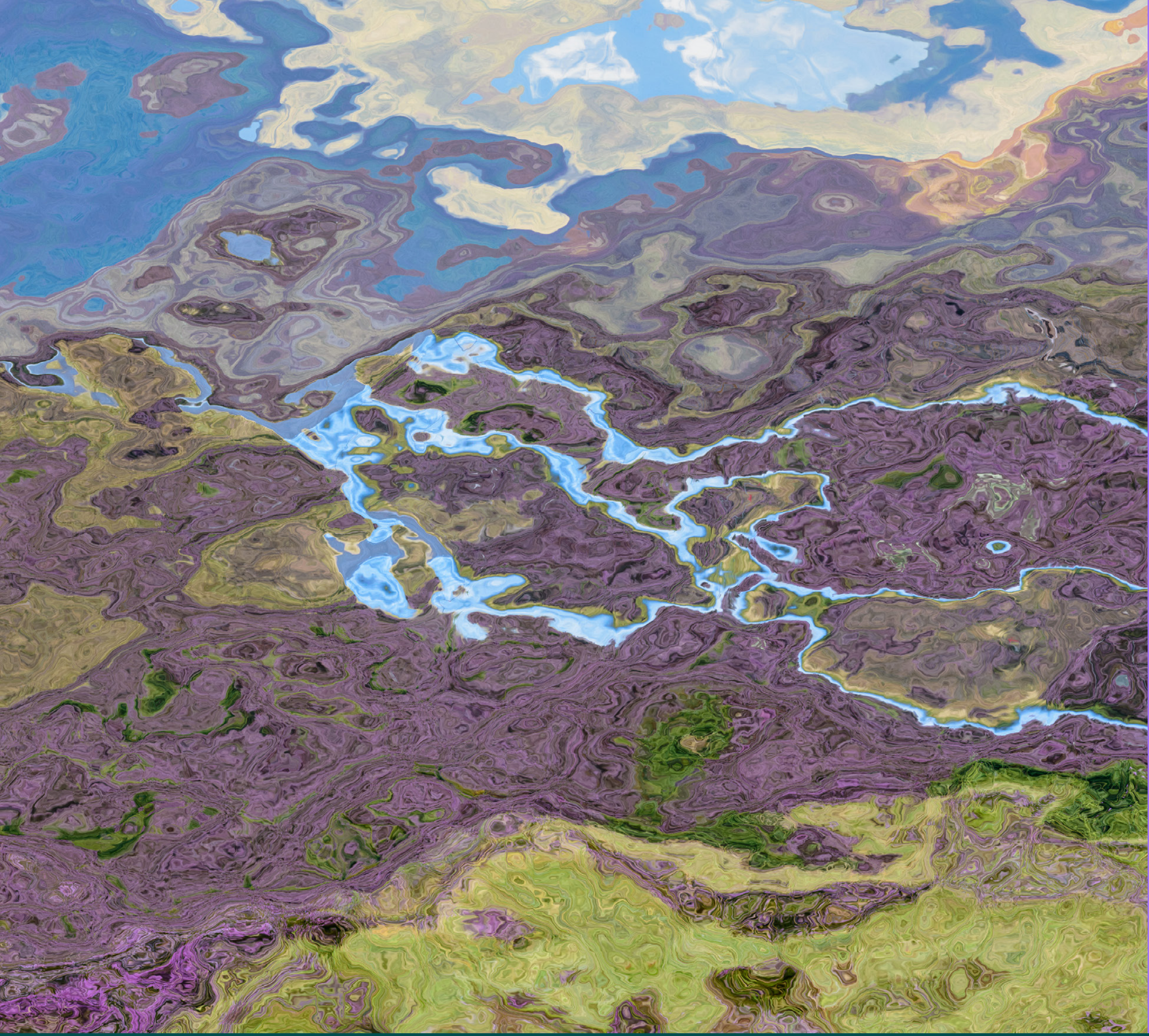

Quarterly report

Munro Climate Change Leaders Fund

MCCL.ASX

December 2023

Munro Climate Change Leaders Fund & MCCL.ASX
December 2023 – Quarterly report

MCCL Fund quarter return
5.5%

MSCI quarter return
5.0%

MCCL.ASX Fund quarter return
5.5%

MSCI quarter return
5.0%

QUARTERLY HIGHLIGHTS

- The Munro Climate Change Leaders Fund and MCCL.ASX both returned 5.5% for the December quarter.
- Top contributors included Arm Holdings and Waste Management. We provide stock stories on Arm Holdings and the newly listed Veralto, which also performed well, in the pages below.
- Global markets rallied during the quarter as the US 10-year bond yield declined, with inflation coming in lower than expectations. The lower inflation gave rise to expectations that the US Federal Reserve was nearing the end of the tightening cycle, later confirmed in the last FOMC meeting for the year.

MUNRO MEDIA

How the #1 stock picks performed in 2023
12 December 2023
Read the article here

3x renewables, 2x efficiency, 1x passionate young activist: our key takeaways for COP28
19 December 2023
Listen to the podcast here

Perspectives on Zero: Episode 9 COP28 Key Outcomes and Outlook for Climate Focused Companies
20 December 2023
Listen to the podcast here

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QUARTERLY COMMENTARY

Fund commentary

The Munro Climate Change Leaders Fund returned 5.5% for the December quarter (10.6% from equities and -5.2% from currency), while the MSCI ACWI returned 5.0% (9.4% from equities and -4.4% from currency).

Global markets rallied during the quarter as the US 10-year bond yield declined, with inflation coming in lower than expectations. The lower inflation gave rise to expectations that the US Federal Reserve was nearing the end of the tightening cycle, later confirmed in the last FOMC meeting for the year. With rates seemingly peaked for now, companies that had reported strong results in October saw their share price rising sharply during the latter half of the quarter.

The Fund's performance was led by Arm Holdings and Waste Management. We provide stock stories on Arm Holdings and the newly listed Veralto, which also performed well, in the pages below. Other positive contributors for the quarter included Nvidia, Quanta Services, Nextracker and NKT. Nvidia designs the fastest and most powerful semiconductors in the world and remains a key beneficiary of the AI race ignited by ChatGPT just over a year ago. Its inclusion in the Climate Fund is due to its contribution to lowering power demand in data centres, for example, moving to Nvidia GPUs from traditional CPU servers for AI, results in a 40 times energy efficiency gain.

Quanta Services, Nextracker and NKT all sit within our Clean Energy sub-Area of Interest (AoI). Quanta Services and NKT are both helping build the electricity grid to meet increased demand from electric vehicles, heat pumps, battery storage and other electrified solutions.

The biggest detractors from performance were undoubtedly in the clean transport sub-theme, including ON Semi and Samsung SDI. This area remains challenging given the impact of higher rates on vehicle financing and strong competition from Chinese electric vehicle and battery makers like BYD and CATL, impacting pricing and margins.

We saw several constructive outcomes at COP28 in Dubai, which concluded in December. First, nearly 120 countries pledged to triple renewable energy and double the rate of improvements in energy efficiency by 2030. Clean Energy and Energy Efficiency were the top two sub-themes in the Fund at the end of December.

Finally, over 20 countries, including the US, Canada, France, UK, Korea and Japan, pledged to triple nuclear energy generation by 2050, which shows it is increasingly seen as an important source of carbon-free baseload power. The Fund invests in Constellation Energy, which operates the largest fleet of nuclear power stations in the US. Munro's Responsible Investment Manager Mike Harut shared his COP28 reflections on the Invest in the Journey podcast available here. These commitments again show that despite some of the macro headwinds in this space, the underlying global effort on decarbonisation continues to strengthen.

Market Outlook

This is an adapted and abbreviated outlook taken from our annual letter, which can be found here.

Global markets had a strong final quarter for the year, and there is reason to be optimistic about 2024. While the economic outlook is far from rosy, it is important to remember that central banks have 500 basis points of interest rate cuts up their sleeve if required. In fact, central banks now see themselves in the strongest position they have been in a decade, having seemingly normalised interest rates without collapsing the economy. Consequently, this should ultimately enable them to manage a long and sustained economic upswing. While there may still be some volatility in the near term, we see many reasons to be optimistic in the medium term. Investors should take this opportunity to look across the valley, believe that the macro issues can be managed from here, and focus on structural changes and innovations that ultimately drive share price returns.

Our Climate thematic was impacted by higher interest rates and an economic growth slowdown in 2023. This particularly impacted more cyclical areas of Climate, like the electric vehicle supply chain and residential areas, including solar and water. These areas tend to rely more on consumer financing and are more impacted when rates rise. Elsewhere, the implementation of the US Inflation Reduction Act was a little slower than we expected, with some delays in releasing key details on tax incentives and domestic content rulings from the US Treasury, meaning some decarbonisation projects were pushed out. This negatively impacted some of the order books in the clean energy supply chain. Investment trends not playing out as quickly as anticipated can be reasonably common in growth investing, but this does not mean the trend will not play out. The climate crisis is worsening, and companies and investors are still committed to their net zero ambitions. The adjustment of the growth outlook should present some good opportunities for climate investing in 2024. In the meantime, we increasingly see an uptick in demand for existing products and technologies available today that can help solve the climate crisis. We would point to existing companies and products, including nuclear energy generation companies (Constellation Energy), building insulation businesses (Kingspan), recycling companies (Waste Management) and hazardous waste management firms (Clean Harbours). The stocks in these areas provided the Funds with positive returns in 2023. As outlined below, we see further investment opportunities "hiding in plain sight" heading into 2024.

Companies mentioned may or may not be held by Munro Partners' funds and are used for illustrative purposes

In conclusion, we believe we are on the other side of a difficult period for growth investing. In our view, interest rates have now peaked and consequently pressure on valuation multiples will cease. Share prices should now return to doing what they have always done, which is follow their earnings growth. We see this as an opportunity to lean into our process, identify the areas of structural growth in the Climate AoI, identify the winners, and set the Fund up for growth in the years ahead.

STOCK STORY: VERALTO

Veralto

AREA OF INTEREST: **Circular Economy**
MARKET CAP: **USD 18.9bn**

Veralto generated 74 basis points of performance for the Fund for the quarter.

Veralto is a leader in water and product quality. The water segment is 60% of sales and here they sell tools for water quality analysis (60% of segment sales) and treatment (40% of segment sales). Water is the most attractive unit within the broader business because of increasing water scarcity issues (driven partly by climate change) and more regulation of contaminants in water (including PFAS, also known as 'forever chemicals').

The remaining 40% of the business is product quality, and while product quality might not been seen as 'attractive' as the water part of their business, there are nonetheless some attractive attributes. Veralto's product quality tools help customers track and trace products primarily within the food and pharma sectors. Increased regulation and demands for information and tracing on packaging structure underpins demand for Veralto's services here.

Veralto spun out from Danaher in late September 2023. Danaher itself has an exceptional history as a leading industrial company, and we know the stock well from investing previously, having been particularly attracted to their healthcare tools franchise. The Danaher DNA gives us additional confidence to invest in the Veralto business standalone. We are also attracted to Veralto's high recurring sales through consumables and that its products are their customers' mission-critical operating (not capital) expenditures and, therefore, are less cyclical.

Overall, our view is that Veralto is a high-quality company with a relatively stable mid-single-digit revenue growth profile and good incremental margin opportunities in areas with strong secular tailwinds and positive ESG characteristics. Like Danaher over the decades, we expect Veralto to use its strong free cash flow profile to make smart acquisitions in the market. It should be noted that Danaher previously focused the cash flow generated by the Veralto businesses towards M&A in the healthcare area, and as a standalone company and management team, we now expect that Veralto will have more bandwidth to supplement its growth inorganically.

Veralto trades on an EV/EBITDA of 17.5x and is not a cheap stock optically; however, we consider valuation to be reasonable given the aforementioned structural growth industry attributes. Further, the valuation is similar to water companies (relevant to the water segment) and other high quality industrial peers (relevant to the product quality segment).

Circular economy: management of waste, water & energy

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DRIVEN BY GOVERNMENTS, CORPORATES AND INVESTORS

IFRS

Investor Group on Climate Change

Climate Action 100+

2024 SEES AN UP TICK IN REGULATORY REQUIREMENTS IN THE US

Agency	Description Policy	Area of Interest
SEC	Climate Disclosures for public companies	
EPA	Lead in Drinking Water / Lead Pipe Replacement	
Treasury	Sustainable Aviation Fuel Subsidies	
EPA	PFAS (in water, on public sites and in landfill)	
Treasury	Clean hydrogen subsidies guidance Methane Capture requirements	
Treasury/ EPA	Chinese EV battery content and materials Autos emissions standards	

Source: Core and Main Investor Day (May 2023), MSCI Investor Presentation (Nov 2023), Wolfe Research (Dec 2023), Clean Harbors, Munro Partners

STOCK STORY: ARM HOLDINGS

SUB AREA OF INTEREST: **Energy Efficiency**
MARKET CAP: **USD 73.7bn**

Arm Holdings added 136 basis points to Fund performance for the quarter.

Arm is a leading semiconductor IP company that develops and licenses chip designs for processors widely used in mobile, PC, data center, automotive and Internet of Things (IoT) applications.

The company was previously listed in London and New York, but was taken private by Softbank Corporation in 2016, and has now returned to the public markets in 2023 through an IPO. Given its licensing and design capabilities, Arm is a unique asset with few pure play public company competitors. We see Arm as an enabler of decarbonisation because its products provide energy efficient solutions for these end markets.

Arm licensed or designed chips deliver a high degree of computing performance for the lowest possible power usage. The company's origins were designing chips to increase compute power while maximising battery life in mobile devices. Today, Arm is a significant player in designing and licensing chips for the mobile industry but remains relatively underpenetrated in the data centre, automotive and broader IoT markets.

Data centres and data transmission networks account for around 2-3% of global electricity consumption and produce roughly as much carbon emissions as the airline industry, making the need for broad-based adoption of power efficient infrastructure critical. AI applications have created a significant increase in computing power required to operate in data centres, which results in an increased need for power management.

Over time, we believe Arm can continue to grow its presence in the cloud infrastructure market. For example, the company's leading product, the Neoverse, can handle 33-64% more workload while avoiding 42-74% of the carbon emissions produced by servers powered by traditional computing infrastructure.

Eventually, as AI applications move from being hosted in data centres to also being hosted on a consumer or business PC and eventually a smartphone, we believe Arm can play a significant role in the increased power management requirements PC's and smartphones will need.

The company has a high degree of recurring revenues and plays a critical role in enabling AI applications to exist, but in a manner that reduces power consumption. This relatively unique position means that the company trades on a forward multiple that is higher than the market, but we believe it is commensurate with a business that has a long runway of earnings growth ahead.

Arm enables more energy efficient computing

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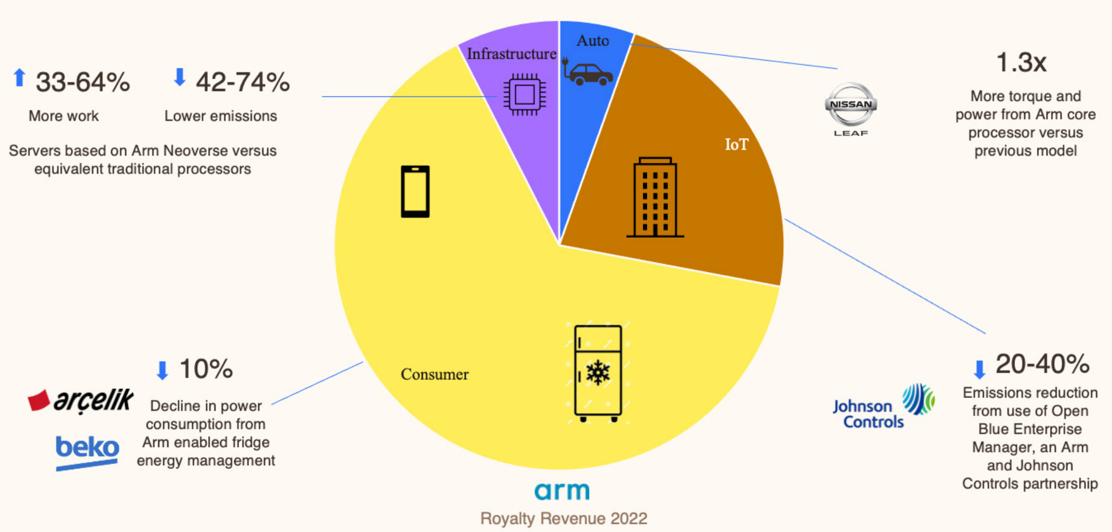
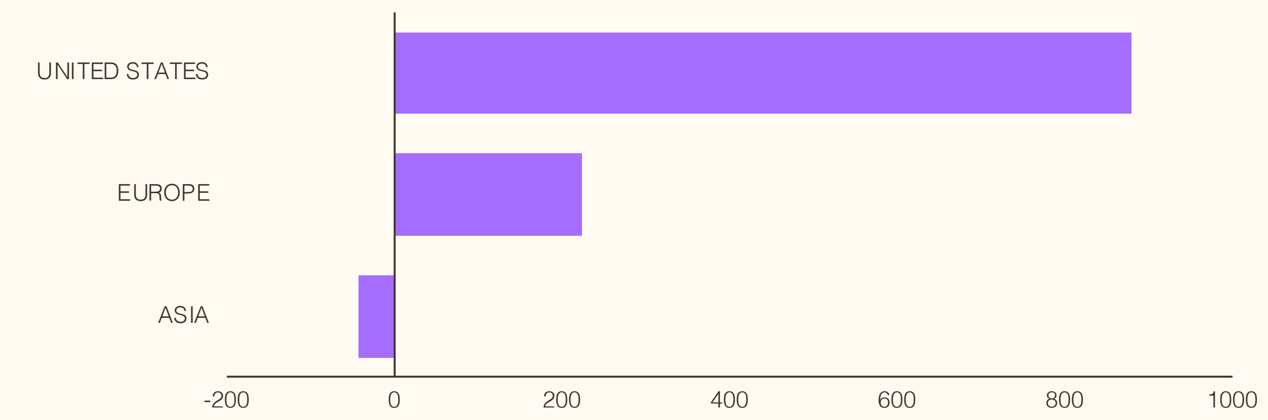


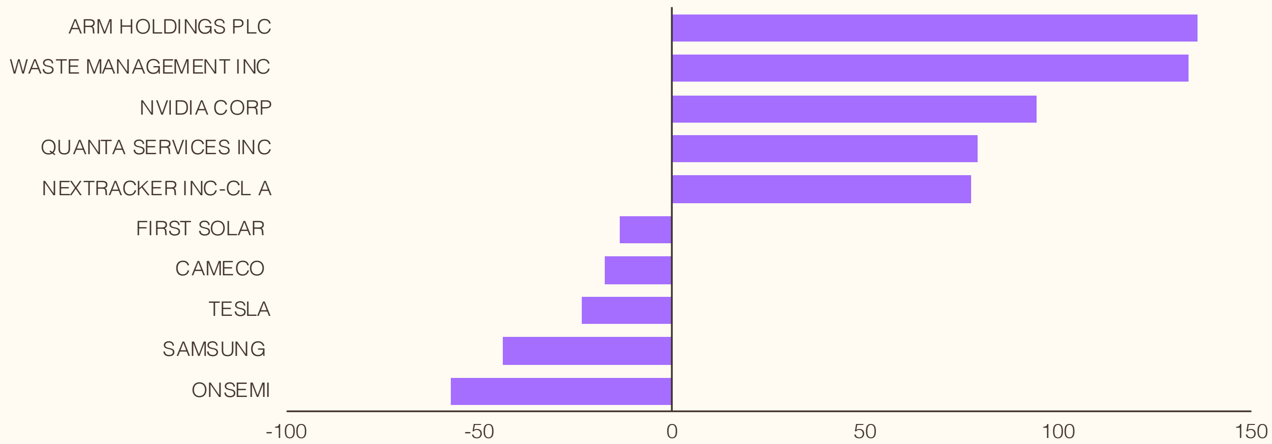
The four examples provided are not necessarily illustrative of the entire segment's activities or environmental impact. The energy efficiency of computing has doubled at least every 3 years since 1985. Source: Arm, Jonathan Koomey, PhD

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

Region (equities only)



Top & bottom contributors



QUARTER END EXPOSURE

Category

EQUITIES	93.8%
CASH	6.1%
NO. OF POSITIONS	20

Sector

INDUSTRIALS	56.4%
INFORMATION TECHNOLOGY	12.3%
UTILITIES	11.9%
OTHER	13.3%
CASH	6.1%

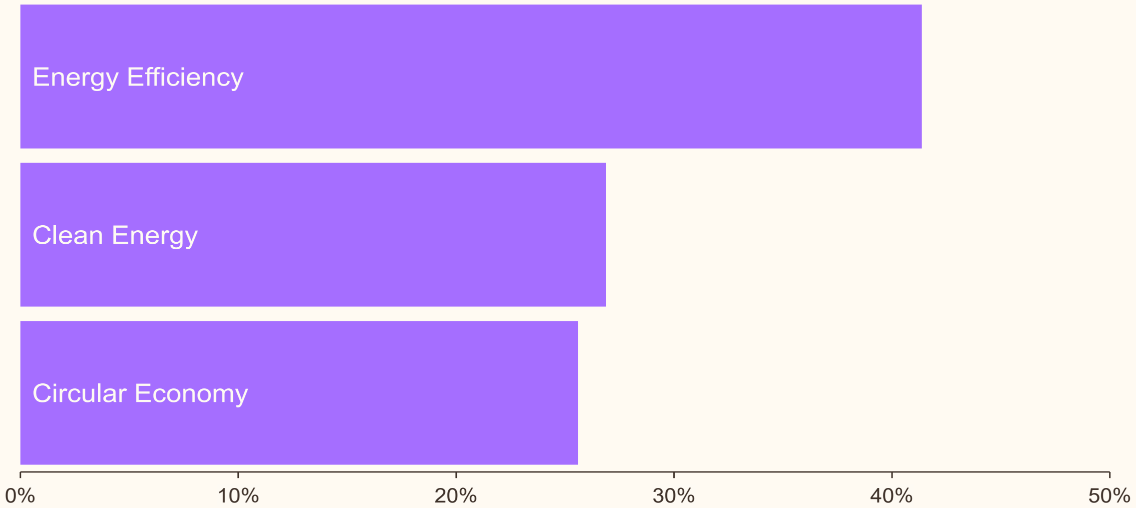
Region

	LONG
UNITED STATES	81.5%
EURO AREA	12.4%
FRANCE	4.1%
IRELAND	5.2%
DENMARK	3.0%
TOTAL	93.9%
CASH	6.1%

Holdings

TOP 5 HOLDINGS	
CONSTELLATION ENERGY	8.0%
WASTE MANAGEMENT	7.0%
CLEAN HARBORS	6.8%
NVIDIA	6.7%
LINDE	6.0%

Sub-areas of interest



Net Performance - MCCL

	3MTHS	6MTHS	1YR	INCEPT P.A.	INCEPT CUM.
MUNRO CLIMATE CHANGE LEADERS FUND (AUD)	5.5%	1.7%	15.1%	-1.0%	-2.1%
MSCI ACWI TR INDEX (AUD)	5.0%	4.6%	21.5%	5.1%	11.5%
EXCESS RETURN	0.5%	-2.9%	-6.4%	-6.1%	-13.6%

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
2022FY					3.5%	0.8%	-10.5%	-3.9%	0.2%	-4.5%	-1.1%	-6.6%	-20.7%
2023FY	10.6%	0.7%	-2.4%	3.3%	2.9%	-7.2%	-0.5%	1.6%	6.2%	-1.8%	4.1%	3.1%	21.3%
2024FY	2.5%	0.3%	-6.2%	-3.4	4.9%	4.1%							1.7%

Net Performance - MCCL.ASX

	3MTHS	6MTHS	1 YEAR	INCEPT P.A.	INCEPT CUM.
MCCL.ASX (AUD)	5.5%	1.7%	15.1%	1.8%	3.6%
MSCI ACWI TR INDEX (AUD)	5.0%	4.6%	21.5%	5.3%	10.6%
EXCESS RETURN	0.5%	-2.9%	-6.4%	-3.5%	-7.0%

	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%	0.7%	-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%							1.7%

Differences in performance between the Munro Climate Change Leaders Fund (unlisted fund) and MCCL (ASX quoted fund) relate to their respective inception dates, the buy/sell spread around the iNAV for MCCL, and the timing difference between the issuing of units during the day on the ASX for MCCL. 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 31 December 2023 unless otherwise specified. GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Munro Climate Change Leaders 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. The inception date of MCCL is 29 October 2021, and the inception date of MCCL.ASX is 20 January 2022. Returns of the Fund 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. AOIs refers to Areas of Interest. EM refers to Emerging Markets (including China). 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 Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs and read and consider the target market determination (TMD) and the product disclosure statement (PDS) for the relevant class of units of the Fund. The MCCL TMD is dated 9 November 2022, the PDS and Additional Information Booklet are dated 10 December 2021, the MCCL.ASX PDS is dated 10 December 2021, these documents may be obtained from www.gsfm.com.au, www.munropartners.com.au or by calling 1300 133 451. 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 11 January 2023.