

# MORPHIC ETHICAL EQUITIES FUND

Monthly Report  
February 2026



A proud founder of:



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>   | 1.2%    | 1.9%     | 4.4%     | 16.3%  | 12.7%          | 7.3%           | 8.6%                    |
| Index <sup>2</sup> | -0.4%   | -3.0%    | 2.5%     | 8.4%   | 18.5%          | 13.6%          | 12.5%                   |

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

Source: *Ellerston Capital*.

## Performance Summary

MEC returned **+1.2%** net during the month, versus the MSCI All Countries World Daily Total Return Net Index which returned **-0.4%** over the same period.

## Market Commentary

In the US, February saw a substantial broadening of the recent rally, with the S&P Midcap 400 USD up +4.1% and S&P500 equal weight USD index increasing +3.5%. Flows into smaller companies were likely also helped by the very weak performance of the 'Magnificent Seven', which fell -7.3% over this period.

This dispersion in performance was led by two factors. Smaller companies rallied on strengthening forward US industrial production indicators, which point to potentially higher economic growth and more favourable trading conditions – though clearly the growing conflict in Iran may challenge this assumption.

At the same time, large tech companies sold off on AI concerns, particularly around ramping capital expenditure, with the recent results season showing continued increases to forecast 2026 spending plans. Amazon, for example, plans to spend USD\$200b in capital expenditure this year alone – this is 4x its total 2023 spend, and more than forecast operating cashflow for 2026. The recent weakness in these names either signals concerns around future returns on this spend, or perhaps for some, a fundamental degradation of the free cashflow, and thus perceived 'quality' of these businesses.

Paradoxically, while the market remains concerned about the health of larger companies and their AI spend, at the same time, the market continues to somewhat believe in the future efficacy of this spend, as businesses with perceived AI risk continue to remain volatile. The Morgan Stanley software index for example fell a further 12% through February, and at the time of writing, is down 25% from its highs. On the other side of the ledger, companies with "Heavy Assets and Low Obsolescence" ('HALO') such as infrastructure and utilities enjoyed significant re-ratings on lower perceived AI risk.

This broad-based uncertainty around future winners and losers is creating volatility and dispersion (e.g stocks moving very differently from each other) at near record levels – in the 99th percentile over the last 30 years – similar to the GFC and dot-com bubble. Importantly, this dispersion is evident between different sectors as well as within certain sub-sectors.

This is an important development for investors, and if it continues, signals a significantly different market 'regime' from previous periods. Investing environments like this result in large bifurcation between stocks and sectors, higher alpha generation from individual 'winners' and significant alpha destruction from 'losers'.

The environment, however, remains fluid. For example, e-commerce names have rallied sharply in recent days since OpenAI removed its 'Instant Checkout' feature from ChatGPT, with purchases now through third-party apps built inside ChatGPT, or routed to a retailers own website – reducing the (near term) risk of AI disintermediation for e-commerce names.

We continue to see the portfolio as well placed in this market, owning a mix of businesses with 'fixed assets' that we believe are difficult to displace, structural growers, as well as businesses we perceive to be AI beneficiaries. In addition, given the aforementioned volatility and dispersion in the market, we have initiated a number of new positions as opportunities have presented themselves (discussed below).

## Select Monthly Contributors and Detractors

**SharonAI Holdings** increased 50% from the fund's holding valuation following its listing on the Nasdaq. SharonAI is one of the few Nvidia cloud partners in Australia, with attractive power, financing, and customer opportunities. If realised, we believe the company is likely to grow earnings significantly. The company is expected to complement its US listing with an Australian IPO in the coming months.

**Mastec (MTZ-US)** increased 24% through the month. MTZ is a leading North American infrastructure engineering and construction company that builds and maintains communications networks, power transmission and distribution systems, natural gas pipelines, and renewable energy facilities. The reported 4Q25 results were strong, with continued backlog growth and healthy book-to-bill ratios across most of the business.

**Galaxy Digital (GLXY-US)** declined 27% through the month, effectively erasing the gains from January. 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 doubled its capacity. The stock fell after the result as we believe the market was disappointed that a new tenant for the 830MW of new capacity had not been secured – despite grid power remaining in severe shortage and these contracts typically taking months to sign.

## New Positions

In February we initiated a new position in Circle Internet Group (CRCL-US).

Circle is building the world's largest, most widely used stablecoin. Use cases for stablecoins are expanding dramatically through government and institutional adoption, as well as AI use cases.

Circle issues USDC, a US dollar-pegged stablecoin, and earns revenue primarily by investing the cash reserves backing that supply in short-dated US Treasuries and money-market funds - essentially collecting net interest margin on a float that scales with USDC circulation. It is now diversifying into transaction-based revenue through its payments network (CPN), cross-chain infrastructure (CCTP), and the Arc L1 blockchain. Circle's USDC stablecoin already has 30% global share of the stablecoin market cap which is currently just over \$300bn, and predicted to reach \$1t in the coming years.

While stablecoins represent a new and unfamiliar investment theme, we note the company is GAAP profitable, asset light, carries almost \$2.5bn of net cash on its balance sheet, generates strong free cash flow and trades on an undemanding multiple relative to its growth. The business has several catalysts ahead with the pending resolution of the Clarity Act in the US providing a potential structural uplift in adoption and earnings.

Why did we buy it recently? The key bear case on Circle has been that it earns the majority of its revenue from interest income associated with US treasuries held to underpin its stablecoin peg to the US dollar. While this is true, the most recent quarter showed that accelerated USDC adoption velocity has trumped yield declines. For example, in the fourth quarter, investment yield declined from 4.5% to 3.8%, however revenue grew 77% as USDC in circulation increased 72% to >\$75bn and other revenue associated with its digital infrastructure offerings grew dramatically. The recent spike in yields following the Iran conflict is a nice added bonus for the business, but secondary to why we started a position.

We had been following Circle for some time and found this quarter's demonstration of its business model and decline from its high of \$260 down to recent lows of ~\$50 to be an attractive entry point.

## 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 |
| GFL Environmental Inc            | Industrials            | North America |
| MasTec, Inc.                     | Industrials            | North America |
| Nebius Group N.V. Class A        | Information Technology | North America |
| SharonAI Holdings, Inc. Class A  | Unlisted               | Australia     |
| TKO Group Holdings, Inc. Class A | Communication Services | North America |

Source: Ellerston Capital. \*Alphabetical Order.

| Risk Measures               |        |
|-----------------------------|--------|
| Net Exposure <sup>3</sup>   | 90.87% |
| Gross Exposure <sup>4</sup> | 90.87% |
| VAR <sup>5</sup>            | 5.52%  |
| Best Month                  | 9.59%  |
| Worst Month                 | -8.94% |
| Average Gain in Up Months   | 2.73%  |
| Average Loss in Down Months | -2.63% |
| Annual Volatility           | 12.89% |
| Index Volatility            | 10.35% |

| Key Facts                       |             |
|---------------------------------|-------------|
| ASX code / share price          | MEC / 1.195 |
| Listing Date                    | 3 May 2017  |
| Profit Reserve <sup>7</sup>     | \$0.910     |
| Management Fee                  | 1.25%       |
| Performance Fee <sup>8</sup>    | 15%         |
| Market Capitalisation           | \$37.1m     |
| Shares Outstanding              | 31,087,468  |
| Dividend per share <sup>9</sup> | \$0.00      |

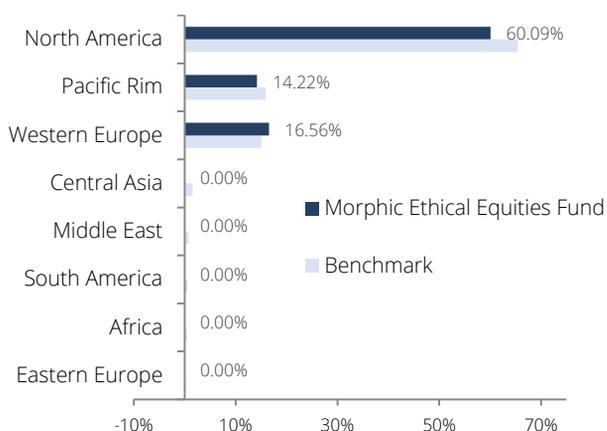
Source: Ellerston Capital.

## Net Tangible Assets (NTA)

|                                   |          |
|-----------------------------------|----------|
| NTA value before tax <sup>6</sup> | \$1.3561 |
| NTA value after tax <sup>6</sup>  | \$1.2974 |

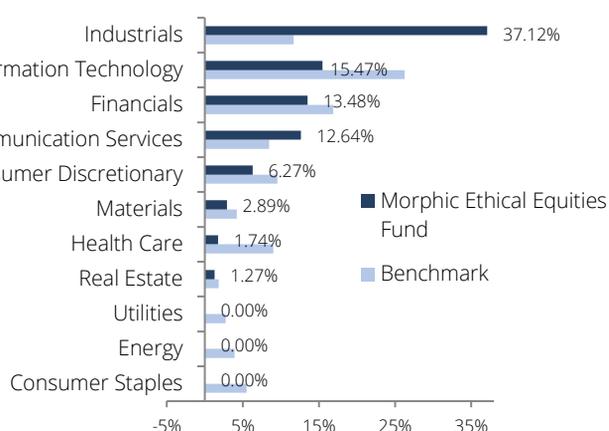
Source: Ellerston Capital.

## 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.