



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	0.5%	-1.5%	6.0%	13.4%	13.1%	7.3%	8.5%
Index ²	-2.0%	-2.8%	3.8%	8.5%	19.3%	14.0%	12.7%

* Past Performance is not an indication of future performance. [^] Fund listing on the ASX 3 May 2017
Source: *Ellerston Capital*.

Performance Summary

MEC returned **+0.5%** net during the month, versus the MSCI All Countries World Daily Total Return Net Index which returned **-2.0%** over the same period.

Portfolio Commentary

January saw a sharp bounce in cyclical equities, reflecting continued optimism in the pace of the US economic recovery, with Energy (+14.4%) and Materials (+8.7%) leading the way. Reflecting this, the Russell 2000 index increased +5.3% (net) compared to the S&P500 up just +1.4% (net). Flows into smaller companies were likely also helped by continued investor unease at the large capital expenditure plans of the mega-cap 'hyperscalers', which for the moment, are spending nearly the entirety of their operating cashflow on AI related infrastructure, raising questions around future profitability and shareholder returns.

Of particular note in January was the sell-off in software, with the Morgan Stanley US Software Index down nearly -13% (USD) in January and continuing to fall in recent days. This was sparked by the release of a new Claude update (a generative AI tool from Anthropic) in early January, followed by Codex (released by OpenAI). These updates dramatically increased the quality of agentic coding ability and expanded its use cases by allowing AI agents to connect directly to enterprise systems and perform structured tasks previously reserved for third party software platforms and highly skilled software engineers. With a new ability of enterprises to insource previously outsourced functions, this has the potential to be hugely disruptive to 'SaaS' business models, creating question marks around their competitive moats and their terminal values – with these fears compounded by high starting GAAP valuations and relative crowding in some of the stocks previously perceived as 'high quality' compounders.

While we are yet to form a confident view of the lasting impacts of agentic coding, the current sell-off in software is a reminder both of how quickly AI is developing and how the market is aggressively re-pricing perceived AI 'losers' in a "shoot first, ask questions later" manner. On this note, as at the end of January, the portfolio held three stocks with perceived AI risk, namely Warner Music Group, Zillow, and TradeWeb, representing just under 7% of the portfolio holdings. In our view, for the most part, these businesses have difficult to replicate assets/networks, lower starting valuations, and re-accelerating earnings, reducing their risk of both disruption and significant declines in fundamental equity value.

Select Monthly Contributors and Detractors

Greatland Resources (GGP-ASX) rallied +26%, adding +86bps to performance. The company benefited from the strong rally in the gold price, which increased +13% in USD. With the stock now just below our estimate of fair value we used the strength in the share price to significantly reduce our position.

GDS Holdings (9698-HK) increased +34%, adding +85bps to performance. GDS Holdings is a China-based developer and operator of high-performance data centres, providing colocation and related services to hyperscale cloud providers, large internet companies, and enterprise customers that require secure, carrier-neutral infrastructure. The stock rallied through January on the rumoured DayOne IPO, of which GDS Holdings owns 24%.

Galaxy Digital (GLXY-NASDAQ) increased +26% through the month, adding +71bps to performance. Galaxy Digital is a diversified financial services firm focused on digital asset trading, with a significant 800MW AI data centre development as well. In January, the company's Helios data centre campus received approval for an additional 830MW of power from the Texas grid, which doubles its capacity. We believe the company is likely to sign this power to a hyper-scaler in the coming months, with the opportunity after this to potentially spin-off the data centre business into a separately listed REIT.

MonotaRO (3064-TYO) declined -16% in the month, detracting -38bps from performance. MonotaRO is a Japan-based distributor of maintenance, repair, and operations (MRO) products, supplying factories, contractors, and small businesses through an online platform with centralized logistics. The stock has been impacted by the recent broad sell-off in online businesses, as well as on concerns around the sustainability of recent revenue growth given the share gains from a competitor going through a temporary disruption.

Aritzia (ATZ-TSE) fell -8.5%, detracting -28bps from performance. The business sold off after the founder sold C\$200m of stock in the secondary market, leading some to question the sustainability of recent earnings growth, putting somewhat of an overhang on the stock. We believe the Aritzia's underlying business remains in rude health, with the recent fall a natural consolidation after a very strong period of performance.

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
Curtiss-Wright Corporation	Industrials	North America
Galaxy Digital Inc.	Financials	North America
GDS Holdings Ltd.	Information Technology	Asia
GFL Environmental	Industrials	North America
Nexans SA	Industrials	Europe
TKO Group Holdings, Inc.	Communication Services	North America

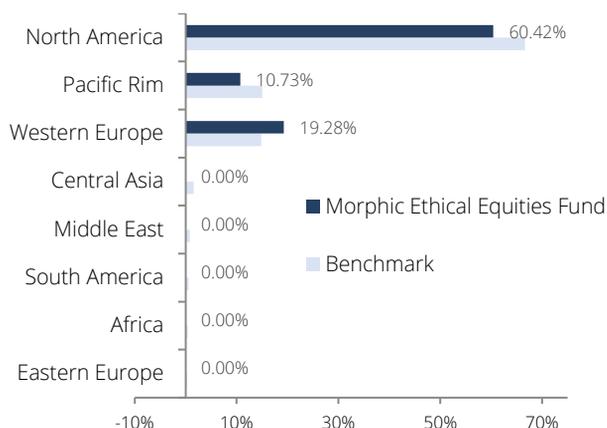
Source: Ellerston Capital. *Alphabetical Order.

Net Tangible Assets (NTA)

NTA value before tax ⁶	\$1.3517
NTA value after tax ⁶	\$1.2966

Source: Ellerston Capital.

Equity Exposure Summary¹⁰ By region



Source: Ellerston Capital.

Risk Measures

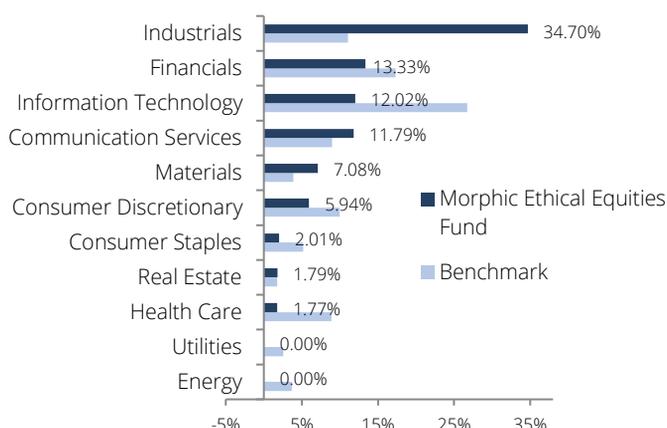
Net Exposure ³	90.43%
Gross Exposure ⁴	90.43%
VAR ⁵	4.86%
Best Month	9.59%
Worst Month	-8.94%
Average Gain in Up Months	2.73%
Average Loss in Down Months	-2.73%
Annual Volatility	12.95%
Index Volatility	10.39%

Key Facts

ASX code / share price	MEC / 1.163
Listing Date	3 May 2017
Profit Reserve ⁷	\$0.913
Management Fee	1.25%
Performance Fee ⁸	15%
Market Capitalisation	\$36.4m
Shares Outstanding	31,295,258
Dividend per share ⁹	\$0.00

Source: Ellerston Capital.

Equity Exposure Summary¹⁰ By sector



Source: Ellerston Capital.

Contact us

Morphic Asset Management Pty Ltd

Level 11, 179 Elizabeth St

Sydney 2000

New South Wales

Australia

[Ellerston Capital – Morphic Ethical](#)

[Equities Fund](#)

Investor Relations

Phone: +61 2 9021 7701

Email: info@ellerstoncapital.com

This communication has been prepared by Morphic Ethical Equities Fund Limited (“MEC”) (ACN 617 345 123) and its Manager, Morphic Asset Management Pty Ltd (“Morphic”) (ACN 155 937 901) (AFSL 419916). The information contained in this Newsletter is current as of the date of this report, is for information purposes only, is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Please note that, in providing this communication, MEC and Morphic have not considered the objectives, financial position or needs of any particular recipient. MEC and Morphic strongly suggest that investors consult a financial advisor prior to making an investment decision. No warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this communication. To the maximum extent permitted by law, none of MEC, its related bodies corporate, shareholders or respective directors, officers, employees, agents or advisors, nor any other person accepts any liability, including, without limitation, any liability arising out of fault or negligence for any loss arising from the use of information contained in this communication. If this communication includes “forward looking statements”, such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of MEC and its officers, employees, agents or associates that may cause actual results to differ materially from those expressed or implied in such statement. Actual results, performance or achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. MEC and Morphic assume no obligation to update such information. This communication is not, and does not constitute, an offer to sell or the solicitation, invitation or recommendation to purchase any securities and neither this communication nor anything contained in it forms the basis of any contract or commitment. The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Morphic Ethical Equities Fund adheres to the strict disclosure practices required under the Responsible Investment Certification Program for the category of Product Provider. The Certification Symbol is a Registered Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Morphic Ethical Equities Fund’s methodology, performance and stock holdings can be found at www.responsibleinvestment.org, together with details about other responsible investment products certified by RIAA. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed.

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.