

MORPHIC ETHICAL EQUITIES FUND

Monthly Report
May 2026



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.) [^]
MEC ¹	9.0%	15.9%	18.1%	33.0%	17.2%	9.3%	10.1%
Index ²	5.1%	6.5%	3.3%	16.5%	18.1%	13.1%	12.9%

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

Source: *Ellerston Capital*.

Performance Summary

MEC returned **+9.0%** net during the month, versus the MSCI All Countries World Daily Total Return Net Index which returned **+5.1%** over the same period.

Market Commentary

May marked a continuation of the rally experienced in April, with nearly all global indices higher, and US indices touching new record highs. As has been the case for much of the last 12 months, the market was led by tech indices, with the Nasdaq100 up 10.6%, significantly outpacing the S&P500 equal-weight index which was up +2.7%, implying a very narrow rally. On a sector level, the performance in May was even more stark, with only 3 out of 11 S&P500 sectors recording positive performance, and nearly all of that driven by technology, which was up 16%! Said differently, absent the performance of Technology, the market would have been lower through the month.

S&P 500 Sectors	May	YTD	3M	6M	12M
Technology	16.0%	23.8%	31.0%	23.4%	56.0%
Discretionary	2.6%	4.1%	8.2%	4.9%	17.4%
Healthcare	2.5%	-3.0%	-6.3%	-2.8%	14.8%
Materials	-0.7%	11.9%	-5.0%	14.8%	19.4%
Industrials	-0.8%	12.0%	-2.0%	15.1%	22.7%
Communications	-0.9%	9.3%	8.9%	9.3%	40.9%
REITs	-1.0%	10.6%	1.1%	9.7%	10.4%
Financials	-1.1%	-5.4%	0.7%	-1.7%	2.7%
Staples	-3.2%	7.5%	-7.5%	5.9%	3.0%
Utilities	-5.1%	4.8%	-6.3%	1.9%	11.5%
Energy	-5.6%	26.0%	0.6%	25.1%	42.5%

*** Percentages are total return as of 5/31/26

Source: NASDAQ

The tech rally was led by two primary factors; exceptional 1Q26 earnings, and continued enthusiasm around Artificial Intelligence (AI). In particular, the SOXX ETF (which holds leading semiconductor stocks) increased 23% in May, and is now up 73% over two months, and 179% for 12 months. May marked the best 2-month return in the history of the index (more so than 2000!).

There was no singular AI news item that drove the market, rather, a number of datapoints which point to accelerating AI use cases and investment. Of note was the strong NVDA results and continued upgrades to hyperscaler capex (particularly Amazon and Google). In addition, as discussed below, other data points we track continued to move positively, including accelerating AI token demand and the rising hourly rental prices of GPUs (required to generate tokens).

The market's narrow rally raises risks going forward. The AI trade now accounts for nearly half of the S&P500 market value, and over 100% of its recent upside. There is crowding in certain pockets of the market, and technical indicators for the S&P500, such as relative strength index (RSI), have traded around ~70 through the month, which is extreme when considering a large portion of the market fell through the month.

While our AI weighting in the portfolio remains elevated, we have attempted to manage this risk by avoiding certain 'hot' sectors, trimming some stocks as they reach our target valuations, and investing in companies/sectors where we continue to see latent value and difficult to replace assets (such as datacentres and power hardware). We have also been looking to selectively broaden and add to our non-AI holdings where possible.

Select Monthly Contributors and Detractors

Key contributors:

SharonAI increased 65% through the month, rallying with the broader AI trade, as well as the market likely coming up the learning curve on the business given its recent listing.

Nebius (NBIS-US) increased 67% through the month, rallying with the broader AI trade as well as on the back of solid results, and sharp rises to its inference pricing for customers.

Key detractor:

GFL Environmental (GFL-US) declined 16% through the month. Despite reporting good results, the market remains focused on the recent acquisition of Secure Waste Infrastructure, which was potentially viewed as not complimentary to the core business.

Appendix: Neoclouds and AI

What is a Neocloud?

The fund's two best performers in May were SharonAI and Nebius (NBIS-US).

Both are recent entrants to a category the market has labelled 'Neoclouds'. Other high-profile listed examples include Coreweave (CRWW-US) and IREN Ltd (IREN-US), and unlisted businesses such as Firmus and Lamda.

Neoclouds offer cloud-based AI compute, operating similarly to the traditional CPU clouds run by hyperscalers (AWS, Azure, GCP) but with several important distinctions:

Neocloud vs. Hyperscaler: Infrastructure Comparison		
	Neocloud	Hyperscaler
Architecture	Homogeneous, GPU-native infrastructure purpose-built for AI/HPC workloads	Heterogeneous mix of internal and third-party hardware across general-purpose cloud
Pricing Model	Bare metal access — customers pay for raw GPU compute only	Bundled pricing — GPU compute packaged with managed services, software, and cloud overhead
Infrastructure	Greenfield, purpose-built data centers optimised for high-density GPU cooling and power efficiency	Legacy and retrofitted facilities with suboptimal cooling, power density, and rack configurations
Scalability	Rapid provisioning and deployment — single-purpose fleet enables faster rollout	Slower allocation due to internal demand competition, testing requirements, and multi-tenant constraints

The end result is that neocloud customers can run AI workloads faster and more cheaply than on a traditional hyperscaler offering the same services. As a result, the neoclouds continue to grow share in a rapidly growing market.

Typical customers are AI-native labs and startups, established companies building their own large language models (e.g. quant hedge funds), and enterprises needing rapid GPU scalability. Given the current compute shortage, the hyperscalers themselves have also signed sizeable contracts.

A second, less-discussed rationale for the neocloud proliferation is Nvidia itself.

Nvidia, the dominant supplier of AI architecture globally, wants to diversify its customer base away from a handful of hyperscalers - each of which is developing competing custom silicon that may one day threaten its position.

To that end, Nvidia has backed the neoclouds with financing (equity injections and implicit guarantees on debt raises), preferential access to latest-generation GPUs, and warm customer introductions. Critics have labelled this 'circular financing', but it is a strong deal for Nvidia strategically over the long term and commercially in the near term, given that for every dollar of equity the neoclouds raise they typically borrow another four - most of which is spent on Nvidia GPUs. Hence, we believe Nvidia has a strong incentive to see these businesses survive and thrive, with an implicit backstop.

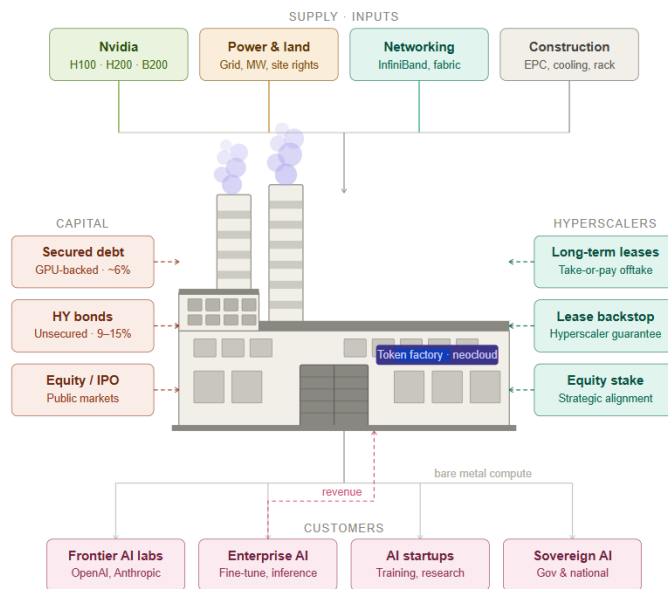
Are neoclouds sustainable businesses?

Neoclouds remain untested given both the business model and the rise in AI compute demand are recent.

At their core, neoclouds are highly levered and asset-intensive which is complicated further by the short useful life of GPUs (estimated 4-7 years by different pundits) and rapid obsolescence (a new generation every 18 months), leaving little residual value over a relatively short timeframe.

To mitigate this, neoclouds have signed large take-or-pay contracts with their larger customers: five-year GPU terms, substantial upfront pre-payments that help fund capex, and attractive cash payback periods on the underlying GPUs (typically 2-3 years). Innovative finance structures such as asset-backed debt and convertible notes have also delivered abundant debt at relatively low rates, enabling further growth.

On paper, unit economics for equity holders are highly attractive, though headline profitability is obscured by rapid growth and high fixed costs. Coreweave's adjusted operating profit still sits well below its net interest expense.



Source: Claude

What is the outlook for neoclouds?

The market has been deeply sceptical of these businesses, though this has shifted sharply in the past few months, driven by three factors:

GPUs are lasting significantly longer than the market expected. Nebius for example is re-contracting H100s (first released in 2022) on multi-year terms at prices 'at or above' the original terms. Against 4-5 year depreciation schedules, this implies both appropriate accounting for asset life and material value creation for shareholders as GPU's extend beyond initial contracts at very high pre-tax margins.

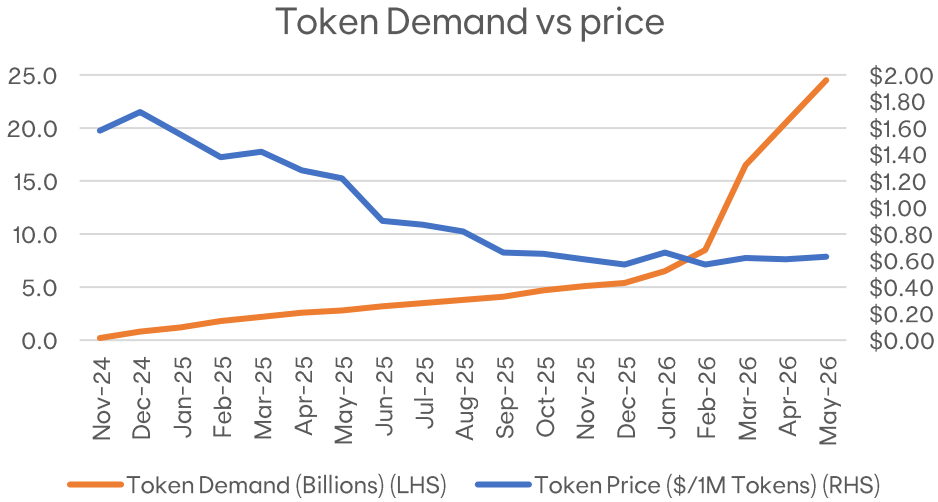
Financing costs are falling quickly. Coreweave's recent US\$8.5bn non-recourse facility was priced at 5.9% compared to a group weighted-average cost of debt of 10% at IPO just over twelve months ago.

Demand for inference compute is skyrocketing, reflected in rising token consumption and higher GPU rental rates.

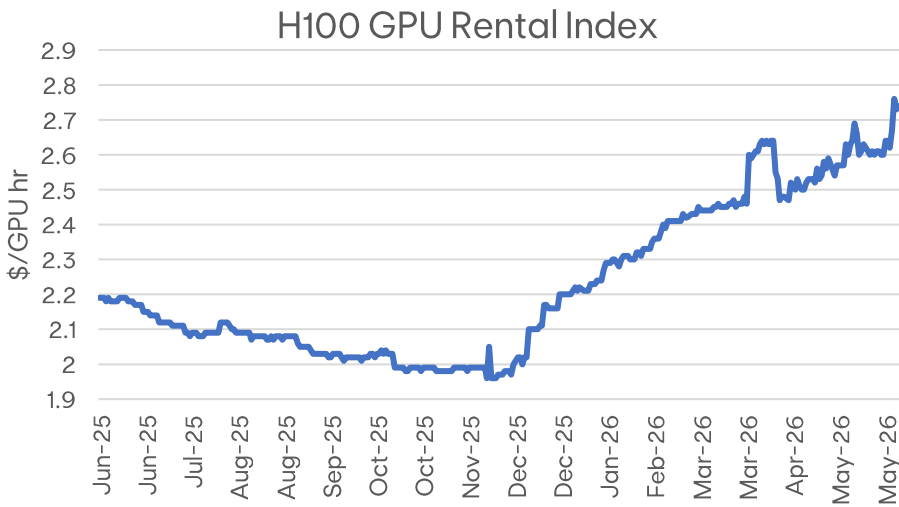
This last factor is a major near-term revenue opportunity. Following the emergence of real-world applications for AI coding and agentic reasoning (covered in previous newsletters), demand for AI compute measured in tokens (the input/output of AI models) accelerated in March. Hourly GPU rental prices rose in parallel, as users competed for a relatively fixed pool of token-producing GPUs in spot markets, with capacity allocated to the highest bidder; those with the highest-value AI use cases, or simply the largest budgets. Nebius has noted four customers are currently bidding for every spare GPU and has raised short-term rental prices by 30-50% as a result. This is material for neoclouds given that rising GPU rental prices fall directly to the bottom line.

One observation worth flagging is that despite rising token demand and GPU rental rates, token prices have remained flat. This likely reflects increasingly powerful GPUs entering the market, with each capable of producing more tokens than the prior GPU generation, thus keeping token prices steady. In our view, this is a very strong signal for AI demand, with demand clearly keeping up with the wave of token supply in the market.

Longer term, more powerful GPUs, and shifting of GPU fleets from training to inference should see further declines in token prices, which based on existing demand elasticity, should make more AI applications economic, and see demand increase further.



Source: Yipit, A16Z



Source: Bloomberg

Our view:

At a high level, our investment in neoclouds (as well as other AI datacentres) is based on two fundamental views:

- Demand for AI products is likely to continue growing alongside the supply of tokens,
- Power is likely to remain a key constraining factor.

We believe vertically integrated neoclouds (NBIS) as well as those with strong power relationships (SharonAI) are likely to remain well placed in this market and will be rewarded by further contracts wins and revenue growth in spot inference markets.

In addition, despite their meteoric share price rises, the valuations in our view remain reasonable, with these stocks trading on low single digit EBITDA multiples in outer years, with much of this EBITDA contracted.

Top 10 Positions*

Stocks	Industry	Region
AerCap Holdings NV	Industrials	North America
Clean Harbors, Inc.	Industrials	North America
Core Scientific Inc	Information Technology	North America
Corpay, Inc.	Financials	North America
Forgent Power Solutions, Inc. Class A	Industrials	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	France
SharonAI Holdings	Unlisted	Unlisted

Source: Ellerston Capital. *Alphabetical Order.

Risk Measures	
Net Exposure ³	88.34%
Gross Exposure ⁴	88.34%
VAR ⁵	7.11%
Best Month	11.36%
Worst Month	-8.94%
Average Gain in Up Months	2.94%
Average Loss in Down Months	-2.67%
Annualised Volatility	13.57%
Annualised Index Volatility	10.48%

Key Facts	
ASX code / share price	MEC / 1.295
Listing Date	3 May 2017
Profit Reserve ⁷	\$1.064
Management Fee	1.25%
Performance Fee ⁸	15%
Market Capitalisation	\$39.3m
Shares Outstanding	30,384,429
Dividend per share ⁹	\$0.01

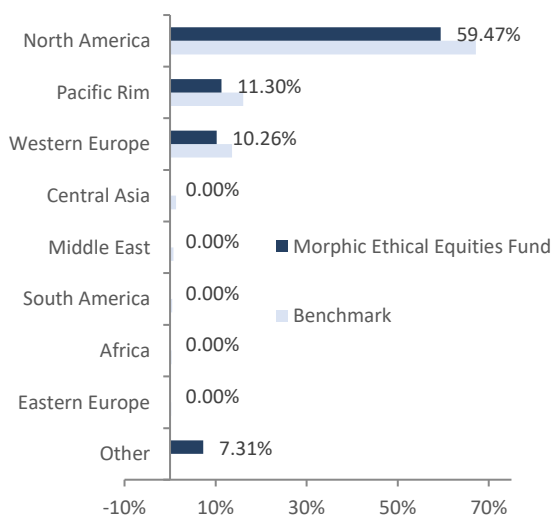
Source: Ellerston Capital.

Net Tangible Assets (NTA)

NTA value before tax ⁶	\$1.5624
NTA value after tax ⁶	\$1.4463

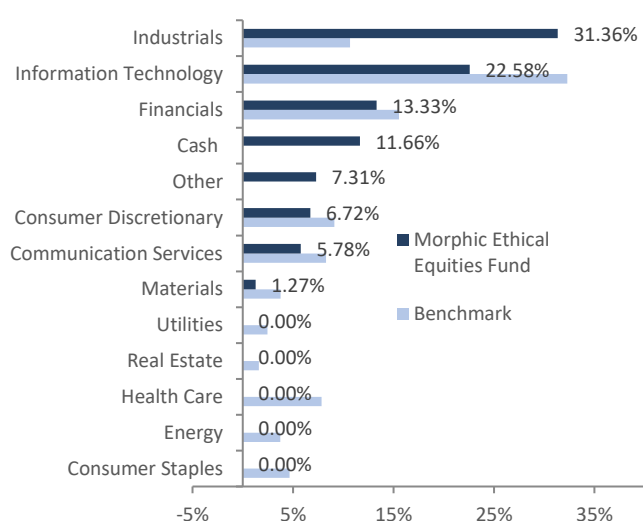
Source: Ellerston Capital.

Equity Exposure Summary¹⁰ By region



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.