MORPHIC ETHICAL EQUITIES FUND

Monthly Report
September 2026

A proud founder of: Climate Action 100+

Signatory of: PRI Principles for Responsible Investment

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]	1.3%	-14.4%	6.7%	2.3%	11.3%	4.9%	8.2%
Index[2]	1.9%	1.2%	15.0%	11.2%	18.7%	12.4%	12.9%

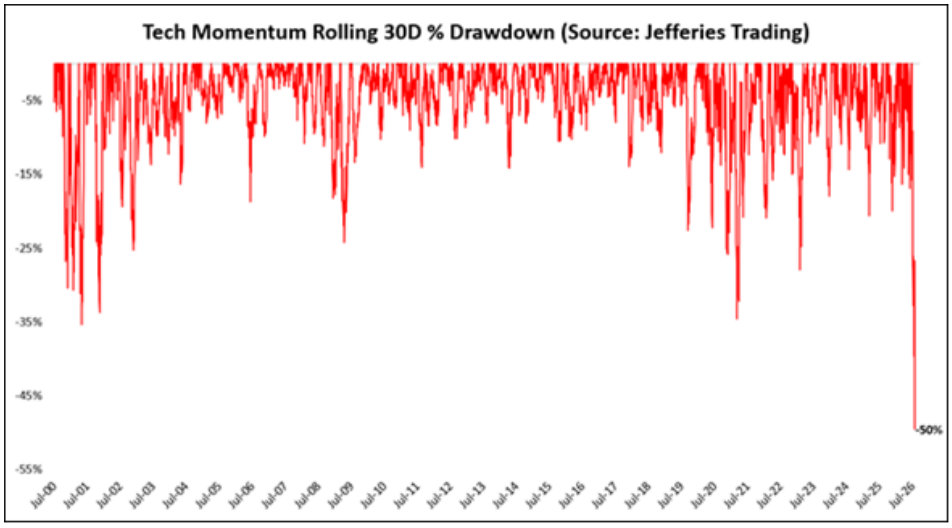
* Past Performance is not an indication of future performance. ^ Fund listing on the ASX 3 May 2017
Source: Ellerston Capital.

Performance Summary

MEC returned **+1.3%** net during the month, versus the MSCI All Countries World Daily Total Return Net Index which returned **+1.9%** over the same period. For the 12 months rolling, MEC returned **+2.3%** vs the Benchmark return of **+11.2%.**

Market Commentary

The Morgan Stanley Technology Momentum Long Index (a proxy for AI stocks) fell 19% through the quarter, though the fall was as high as 37% 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. This negatively impacted the portfolio given our large weighting to AI related businesses (discussed further below).



Source: Jefferies

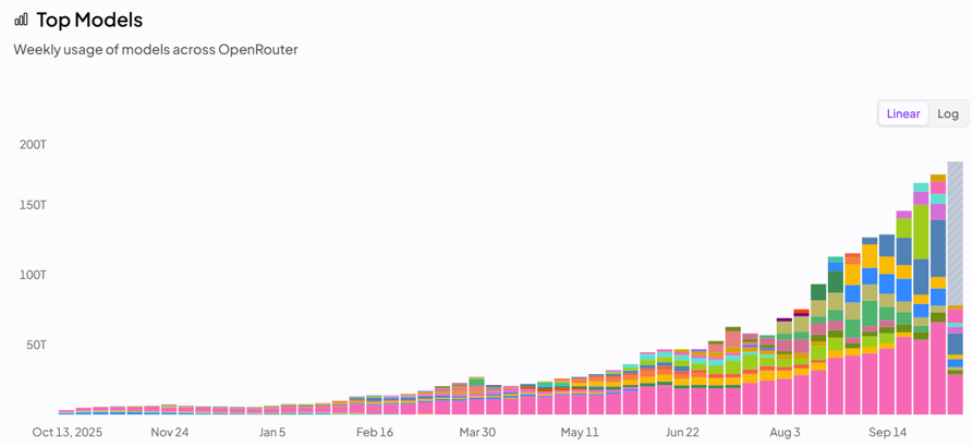
What drove the sell-off?

- Initially it 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, as well as with rising GPU prices.
- 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. This concern has since spread to other areas of the AI trade, particularly as US yields climbed through the quarter.
- The third 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. This is something that should be considered broadly positive for AI demand, though potentially at the expense of frontier models and their share of AI inference demand.
- Finally, increasing political scrutiny of data centre development in the US has raised the possibility of delays to GPU capacity coming online.
- This was all compounded by rapid de-grossing of hedge funds. Subsequent to quarter end, the rise in US bond yields triggered a further sell down in AI related names on funding fears.

What do the underlying fundamentals say?

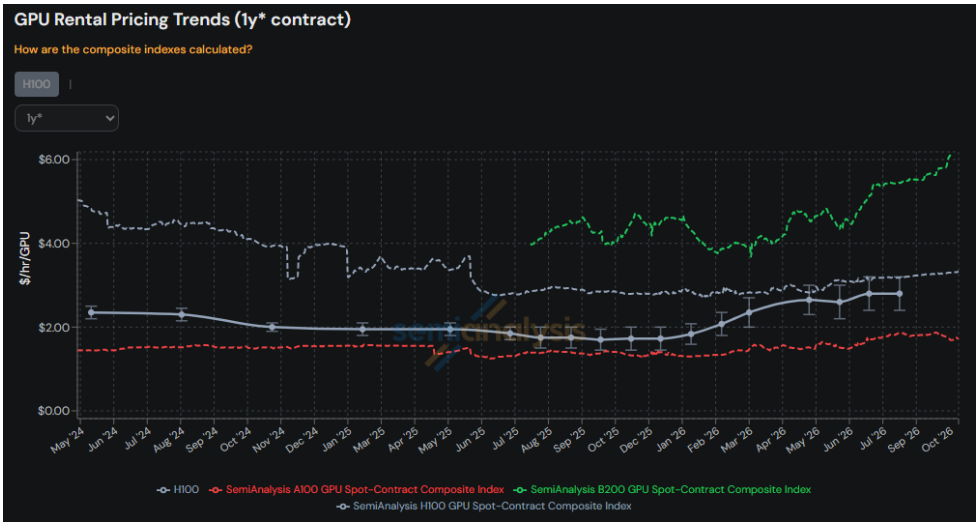
Beyond the weak equity performance and negative headlines, we continue to see the AI story 'on the ground' as constructive:

- **Demand for tokens:** These are the input/output currency of models and continue to grow solidly. This would indicate to us that real world AI 'usage' is continuing apace and also responding positively to the declining price of tokens themselves as well as the launch of new AI products. We would note that many of our AI portfolio holdings (particularly data centres) are driven by demand for power, which itself is driven by absolute token consumption.



Source: OpenRouter

- **GPU pricing** continues to rise, for both older and newer GPUs, suggesting both demand remains in excess of supply, as well as tokens being used for potentially higher value use cases. Of note, GPU rental prices accelerated through July, and continued to rise through September and into October, particularly for B200s.



Source: SemiAnalysis

Model advancements: Over the last 6 weeks, frontier capabilities have continued to improve, including the release of Meta's latest model 'Watermelon' as well as 'Muse Wonder Full', as well as OpenAI's 'Astra'. These have all received strong reviews. Other popular applications include REA (Reverse Engineer Anything), which allows agents to recreate software features without access to the original source code, and is now the #1 repository on Github.

- **Healthy 2Q results:** Hyperscaler cloud revenues, as evidenced in the most recent quarterly results, are accelerating YoY and QoQ with margins also increasing 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.
- **Financing** remains a key market debate. Yields on select unsecured corporate bonds of some neoclouds (Coreweave) are entering distressed territory. However, outside of this, debt and convertible bond raisings through the quarter have been oversubscribed and done at relatively attractive prices. For example, HUT 8 at the end of September announced a ~$1.1b senior secured revolving credit facility at SOFR +1.75% (~5.65% today). Perhaps more importantly, yield on cost for many data centre developers has continued to increase in recent deals (now approaching 20% in some cases), largely offsetting increases in debt costs.

Looking through the current ructions in the market, we believe AI demand is likely to continue apace, with our core AI holdings largely levered to token demand, not the price of tokens, or the success of an individual AI model. Producing a token requires a power connection (preferably to the grid), a data centre shell, and GPUs. If demand for tokens continues at its current rate, the current physical bottlenecks (power, cooling, and data centre capacity) will still take many years to resolve. The vast majority of our AI portfolio holdings are levered to this specific theme, namely AI cloud (NBIS), data centres (CORZ, GLXY, HUT) and other companies levered to AI capital spend (MTZ, FPS, Anritsu, AAOI). That being said, we will continue to review position sizing and adjust for the current market volatility where we think appropriate.

KEY CONTRIBUTORS

Corpay (CPAY-US) rallied 17% in local terms through the quarter, contributing 95bps to relative 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 and rise in interest rates. Management continues to target $50 of EPS by 2029, placing the stock on 8x two year forward earnings.

GFL Environmental (GFL-US) rallied nearly 14% in local terms through the quarter, contributing 52bps of relative 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 management team announced the business is potentially exploring a take private transaction, with the CEO willing to entertain north of $50 per share (vs $43 at the time of writing).

KEY DETRACTORS

SharonAI fell 31% within the Fund through the quarter, detracting 258bps from relative performance. SharonAI is an emerging Australian neocloud which is at the start of what we believe to be a meaningful capacity roll out. SharonAI has fallen in sympathy with other neoclouds, despite the rise in GPU contract prices. The stock now trades at an attractive relative valuation.

MasTec (MTZ-US) fell 49% in local terms through the quarter, detracting 192bps from relative 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 data centre business lines. The stock fell through the quarter 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.

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
GFL Environmental Inc	Industrials	North America
Hut 8 Corp	Information Technology	North America
InterContinental Hotels Group	Consumer Discretionary	Europe
Nebius Group N.V.	Information Technology	North America
Nexans SA	Industrials	Europe
TKO Group Holdings	Communication Services	North America

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

Risk Measures	
Net Exposure[3]	91.46%
Gross Exposure[4]	91.46%
VAR[5]	6.68%
Best Month	11.36%
Worst Month	-12.22%
Average Gain in Up Months	2.82%
Average Loss in Down Months	-2.91%
Annualised Volatility	14.08%
Annualised Index Volatility	10.35%

Source: Ellerston Capital

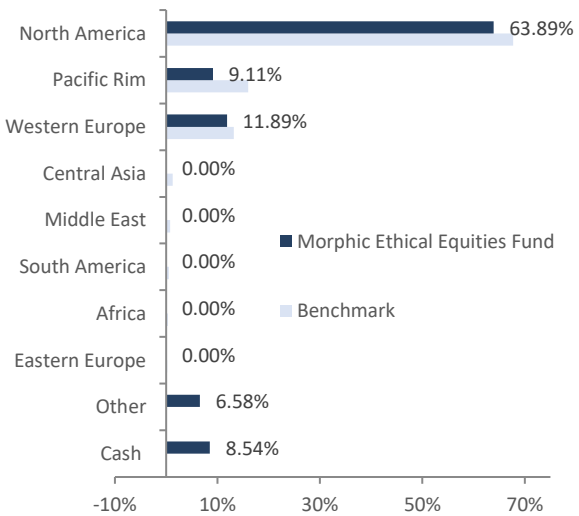
Net Tangible Assets (NTA)	
NTA value before tax[6]	$1.3520
NTA value after tax[6]	$1.2870

Source: Ellerston Capital.

Key Facts	
ASX code / share price	MEC / 1.180
Listing Date	3 May 2017
Profit Reserve[7]	$1.094
Management Fee	1.25%
Performance Fee[8]	15%
Market Capitalisation	$35.4m
Shares Outstanding	29,980,579
Dividend per share[9]	$0.01

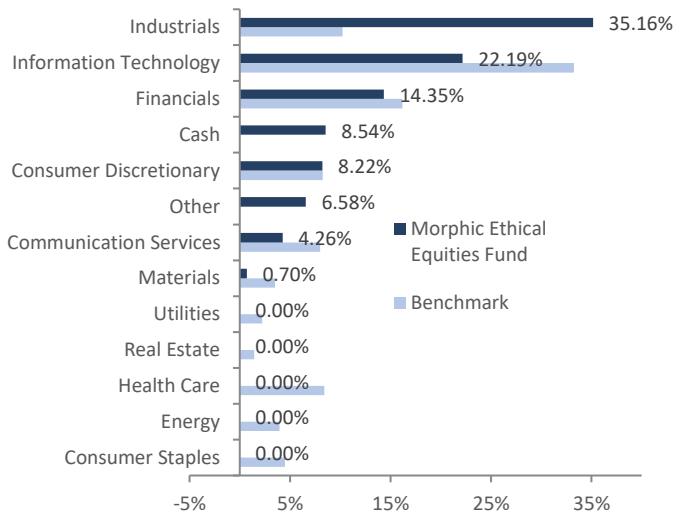
Source: Ellerston Capital.

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.