MORPHIC ETHICAL EQUITIES FUND

Monthly Report

October 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]	-10.4%	-12.6%	-14.2%	-9.1%	10.7%	2.6%	6.9%
Index[2]	-2.7%	-0.3%	6.5%	4.5%	18.1%	11.6%	12.5%

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

Source: Ellerston Capital.

Performance Summary

MEC returned **-10.4%** net during the month, versus the MSCI All Countries World Daily Total Return Net Index which returned **-2.7%** over the same period. For the 12 months rolling, MEC returned **-9.1%** vs the Benchmark return of **+4.5%.**

Market Commentary

October featured another significant tech/AI driven selloff, impacting the portfolio given our high weighting to such names. The spread between AI and non-AI related factors was significant, with energy, staples and utilities sectors up >10%, and the US TMT Momentum Long index (a useful AI proxy) down 24%, in USD.

October saw a hot inflation print and rising bond yields, increasing financing costs for borrowers, and pushing some marginal borrowers out of debt markets altogether. As a result, the market's concerns swung back to the sustainability of the multi trillion-dollar capital commitments of the AI sector and the ability of debt markets to absorb the growing shortfall in operating cashflow of key spenders, particularly neoclouds and data centers. This raised questions around the whether the pace of the AI buildout (and thus earnings for many companies) can be maintained. Subsequent to month end, the surprise election of a Democratic Governor of Texas has also raised questions around the timeline of major data center projects given a large percentage are based in the state. The departure of Jensen Huang from NVDA has also added material uncertainty. These concerns saw broad based selling in most AI stocks, which similar to prior months, resulted in little differentiation between companies with solid balance sheets and funding commitments and those without.

In our view, a large part of the fall in AI stocks over the month appears to be similar in nature to the falls experienced in July – a forced unwind of positions at hedgefunds, who has a cohort, have been significant investors in AI stocks. The selling has been significant – for example, over 5 straight days in the October, hedge fund selling exceeded the cumulative buying over the preceding 2 years, with net positioning back to early 2025 levels. Said differently, the entire AI trade unwound in a week!

Looking ahead, despite the recent pain, we continue to see significant value across the AI space. Many stocks that we own are now trading either at historic trough multiples (with still accelerating earnings growth), or in the case of businesses with fixed assets and contracted revenues, large discounts to conservative NPV valuations. Moreover, positioning across the market now looks far more 'clean' – for example, US net leverage for long/short funds fell to multi-year lows of ~43.7% in one weekly reading, which is 0th percentile over a 1 and 5-year period.

KEY CONTRIBUTORS

Aritzia (ATZ CN) increased 30% through the month after posting strong results, with like for like sales increasing 35%. Aritzia remains a key market share gainer in the North American retail space coupled with a significant store rollout opportunity. Margins may also positively surprise if and when tariffs are reconsidered by the new US Congress/Senate.

GFL Environmental (GFL US) increased 8% through the month on continued speculation around a takeover offer from a private equity consortium. Subsequent to month end, management announced they have received a formal takeover offer at $52 per share, which was rejected. With the stock at $42 per share today, trading at a discount to peers, and growing EPS >15% over the forecast period, we still see the stock valuation as compelling.

KEY DETRACTORS

SharonAI (SHAZ-US) detracted 228bps from performance in local terms. SharonAI is an Australian based neocloud in the relatively early phases of its growth. SharonAI is well capitalised for its initial growth plan, continues to bring contracts online as well as sign new contracts, and will likely be a key beneficiary of GPU pricing, which continue to remain elevated.

Top 10 Positions*

Stocks	Industry	Region
AerCap Holdings NV	Industrials	North America
Aritzia, Inc.	Consumer Discretionary	Canada
Clean Harbors, Inc.	Industrials	North America
Corpay, Inc.	Financials	North America
GFL Environmental Inc	Industrials	North America
InterContinental Hotels Group	Consumer Discretionary	Europe
Nebius Group N.V.	Information Technology	North America
Nexans SA	Industrials	Europe
SharonAI Holdings	Information Technology	North America
TKO Group Holdings	Communication Services	North America

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

Risk Measures	
Net Exposure[3]	94.40%
Gross Exposure[4]	94.40%
VAR[5]	7.38%
Best Month	11.36%
Worst Month	-12.22%
Average Gain in Up Months	2.82%
Average Loss in Down Months	-3.09%
Annualised Volatility	14.47%
Annualised Index Volatility	10.37%

Source: Ellerston Capital

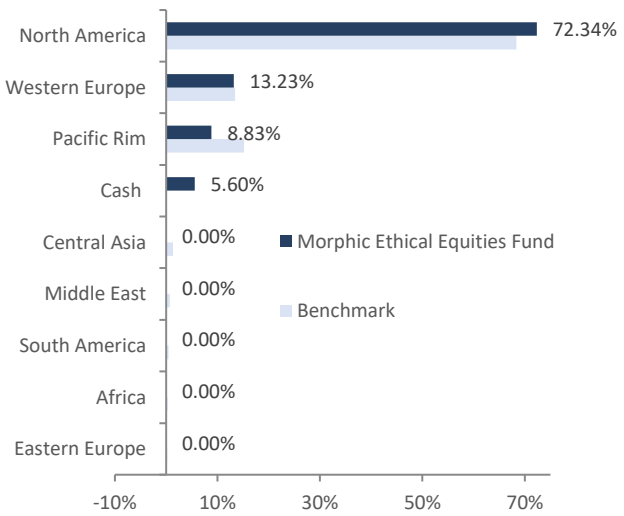
Net Tangible Assets (NTA)	
NTA value before tax[6]	$1.1915
NTA value after tax[6]	$1.1664

Source: Ellerston Capital.

Key Facts	
ASX code / share price	MEC / 1.120
Listing Date	3 May 2017
Profit Reserve[7]	$1.095
Management Fee	1.25%
Performance Fee[8]	15%
Market Capitalisation	$33.5m
Shares Outstanding	29,937494
Dividend per share[9]	$0.034

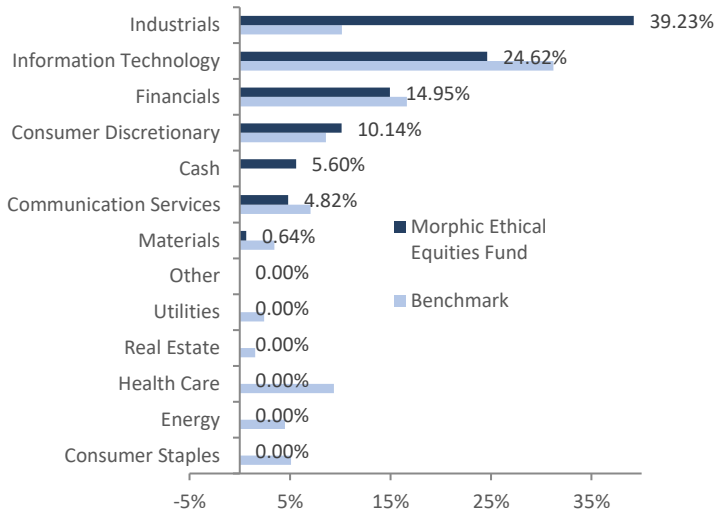
Source: Ellerston Capital.

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.