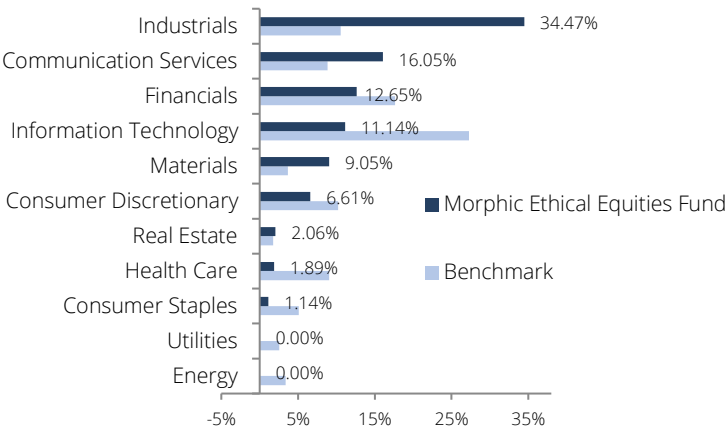
Source: Ellerston Capital.

Equity Exposure Summary<sup>10</sup> By region



Source: Ellerston Capital.

Equity Exposure Summary<sup>10</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 NDUEACWF) in AUD; <sup>3</sup> Includes Equities and Commodities - longs and shorts are netted; <sup>4</sup> Includes Equities, Commodities and 10 year equivalent Credit and Bonds - longs and shorts are not netted; <sup>5</sup> Monthly VAR, gross return; <sup>6</sup> The figures are estimated and unaudited; <sup>7</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>8</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>9</sup> Annual dividend per share. <sup>10</sup> Exposure Summary charts do not take into account derivative positions.