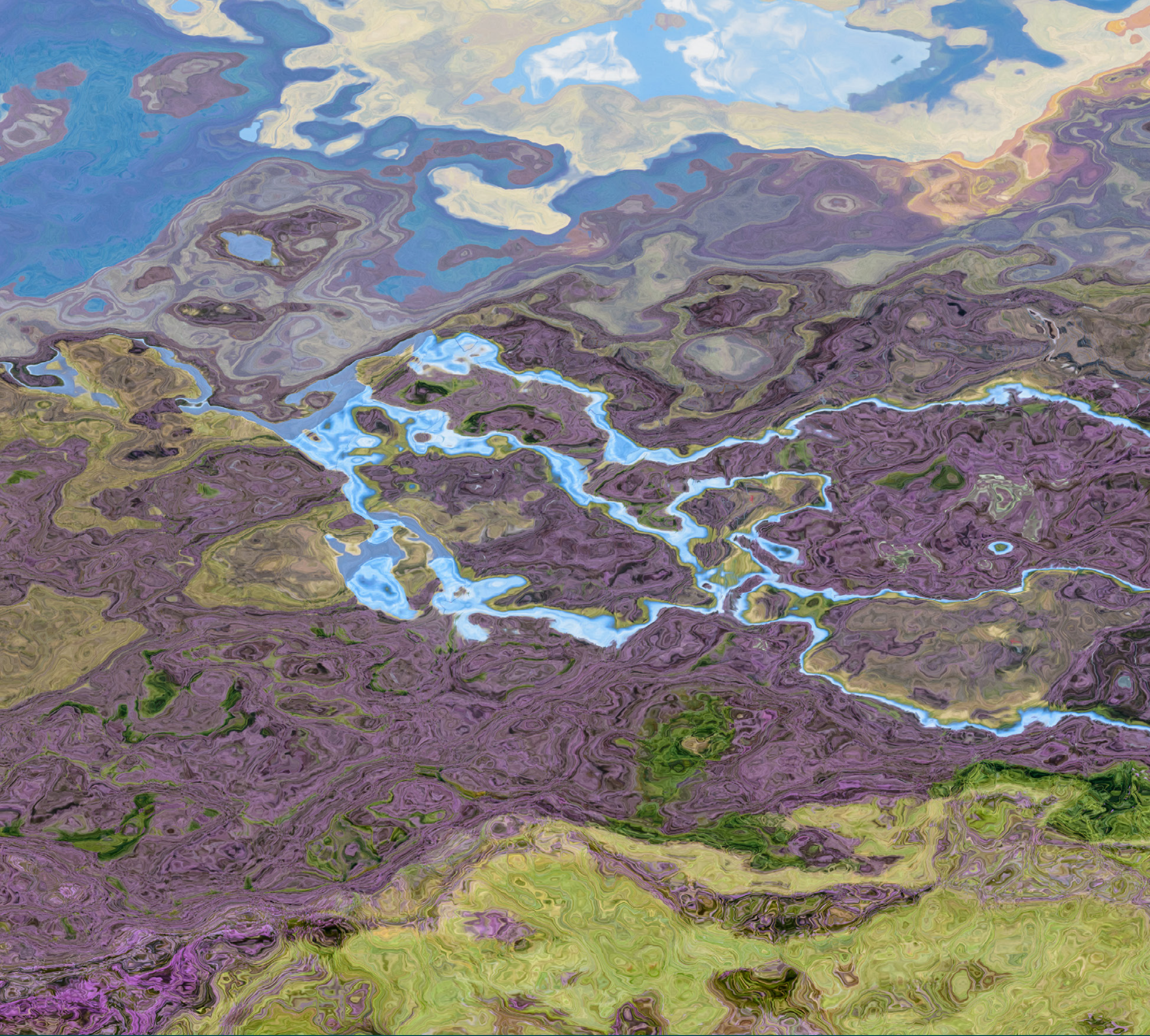


Quarterly report

Munro Climate Change Leaders Fund

MCCL.ASX

September 2024

Munro Climate Change Leaders Fund & MCCL.ASX
September 2024 – Quarterly report

MCCL Fund quarter return
7.5%

MSCI ACWI quarter return
2.6%

MCCL.ASX Fund quarter return
7.5%

MSCI ACWI quarter return
2.6%

QUARTERLY HIGHLIGHTS

- The Munro Climate Change Leaders Fund returned 7.5% for the September quarter (MCCL.ASX 7.5%).
- Global markets consolidated gains throughout the quarter before lifting higher late in the quarter as the market began to anticipate a substantial interest rate cut.
- From a fund perspective, data centre growth and artificial intelligence (AI) was again a dominant theme, with electricity generation companies that power the data centres.

MUNRO MEDIA

Australian Financial Review, 8 August 2024
Here's how this climate fund smashed the market
Read the full article here

Responsible Investment Report FY24
Read the report here

CONTENTS

INVESTMENT TEAM


Nick Griffin
CIO
Climate Co-lead


James Tsinidis
Portfolio Manager
Climate Co-lead


Kieran Moore
Portfolio Manager


Jeremy Gibson
Portfolio Manager


Qiao Ma
Portfolio Manager

QUARTERLY COMMENTARY

Fund commentary

The Munro Climate Change Leaders Fund returned 7.5% for the September quarter (MCCL.ASX 7.5%) while the MSCI ACWI returned 2.6%.

Global markets consolidated gains throughout the quarter before lifting higher late in the quarter as the market began to anticipate a substantial interest rate cut, whereby the US Federal Reserve subsequently delivered a 50 basis point cut to the Fed Funds Rate in late September, the first cut in rates since March 2020. Late in the quarter China announced a major stimulus package aimed at reviving its slowing economy, which saw the market rally broaden from a geographic perspective.

From a fund perspective, data centre growth and artificial intelligence (AI) was again a dominant theme, with electricity generation companies that power the data centres, such as nuclear producer Constellation Energy and electric power system company GE Vernova performing well (see stock stories below). Rounding out the fund's top 5 contributors for the quarter were HVAC companies Comfort Systems and Johnson Controls, as well as electrical engineering procurement company Quanta Services. HVAC equipment and services companies remain in high demand, given building energy efficiency requirements are only tightening. At the same time, Quanta continues its growth trajectory as it wins business from utilities and other industrial companies that are building out US electrical and renewable generation infrastructure.

Detractors were uranium miner Cameco, which followed the lower commodity price; Infineon, a power semiconductor supplier to electric vehicles where the end autos market continues to weaken; and Core and Main, a water infrastructure distributor who is seeing price deflation and hence some earnings downgrades. Arm and Nvidia, the energy efficient computing companies, in the Fund for their ability to lower emissions per unit of computing in data centres, gave back part of their strong year-to-date performance.

Market Outlook

The September quarter saw the market consolidate strong gains from the first half of the calendar year. Looking ahead we remain positive equity markets, driven by several key factors: central banks globally are embarking on an interest rate cutting cycle, positive developments across the AI thematic, and approaching conclusion of the US Presidential race, which we expect will be a clearing event for markets.

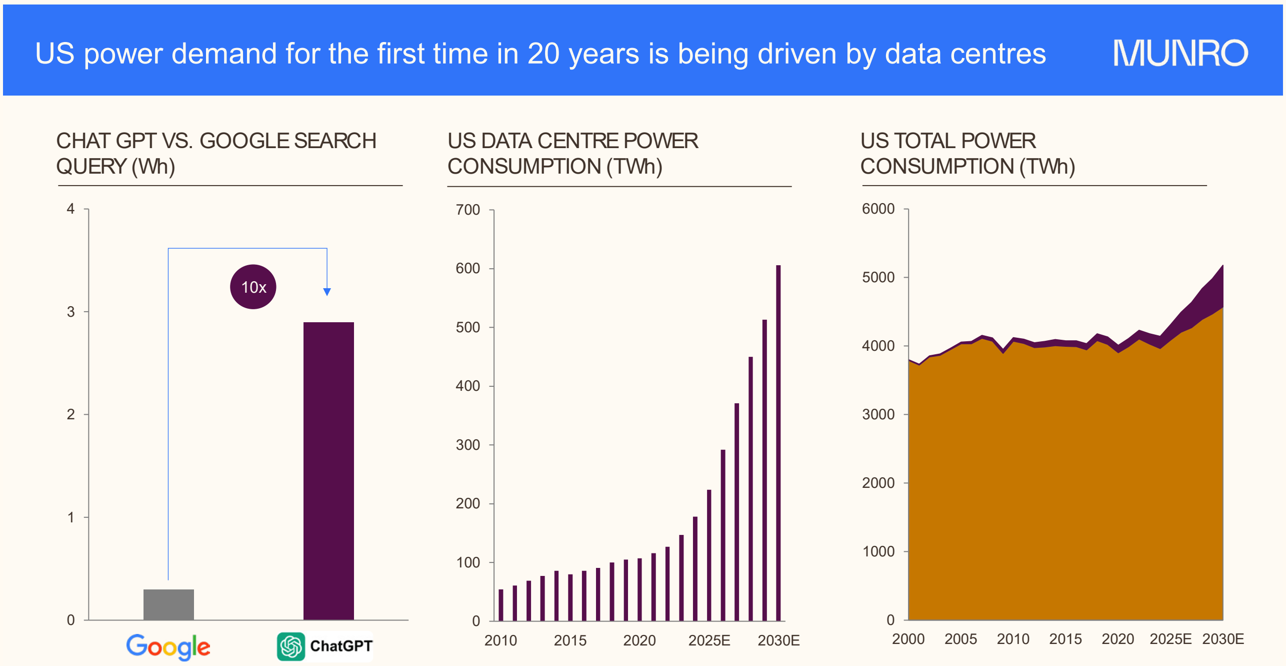
The US Federal Reserve reduced interest rates by 50 basis points (bps) towards the end of the quarter, and we think it is safe to assume that central banks, globally, are now in 'easing' mode. While economies worldwide are still struggling, it is important to remember that equity markets are forward-looking, and it is logical for markets to start pricing in an economic recovery in 2025. How strong this recovery becomes remains to be seen, and equity markets could occasionally price in too much recovery, however we're taking a glass half full approach here. Central banks have ample firepower if the recovery falters and ultimately stocks are supported by lower rates regardless, as cash becomes a less attractive asset over time. Should central banks globally continue to ease in line with current rate market predictions, then by this time next year, we should be moving into a synchronised global growth environment, and investors should start to anticipate that today.

One of the biggest headlines during the quarter was the announcement between Microsoft and Constellation Energy relating to the significant deal involving the restart of Three Mile Island Unit 1 nuclear reactor. Under a 20-year power purchase agreement (PPA) with Constellation Energy, Microsoft will buy all the energy produced by the reactor to power its data centres with carbon-free electricity.

Microsoft's endorsement gives further credibility to the climate credentials of nuclear power, shows these companies' willingness to underwrite new clean energy capacity, and increases our conviction in our investments around the enablers of clean, energy efficient, data centres. It is estimated that data centres contribute more to greenhouse gas emissions than aviation, meaning that it is important to power them with low carbon energy and make them as energy efficient per unit of computing as possible.

It also shows how corporates, not just governments, drive the decarbonisation agenda.

We expect to hear further announcements in coming months regarding hyperscalers securing power to supply their data centres, which has been a core part of our investment thesis in Constellation Energy.

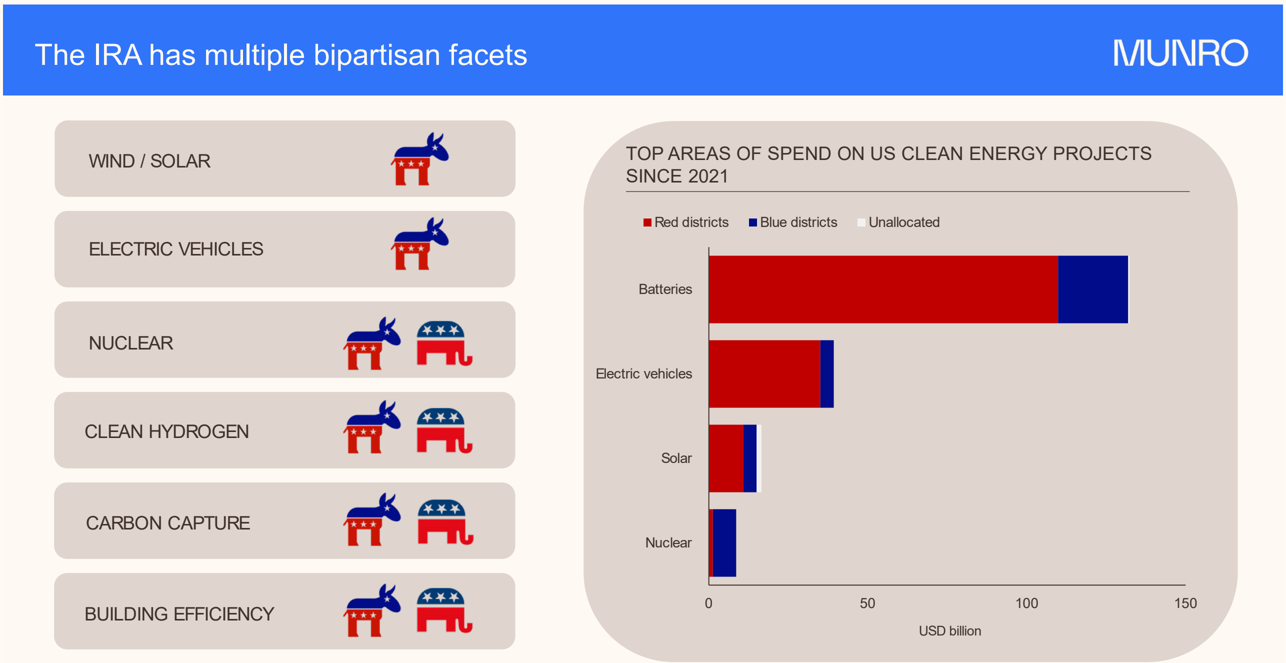


Outside of clean energy, we continue to see good trends in our circular economy and energy efficiency sub-themes. Within circular economy the challenges of waste, biodiversity loss and water is only growing This is leading to growth and strong demand for our holdings, including Clean Harbors, which operate in these areas.

QUARTERLY COMMENTARY

Within energy efficiency, our meetings with companies continue to highlight strong client demand for reducing the carbon footprint of their buildings. Put simply, the decision to replace an old HVAC unit or to install new building insulation is becoming increasingly requested by clients. Fast financial payback periods from lower energy bills and improved carbon footprints create strong motivation for customer upgrades.

The US election in November might create some headline risk for stocks in the climate change universe, particularly if Donald Trump were to win. However, we believe the energy efficient companies in the portfolio aren't heavily reliant on policy support. There is some bipartisan support for key areas such as nuclear, energy infrastructure, building renovations, water resilience and land remediation. Additionally, the net zero commitments of corporates support these companies prospects.



Source: Bloomberg, US Department of Energy and Munro Partners estimates June 2024. Note, includes planned investment announced during President Biden's term.

Once the US presidential election outcome is determined and as the Federal Reserve rate cutting cycle is now underway, we expect companies to increase their investment spending, likely catalysing a steady economic recovery and subsequent broadening of the market performance.

We continue to focus on stocks that will diversify the portfolio and that will benefit from this recovery. Clean Harbors and Schneider Electric are illustrative stocks that should benefit from a recovering economy. Clean Harbors benefits from hazardous waste and oil recycling volumes picking up in an expanding economy, while Scheider benefits as its building efficiency products will be in greater demand in a stronger commercial property macro environment.

STOCK STORY: CONSTELLATION ENERGY

CLIMATE SUB AREA OF INTEREST: **Energy Efficiency**
MARKET CAP: **USD $82bn**

Constellation Energy added 280bps to Fund performance for the quarter.

Constellation Energy (CEG) was spun-out of Exelon Energy in January 2022 and is an independent power producer that own and operates the largest nuclear fleet in the US, holding >55% of the nation's unregulated capacity. With plants stretching from the Midwest across to New York, CEG provides >180TWh of carbon-free electricity to Americans each year, which amounts to ~120mn metric tons of CO2 avoided annually.

Following on from what we wrote in 1Q24, in September, CEG signed their first long-term contract with a data centre customer to provide 835MW of carbon-free, baseload power generation. This deal was quite unique, as it involved restarting a retired nuclear unit at Three Mile Island in Pennsylvania. This is a historic moment for the broader nuclear industry, in stark contrast to what has been a steady cadence of plant decommissioning's since the Fukushima disaster in 2011 and speaks to the growing appreciation of the pivotal role nuclear energy plays in a carbon-free energy mix. They expect the facility to be operational in 2028, and Microsoft have committed to the operation for 20 years. Additionally, this carbon free source of energy generation is eligible for tax credits via the Inflation Reduction Act.

As a direct result of this deal, CEG raised their long-term base EPS guidance from >10% to >13%. Our research indicates that Microsoft is paying CEG at a significant premium compared to spot pricing today. We estimate CEG is receiving almost 3x more than the current spot prices in the region. This is a clear example of CEG successfully monetising the carbon-free, baseload characteristics of nuclear energy. It has also been done in such a way that incremental capacity is being added to the Pennsylvania – New Jersey – Maryland (PJM) energy market, which avoids any negative impact on residential customer bills or further burdening the already incredibly tight local power market. In an expression of support, the Governor of Pennsylvania, Josh Shapiro, has since urged the PJM interconnection authority to effectively fast-track the process to bring generation sources, such as this, online as soon as possible.

We expect this to be the first of many long-term contracts that CEG will sign over the next few years to service the growing power consumption of AI data centres. Given that the pioneers of this market are large hyperscalers with corporate decarbonisation goals, we don't see any other viable sources of carbon-free, baseload power adequate to power these large GPU training clusters. Many of these CEO's are talking about the potential for 1mn GPU clusters over the medium term, which would require gigawatts of reliable generation to power them. Nuclear is a scarce asset with only ~40GW operational in the US, and given that Constellation owns more than half of the national fleet, we believe they are in an unparallelled competitive position to monetise this opportunity.

Ultimately, we can still see a pathway for CEG's earnings to triple over the next 6 years.

STOCK STORY: GE VERNOVA

CLIMATE SUB AREA OF INTEREST: **Clean Energy**
MARKET CAP: **USD $21 bn**

GE Vernova contributed 315bps to Fund performance for the September quarter.

GE Vernova (GEV) has three main divisions: power generation (gas, nuclear, hydro, steam), wind (onshore and offshore turbine equipment and services) and electrification (power transmission, storage, software). Due to its portfolio of products and services, the company is ideally positioned to benefit from growing electricity demand and the decarbonisation spending. The business spun out of GE in March 2024 as a separately listed company. The company has been featured in the Climate Fund's prior quarterly report (here) as well as in detail on Munro's "Invest in the Journey" podcast with Munro Investment Analyst, Daniel Condon (here).

GEV is in a strong position to benefit from the positive electrical demand driven by data centre growth, electrification of transport and building, and reshoring back to the US. While all these trends continued to play out in the September quarter, we think that the demand from the data centre hyperscalers drove GEV's success over the past couple of months. This is evidenced by Microsoft's decision to underwrite the re-starting of the Three Mile Island nuclear power plant discussed above.

This increased demand for power suggests that GEV's gas-related businesses will be in demand for longer than we and the company previously thought. GEV subsequently upgraded its capacity targets in September, effectively lifting its financial targets. We believe the improved outlook is a direct result of hyperscalers being more comfortable using natural gas as a source of power. As long as there is a pathway for decarbonising this power source via carbon capture or clean hydrogen blending down the track, which GEV's technology allows for. Furthermore, the Three Mile Island deal reinforces the importance of GEV's nuclear equipment business and its nascent investments in Small Modular Reactors (SMR).

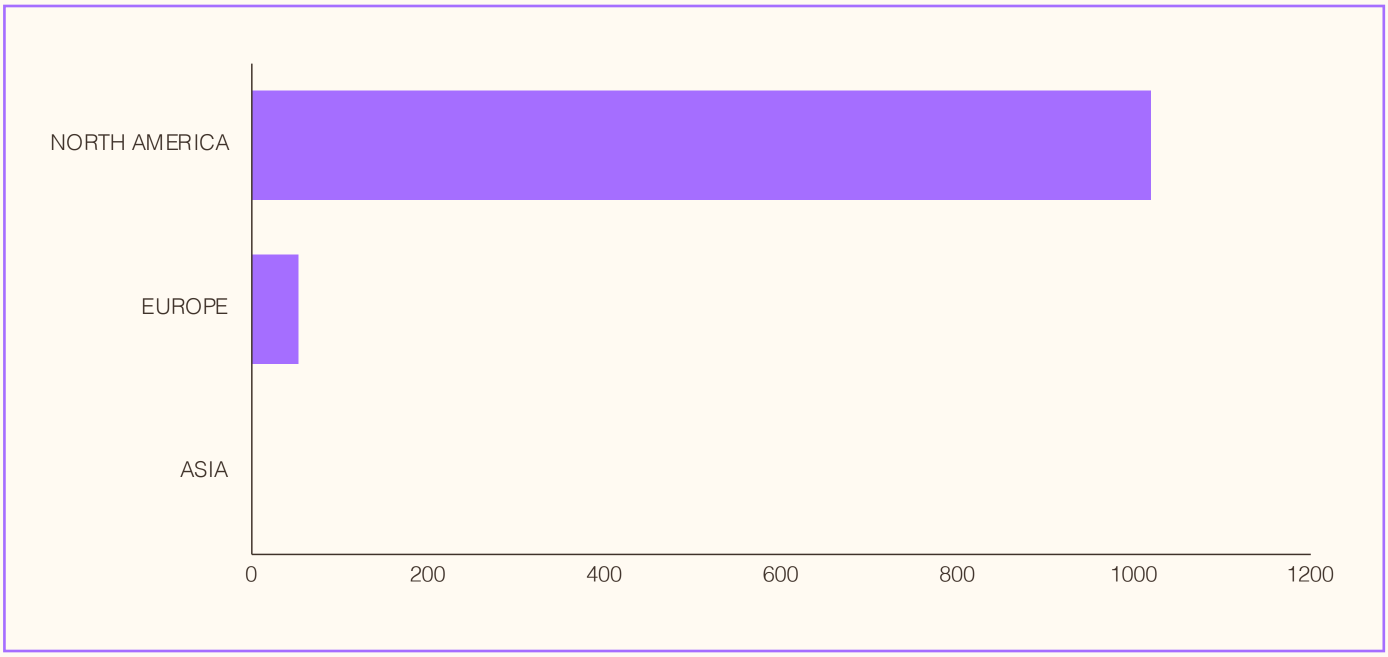
GEV's electrification segment is also seeing strong demand on the back of grid investments, particularly in Europe, leading to it upgrading its targets in this segment, too.

As we flagged in previous reports, the company's wind operations continue to struggle as execution challenges on legacy fixed-priced contracts have pressured them. We believe that the market will increasingly look past these issues as the problem of offshore wind projects are worked through and consider that new GEV management will likely exit this area and focus on US onshore wind.

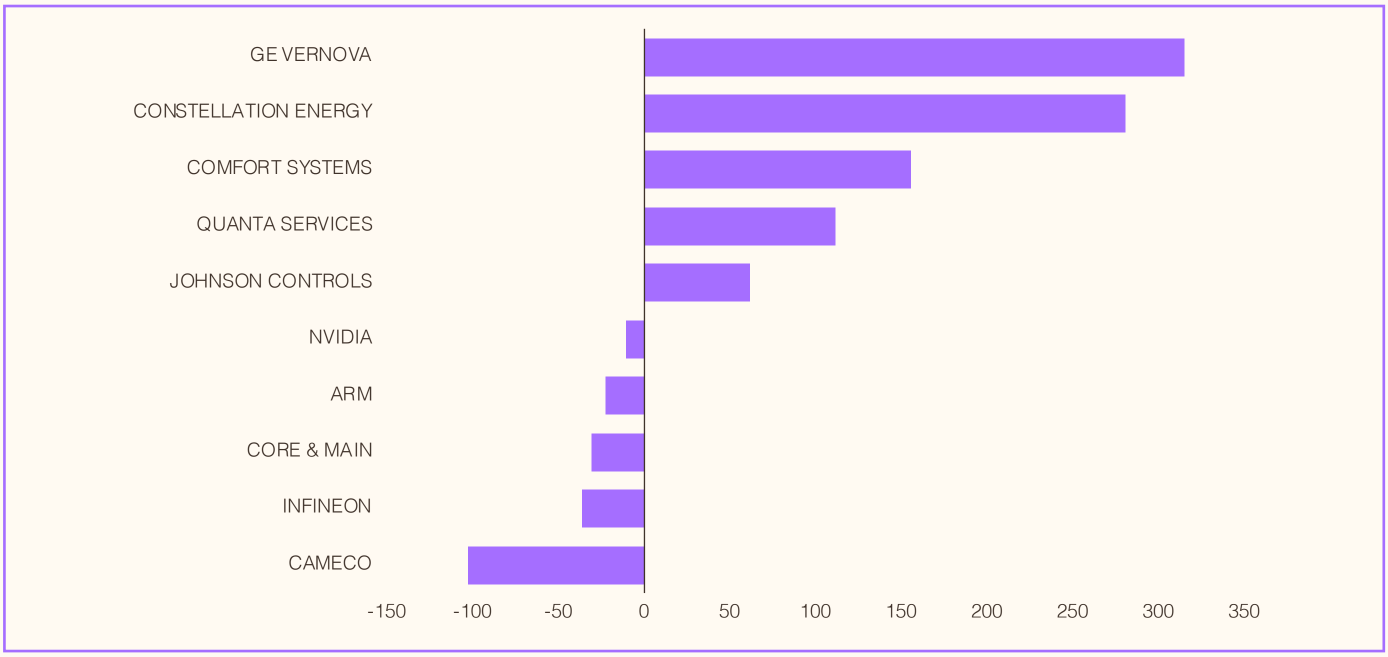
Lastly, we look forward to the company presenting another analyst day in December this year. We expect this event to be a positive catalyst as we think they will provide more details on the bullish earnings growth tailwinds and the possibility of the introduction of a dividend and/or share buyback plan.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

Region (equities only)



Top & bottom contributors



QUARTER END EXPOSURE

Category

EQUITIES	97.9%
CASH	2.1%
NO. OF POSITIONS	24

Sector

INDUSTRIALS	57%
UTILITIES	24%
INFORMATION TECHNOLOGY	11%
MATERIALS	6%
OTHER	0%
CASH	2%

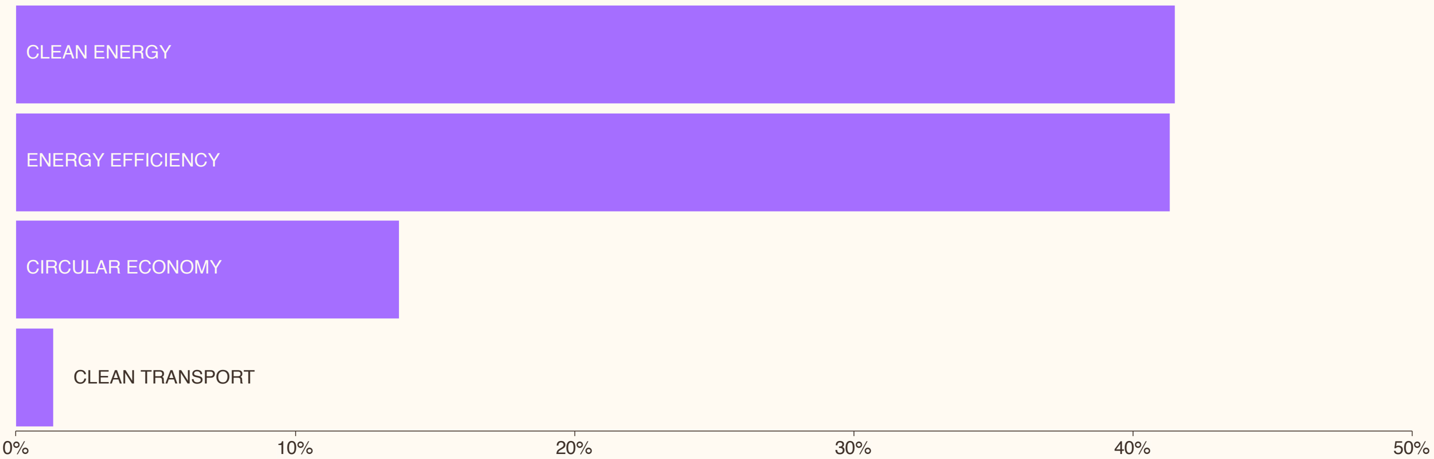
Region

	LONG
UNITED STATES	78.6%
EUROPE AREA	17.9%
FRANCE	9.5%
IRELAND	1.0%
ITALY	1.5%
GERMANY	3.8%
FINLAND	3.6%
TOTAL	97.9%
CASH	2.1%

Holdings

TOP 5 HOLDINGS	
CONSTELLATION	9.9%
GE VERNOVA	8.5%
QUANTA	6.9%
NVIDIA	6.4%
COMFORT SYSTEMS	6.1%

Sub-areas of interest



Net Performance - MCCL

	3MTHS	6MTHS	1YR	2 YRS	INCEPT P.A.	INCEPT CUM.
MUNRO CLIMATE CHANGE LEADERS FUND (AUD)	7.5%	12.7%	59.1%	30.8%	14.3%	47.7%
MSCI ACWI TR INDEX (AUD)	2.6%	3.2%	22.6%	21.5%	9.4%	30.1%
EXCESS RETURN	4.9%	9.5%	36.5%	9.4%	4.9%	17.6%

INCEPTION: 29 OCTOBER 2021

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
2022FY				0.0%	3.5%	0.8%	-10.5%	-3.9%	0.2%	-4.5%	-1.1%	-6.6%	-20.7%
2023FY	10.6%	0.8%	-2.4%	3.3%	2.9%	-7.2%	-0.5%	1.6%	6.1%	-1.8%	4.1%	3.1%	21.3%
2024FY	2.5%	0.3%	-6.2%	-3.4%	4.9%	4.1%	4.4%	21.3%	5.7%	-1.7%	9.9%	-2.9%	42.8%
2025FY	2.9%	-1.0%	5.5%										7.5%

Net Performance - MCCL.ASX

	3MTHS	6MTHS	1 YR	2 YRS	INCEPT P.A.	INCEPT CUM.
MCCL.ASX (AUD)	7.5%	12.7%	59.1%	30.8%	18.0%	56.2%
MSCI ACWI TR INDEX (AUD)	2.6%	3.2%	22.6%	21.5%	9.9%	29.1%
EXCESS RETURN	4.9%	9.5%	36.5%	9.4%	8.1%	27.1%

INCEPTION: 20 JANUARY 2022

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
2022FY							-1.1%	-3.9%	0.2%	-4.5%	-1.1%	-6.6%	-16.1%
2023FY	10.6%	0.8%	-2.4%	3.3%	2.9%	-7.2%	-0.5%	1.6%	6.2%	-1.8%	4.1%	3.1%	21.3%
2024FY	2.6%	0.3%	-6.2%	-3.4%	4.9%	4.1%	4.4%	21.3%	5.7%	-1.7%	9.9%	-2.9%	42.8%
2025FY	2.9%	-1.0%	5.5%										7.5%

Differences in performance between the Munro Climate Change Leaders Fund and MCCL (ASX quoted share class of the Fund) relate to their respective inception dates, the buy/sell spread of the iNAV for MCCL.ASX, and the timing difference between the issuing of units during the day on the ASX for MCCL.ASX. This may result in reporting small differences in performance.

IMPORTANT INFORMATION: Past performance is provided for illustrative purposes only and is not a guide to future performance. Data is as at 30 September 2024 unless otherwise specified. The inception date of the Munro Climate Change Leaders Fund is 29 October 2021, and the inception date of MCCL.ASX is 20 January 2022. Returns of the Funds are net of management costs and assumes distributions have been reinvested. Numbers may not sum due to rounding or compounding returns. The MSCI ACWI Index AUD refers to the MSCI All Country World Index Total Return Net Index in Australian Dollars. BPS refers to Basis Points. AoI refers to Area of Interest. EM refers to Emerging Markets (including China). GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Munro Climate Change Leaders Fund ARSN 654 018 952 APIR GSF1423AU (Fund) (MCCL). GRES is the issuer of this information. Unit class A (MCCL) is an unlisted class of units in the Fund and Unit class E (MCCL.ASX) is an ASX Quoted class of units in the Fund. Collectively they are referred to as the Funds. This information has been prepared without taking account of the objectives, financial situation or needs of individuals. Before making an investment decision in relation to the Funds, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs and read and consider the Product Disclosure Statement (PDS) for the Funds and the Additional Information to the Product Disclosure Statement (AIB) which may be obtained from www.gsfm.com.au, www.munropartners.com.au or by calling 1300 133 451. GSFM Responsible Entity Services has produced a Target Market Determination (TMD) in relation to the Munro Climate Change Leaders Fund and MCCL.ASX Fund. The TMD sets out the class of persons who comprise the target market for the Funds and is available at www.gsfm.com.au. None of GRES, Munro Partners, their related bodies or associates nor any other person guarantees the repayment of capital or the performance of the Funds or any particular returns from the Funds. No representation or warranty is made concerning the accuracy of any data contained in this document. This document is issued on 10 October 2024.