A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

MORPHIC ETHICAL EQUITIES FUND

Monthly Report

July 2026

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]	-12.2%	-1.8%	5.7%	12.0%	10.3%	6.0%	8.7%
Index[2]	-1.3%	6.9%	7.9%	11.9%	16.7%	11.9%	12.9%

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

Source: Ellerston Capital.

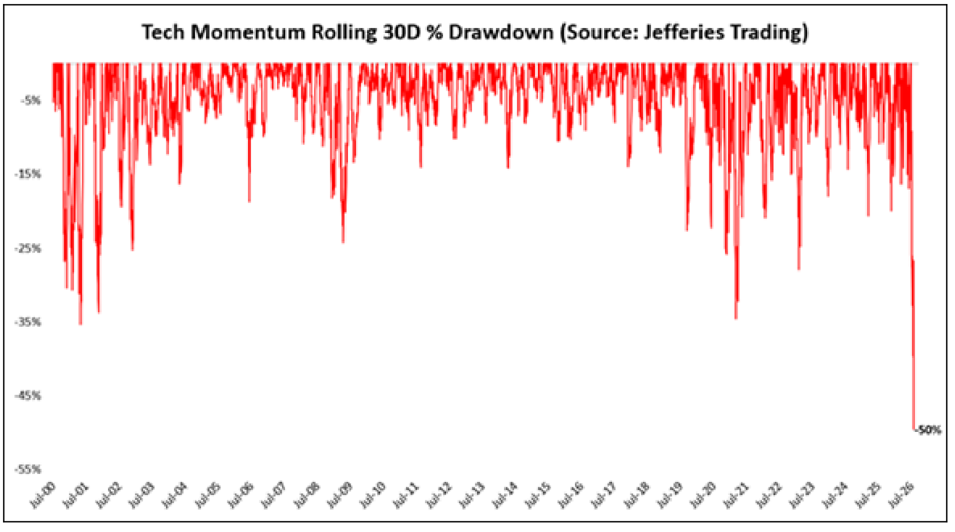
Performance Summary

MEC returned **-12.2%** net during the month, versus the MSCI All Countries World Daily Total Return Net Index which returned **-1.3%** over the same period. For the 12 months rolling, MEC returned **+12.0%** vs the Benchmark return of **+11.9%.**

Market Commentary

Following one of one of the strongest broad-market advances in decades, July delivered a historic drawdown in the momentum factor. Reflecting this, the S&P500 was broadly flat, while the Nasdaq-100 declined 6.6%, and the technology sector down 12.3%. July was essentially the inverse of the prior 12 months, with the narrow AI basket falling significantly, offset by non-AI related stocks increasing.

As with previous months, AI and semiconductors remained the core theme, though for the wrong reasons. The Morgan Stanley Technology Momentum Long Index (a proxy for AI stocks) fell 27% through the month, though the fall was as high as 38% from its June peak to the July trough. This was the fastest and steepest 30-day tech momentum sell-off in history – surpassing even the dotcom bust.



Source: Jefferies

The catalyst for the sell-off initially was news that Meta was aiming to set up a new cloud business to sell 'excess' compute, which the market interpreted as the company potentially being in 'oversupply' – an assumption that has largely been debunked post their recent result. The second catalyst was the widening credit spreads of the hyperscalers, as the market began to question the sustainability of their spending commitments and weak free cashflow as US yields began climbing. The final major catalyst was the release of a new Chinese open-source model named 'Kimi K3', which achieved near frontier performance on many metrics at lower cost – something that should be considered broadly positive for AI demand. Despite this, the Kimi K3 release still triggered another mini "Deep Seek" moment, with AI stocks broadly trading lower, with the concern this time around being the potential impact to frontier lab economics (despite their healthy ARR run-rates), and their ability to meet their growing compute commitments (particularly OpenAI).

Outside of fundamentals, the sell-off was also accelerated by rapid hedge fund deleveraging. This turned into forced deleveraging for a high-profile hedge fund called 'Situational Awareness', with much of its public equity book eventually acquired by Citadel. The fund had a $40b entirely AI focused portfolio at its peak, though we have subsequently learned the fund's public equity portfolio was levered roughly four times (i.e >$120b in gross exposure), with risk amplified by its short book mostly consisting of AI disrupted software companies (essentially the same trade as its long book). The rapid liquidation of this fund meant a high correlation amongst AI stocks as they were indiscriminately sold (i.e little recognition of individual stock traits). The fund's liquidation also had a direct, negative impact on our portfolio given Situational Awareness was a substantial shareholder (>5%) in many of the names that we also hold– NBIS, CORZ and SHAZ to name a few.

What do the underlying fundamentals say?

Given the volatility in the market, it is worth taking stock of where AI fundamentals are tracking. To do this, we track three key items:

- Demand for tokens, the input/output currency of models, which continue to grow exponentially. This would indicate to us that real world 'usage' is continuing apace and also responding positively to the declining price of tokens themselves.

- GPU pricing continues to rise, particularly for older GPU models, suggesting both demand remains in excess of supply, as well as tokens being used for potentially higher value use cases – i.e as models get smarter and can do more tasks, users are incentivised to bid higher prices for tokens/GPUs. Of note is that GPU rental prices continued to rise through July, when the market sell-off accelerated, with recent result commentary from CRWV and NBIS pointing to record pricing expected in the coming 12 months.

- Hyperscaler cloud revenues, as evidenced in the most recent quarterly results, are both accelerating YoY, QoQ with margins growing at the same time. This is a very healthy trend and points to the strong ROIC on sunk capex, and we believe at this level of profitability, the hyperscalers remain incentivised to keep expanding their cloud businesses (i.e spending more money), though within the bounds and graces of the bond market.

All told, we continue to see the most recent drawdown in AI stocks as more driven by technical factors rather than fundamental reasons – with the health of the AI ecosystem continuing to improve. With the 2Q reporting season now concluded for our portfolio, we have also seen this play out in our holdings, with the vast majority of our companies 'beating and raising', and AI related names still guiding to very strong growth in outer years.

Looking ahead, our core AI holdings are largely levered to token demand, not the price of tokens, or the success of an individual model. Producing a token requires a power connection (preferably to the grid), a datacentre shell, and GPUs. If demand for tokens continues at its current rate, the current physical bottlenecks (power, cooling, and data centre capacity) will take many years to resolve. The vast majority our AI portfolio holdings are levered to this specific theme, namely AI cloud (NBIS), datacenters (CORZ, GLXY, HUT, CIFR) and other companies levered to AI capital spend (MTZ, FPS, Anritsu, AAOI).

Select Monthly Contributors and Detractors

Key contributors:

Corpay (CPAY-US) rallied 15% in the month, contributing 91bps to performance. Corpay continues to grow EPS at healthy rates >25% (double the market rate), and trades at 14x 2027 earnings (a significant discount to the market). The company has been a beneficiary of the recent spike in fuel prices, though we would note recent results we very strong, with upgrades to earnings beyond the current macro tailwinds.

GFL Environment (GFL-US) rallied 12%, contributing 54bps of performance. GFL is a North American solid waste and environmental services company, providing collection, transfer, recycling and disposal services across the US and Canada. We continue to see GFL as attractively valued – growing FCF high teens at a low historic multiple. In July, the mgmt. team announced the business is potentially exploring a take private transaction, with the CEO willing to entertain north of $50 per share (vs $41 at the time of writing).

Key detractor:

Mastec (MTZ-US) fell 37% in the month, detracting 141bps from performance. MTZ is a leading US infrastructure engineering/construction contractor. A large portion of the business is levered to AI through its power, utility and datacentre business lines. The stock fell through month alongside the AI drawdown, as well as at its most recent 2Q results on the back of a small delay in its communications segment (related to spectrum roll outs), with the backlog elsewhere continuing to grow. MTZ has now fallen back to its long-term EBITDA multiple despite EBITDA growth expected to compound at 20% per annum in the coming years.

Nebius (NBIS-US) declined 31%, resulting in a 202bps impact to performance. Nebius is a 'neocloud' that operates contracted cloud capacity for hyperscale customers and AI labs. The most recent results were positive. Revenue continues to accelerate, with the business now generating healthy >50% EBITDA adjusted margins, which we believe are likely to accelerate given higher GPU rental rates, as well as growing sales of high margins revenue streams such as their Inference product and software.

Top 10 Positions*

Stocks	Industry	Region
AerCap Holdings NV	Industrials	North America
Cipher Digital Inc.	Information Technology	North America
Clean Harbors, Inc.	Industrials	North America
Core Scientific Inc	Information Technology	North America
Corpay, Inc.	Financials	North America
Galaxy Digital Inc. Class A	Financials	North America
GFL Environmental Inc	Industrials	North America
InterContinental Hotels Group PLC	Consumer Discretionary	Europe
Nebius Group N.V. Class A	Information Technology	North America
Nexans SA	Industrials	Europe

*Source: Ellerston Capital. *Listed positions in alphabetical order.*

Risk Measures	
Net Exposure[3]	86.51%
Gross Exposure[4]	86.51%
VAR[5]	8.00%
Best Month	11.36%
Worst Month	-12.22%
Average Gain in Up Months	2.94%
Average Loss in Down Months	-2.91%
Annualised Volatility	14.13%
Annualised Index Volatility	10.44%

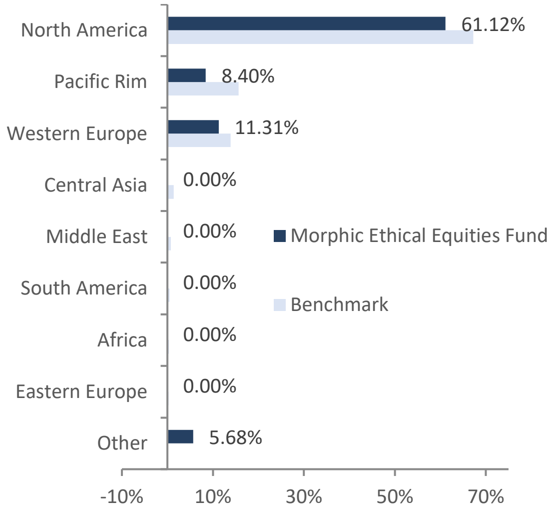
Net Tangible Assets (NTA)	
NTA value before tax[6]	$1.4059
NTA value after tax[6]	$1.3292

Source: Ellerston Capital.

Key Facts	
ASX code / share price	MEC / 1.225
Listing Date	3 May 2017
Profit Reserve[7]	$1.103
Management Fee	1.25%
Performance Fee[8]	15%
Market Capitalisation	$36.9m
Shares Outstanding	30,121,564
Dividend per share[9]	$0.01

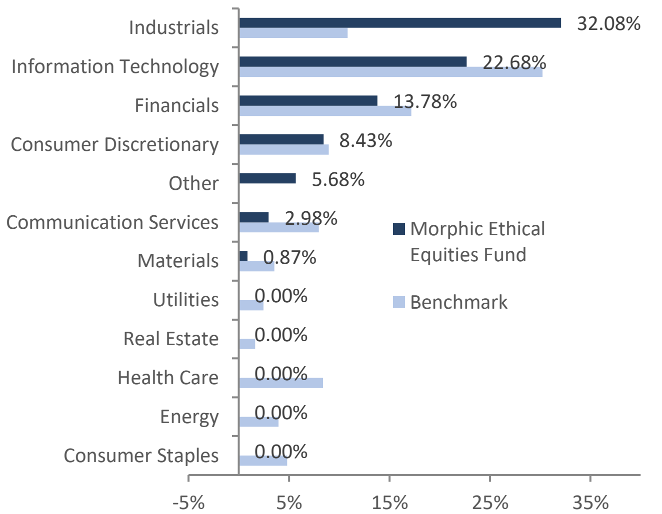
Source: Ellerston Capital.

Equity Exposure Summary[10] By region



Source: Ellerston Capital.

Equity Exposure Summary[10] 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.