



MUNRO

Quarterly report

Munro Climate Change Leaders Fund

MCCL.ASX

June 2024



Munro Climate Change Leaders Fund & MCCL.ASX

June 2024 – Quarterly report

MCCL Fund quarter return
4.9%

MSCI ACWI quarter return
0.5%

MCCL.ASX Fund quarter return
4.9%

MSCI ACWI quarter return
0.5%

QUARTERLY HIGHLIGHTS

- The Munro Climate Change Leaders Fund and MCCL.ASX both returned 4.9% for the June quarter, outperforming the MSCI ACWI by 4.3% which returned 0.5% over the same period.
- Global markets were positive during the quarter, with corporate earnings and guidance boosting investor confidence. The market continued to anticipate cuts by the Federal Reserve later in the year, which supported the rally. The performance of the market was positively skewed to Technology over more economically sensitive parts of the market such as Materials and Industrials.
- The Funds' performance continues to be driven by multiyear electrification and decarbonisation megatrends, which we expand on in this report. While we are cognisant of the upcoming US election and volatility around a second Trump presidency, the Funds' US exposure is positioned in areas that we believe have strong bipartisan support.

MUNRO MEDIA

Livewire Markets, 27 June 2024

Don't be scared by all-time highs in global equities, there's likely more on the way

[Read the full article here](#)

Invest in the Journey Podcast, 19 June 2024

Nvidia has now become the biggest company in the world. Now what?

[Listen to the full podcast episode here](#)

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QUARTERLY COMMENTARY

Fund commentary

The Munro Climate Change Leaders Fund returned 4.9% (MCCL.ASX returned 4.9%) for the June quarter while the MSCI ACWI returned 0.5%.

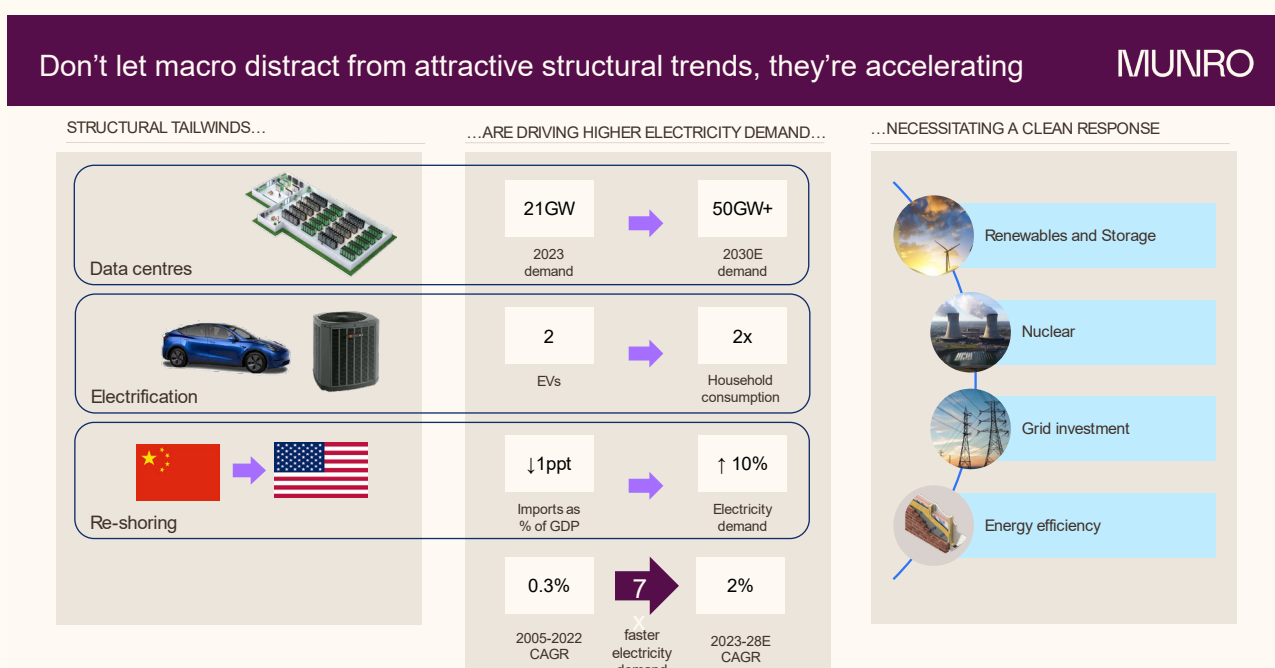
Global markets were positive again during the quarter, with corporate earnings and guidance boosting investor confidence. The market continued to anticipate cuts by the Federal Reserve later in the year, which supported the rally. The performance of the market was positively skewed to Technology over more economically sensitive parts of the market, such as Materials and Industrials.

From a Fund attribution perspective, strong contributors for the quarter again came from Nvidia and ARM. Nvidia continued to rise, as demand for its products continued to accelerate, driven by not only a need for more compute power, but also because it improves the energy intensity of data centres (which now equate to more than 2.5% of global emissions). ARM is benefitting from similar compute and energy usage dynamics, but with greater exposure to computing at the edge (connected devices). Other positive contributors for the quarter came from clean energy position Constellation Energy (the operator of the largest fleet of existing nuclear power plants in the US, which have no operational emissions), GE Vernova (a leading power and electrical grid equipment provider) and Cameco (the largest uranium producer in the western world).

The broader climate sector gave back some strong performance late in the quarter, as the market began to contemplate a potential cyclical slowdown and the repercussions of an increasingly likely Republican victory in the November US election. These dynamics put pressure on solar company Nextacker, water management company Core and Main, and ESG and climate data provider MSCI Inc.

Taking a step back from the very short term around politics, we believe we are in the early innings of global decarbonisation and are confident in the structural underpinning of the sector over the medium term. Namely, the Fund is benefitting from electrical demand accelerating for the first time in decades due to data centre growth (driven by AI), the electrification of transportation (electric taking share from internal combustion engines) and buildings (heat pumps replacing gas boilers), and finally US onshoring.

We highlight these areas in the slide below as we have confidence in them driving more demand for our clean energy, electrical grid, and energy efficiency beneficiaries.



Source: Munro Partners and Industry research

QUARTERLY COMMENTARY

Data Centres:

US hyperscalers are going to spend over \$200bn in capex in 2024. The majority of this will be spent on data centres and this will happen regardless of whether Trump or Biden are elected.

Electrification:

While Electric Vehicles and Heat Pumps penetration may slow under Trump, households switching from 2 traditional autos to EVs will consume roughly twice the electricity as they did prior.

Reshoring:

US reshoring may accelerate under Trump with Republican proposed tariffs on China potentially reaccelerating US reshoring efforts. A 1% change in imports may result in a staggering 10% increase in electricity demand. Such is the expected intensity of the industries coming back, like chip plants.

Power Demand:

All together, we now expect the demand for US power will grow for the first time in 20 years. While a shift up from 0% to 2% doesn't seem like a big change, it is material, especially following decades of grid underinvestment. Additionally, marginal generation capacity needs to be carbon-free to meet, not just US government targets, but also those of US tech companies which are among the biggest corporate buyers of renewables. The intermittency from renewables itself drives additional investment requirements in the grid and battery storage.

Many of the engineering and construction companies we speak to in these areas say that they haven't seen such growth in their order books and remark that the last time this steep change in electricity demand occurred, was around the introduction of fridges and air conditioning in homes and buildings.

Separately, in the quarter, Munro continued to engage with companies on ESG issues as part our commitment to responsible investment. We discussed climate change targets and human rights issues in the solar supply chain with utility and renewables developer NextEra Energy. Worker safety, engagement and wellbeing was the focus of our discussion with electrical equipment installer Comfort Systems. Later this year we will publish our annual Responsible Investment Report which will further explain our engagement and broader responsible investment efforts this year.

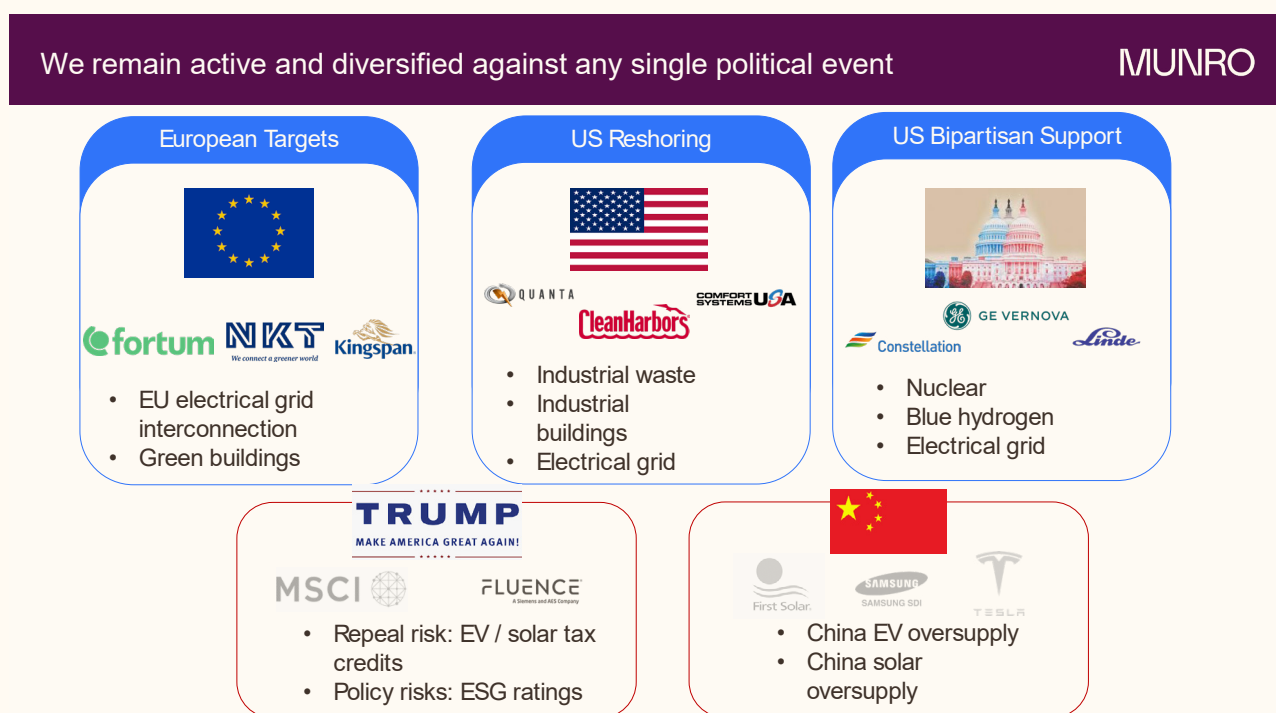
QUARTERLY COMMENTARY

Market Outlook

Global equity markets have performed well in the first half of calendar year 2024 and we believe that there are reasons to be optimistic in the months and years ahead. The outlook for inflation and interest rates remains favourable for growth equities, with inflation likely to continue moving down with the US Federal Reserve expected to either hold or cut interest rates at the remaining meetings this year. From an earnings perspective, we expect the continuation of strong growth from AI-related spend to benefit hardware suppliers and power generators. Whilst market performance has been relatively narrow recently, we do expect this to eventually broaden out as the economy makes a gradual recovery.

Clearly there is a big focus on the US election in the second half of the year, but we remain confident that the fund is well-positioned to cope with either a Republican or Democratic outcome. While short term market sentiment may shift with the polls, we reflect that even the renewables stocks did well under Trump's first term, as ultimately they followed their earnings, which are structurally underpinned by the energy transition.

Munro is an active manager and will be cognisant that the focus will be on politics for the next few months. While we don't anticipate the repeal of the IRA as likely, we will nonetheless avoid some of the areas where Trump is highly critical (such as Electric Vehicle tax credits) and we will continue to run portfolios that are diversified against any single political event. In the chart below, we show, in green, three ways in which we are diversified away from the US political situation – namely by having more European exposure, more US reshoring exposure and parts of the energy transition which are bipartisan. Below that, in red, we show what we are avoiding – those parts of the transition actively targeted by Trump and those affected by Chinese oversupply. We expand on some of these below.



US Bipartisan Support

For a while now, we have been positioning the fund to navigate the more difficult political situation in the US and have sought to balance exposures in largely bi-partisan solutions. Here are some examples where we see bipartisanship:

Nuclear

Traditionally more a Republican priority however, under Biden the US signed up to triple nuclear capacity by 2050 and introduced generous Production Tax Credits for existing nuclear generators to reinforce the longevity of the industry. We are more likely to see government support for new nuclear plants under a Republican government.

QUARTERLY COMMENTARY

Blue hydrogen

Hydrogen has also garnered bipartisan support. Democrats have recognised hydrogen's role in decarbonising industrial processes within the IRA (fertiliser, steel-making, refining), while Republican states have significant exposure to these industrial processes (for example, refining in Texas) and are supportive of funding for hydrogen.

Electrical Grid

This is an extension of US reshoring, which accelerated in Trump's first term and drives power demand growth. It is important to note that the US grid has been neglected (for example the average age of a US power transformer is 40 years old) and is a major bottleneck for US "mega project" builds.

Risks to Avoid

As an active manager, it is imperative to manage developing risks in markets, particularly in relatively nascent areas like decarbonisation. Therefore, as the environment changes, we seek to remain nimble.

China oversupply

Last year, we cut exposure to our Clean Transport Area of Interest to 0% because of concerns around Chinese competition and potential oversupply of electrical vehicles. These fears have since materialised and the growth of Chinese exports has created a price war, forcing companies like Tesla to rapidly cut prices. We continue to largely avoid this industry short term.

Trump targets

Similarly, we are endeavouring to stay nimble in areas that Trump particularly dislikes, including the IRA's electric vehicle credits, and perceptions around investors using ESG to achieve environmental or social (rather than investment) objectives. For example, we have sold leading ESG and climate data provider MSCI from the portfolio, as we expect growth from its ESG and climate ratings business to continue to slow with a shift to the right in US politics.

While we still project more funds globally to increase ESG integration and advocate for better environmental performance from companies, we think the take up of ESG and climate data in the US will slow for now, so we have exercised some pragmatism and exited our position in the stock.

Summary

Although we're positioning the fund to manage political risks around a potential change of government in the US, it is important to remember that medium to longer term structural earnings growth often outruns short-term macro factors. Specifically, we reflect that the climate change theme is driven not just by government policies, but also by corporates, investors, communities and individuals. This structural trend is larger than any single country, government or policy, and is multi-decade in nature. It will continue to create new opportunities for us to lean into our process of identifying the structural areas of growth, identify the winners with the aim of delivering strong returns for our investors.

STOCK STORY: GE VERNOVA



GE VERNOVA

CLIMATE SUB AREA OF INTEREST: **Clean Energy**MARKET CAP: **USD \$47 bn**

GE Vernova contributed 90bps to Fund performance for the June quarter.

GE Vernova (GEV) is the power business that in March 2024 spun out from the broader industrial company, General Electric (GE). After years of management challenges, in 2018, American business executive Larry Culp, was appointed as the GE CEO to restructure and simplify its businesses. Part of Culp's strategy has been to spin out GE's Healthcare and Power businesses into separately listed companies. With GEV, we have a high level of conviction that the company's dedicated board and executive team can continue to improve its recent execution and profitability trajectory. While some project obstacles remain within the portfolio, we are satisfied that the company has adequately provisioned for them and note that the company is in a strong net cash position. As these obstacles are worked through, we believe that the simplified product focus puts GEV in a strong position to benefit from the decarbonisation megatrend that its products and services enable.

GEV is a power conglomerate organised under 3 main divisions: power generation (gas, nuclear, hydro, steam), wind (onshore and offshore turbine equipment and services) and electrification (power transmission, storage, software) with a sales mix of approximately 50%, 30% and 20%, respectively.

The bull case for each division varies but each revolves around decarbonisation. Within power, the company benefits, not only from coal-to-gas switching, but also the ability to switch the fleet of existing gas turbines to hydrogen powered turbines. The power business is also set to benefit from the improved outlook for nuclear in a net zero world. While wind has always been an area of excitement, profitability has been poor primarily due to execution missteps in offshore wind, with projects in the past bid for at low margins and with too much technology and project risk – specifically, very large turbines installed many kilometres offshore. We're anticipating GEV to withdraw this business if industry dynamics don't change once it addresses its legacy backlog.

However, we believe that the most interesting growth business within the GEV portfolio is the electrification business, which provides electrical grid equipment and software. Electrification is driven by all the positive electrical demand drivers we talked about earlier in this report and we model the grid business to grow its sales in the mid-teens to the end of the decade.

Learn more about GE Vernova in this [Invest in the Journey Podcast episode](#) with Investment Analyst, Dan Condon.

STOCK STORY: CAMECO

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

Cameco contributed 73bps to Fund performance for the quarter.

Cameco was founded in 1988 in Canada and is the largest uranium company in the Western world, producing over 20mn lbs of uranium in 2023. They also provide fuel services such as uranium conversion and refining, and own a 49% stake in Westinghouse, a leading nuclear reactor Original Equipment Manufacturer (OEM) and aftermarket product and services provider with content in ~50% of the global nuclear reactor fleet.

Cameco is the only Western, publicly traded, large-cap company with 100% exposure across the nuclear energy supply chain. We believe nuclear energy is a key pillar of the energy transition as a scalable, carbon-free baseload power source.

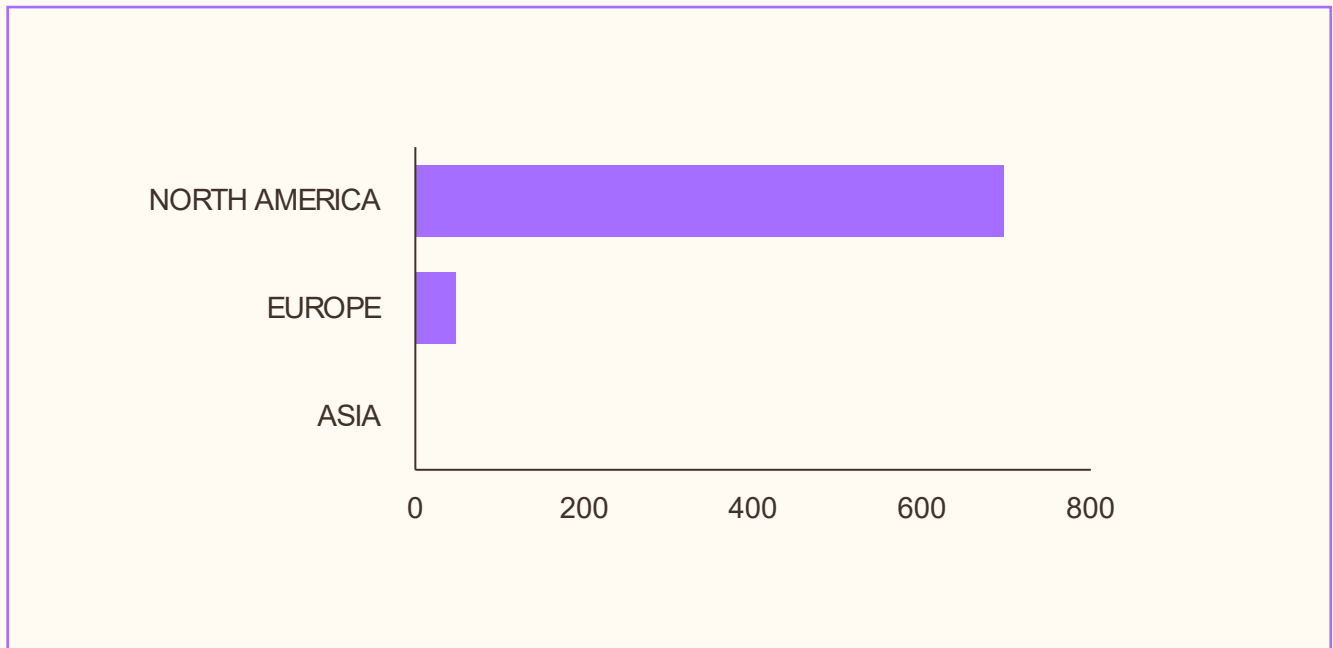
The nuclear power industry is experiencing a shift with discussions moving from early plant retirements to new 40-year life extensions and the possibility of new builds, including in the US. From our research, we believe the consequential earnings opportunity for Westinghouse is underappreciated by the market, with 16 reactors in the US already approved for life extensions and 6 new reactor units scheduled for construction in Eastern Europe over the next 4 years. A new AP1000 reactor costs US\$6-8bn, 25-40% of which is addressable by Westinghouse. Assuming the midpoints, each AP1000 reactor could generate more than US\$2bn in revenue opportunity for Westinghouse, compared to its current revenue of just over \$3bn today.

This resurgence of the nuclear industry is clearly supportive of uranium prices, where Cameco could benefit given their Tier 1 uranium assets in Canada. These market forces are influenced by the existing uranium supply chain structure, with 70% of global production in the 'East' (Eg. Russia, Kazakhstan, Niger). Given the recent geopolitical instability, Western utilities are being pressured to diversify their supply chains away from these regions. However, capacity is scarce. In May 2024, a bipartisan bill was signed that banned the import of enriched uranium from Russia, with waivers issued until 2028 to address supply concerns. There could be upside risks to uranium prices if there were a Russian retaliation tantamount similar to what we saw with European natural gas.

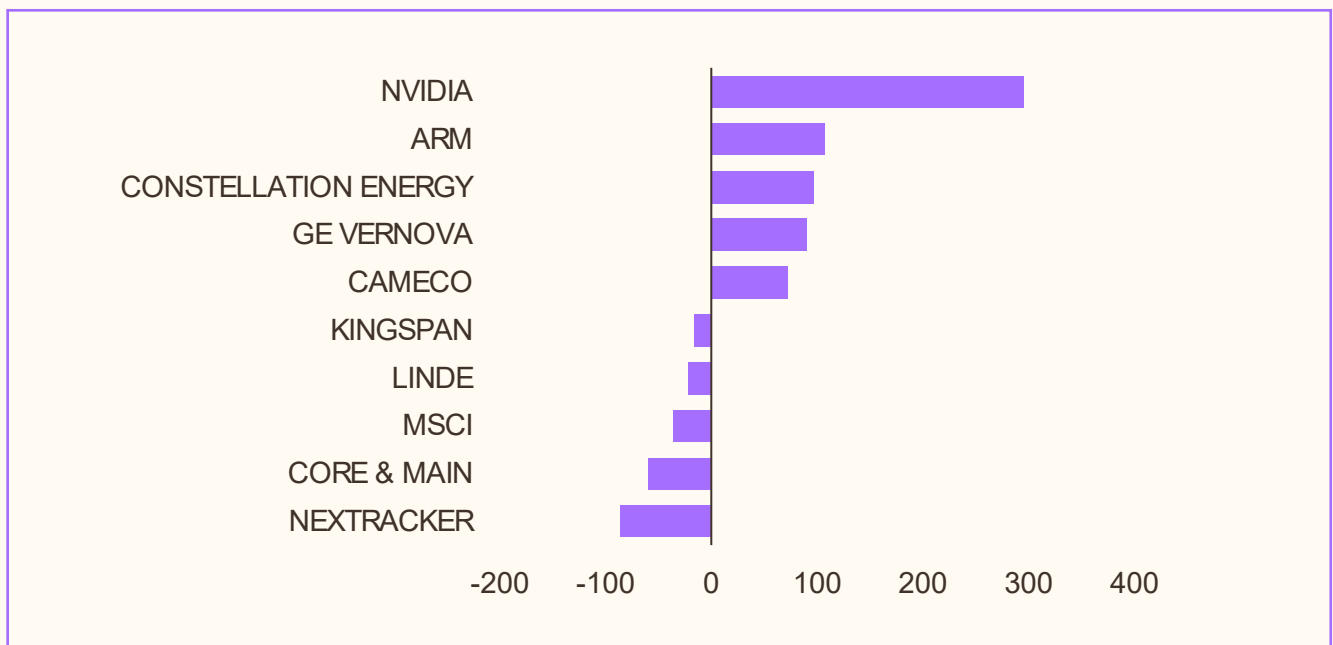
Learn more about Cameco in this [Invest in the Journey Podcast episode](#) with Investment Analyst, Dan Condon.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

Region (equities only)



Top & bottom contributors



QUARTER END EXPOSURE

Category

EQUITIES	92.1%
CASH	7.9%
NO. OF POSITIONS	20

Sector

INDUSTRIALS	53.6%
INFORMATION TECHNOLOGY	14.6%
UTILITIES	14.2%
MATERIALS	4.8%
OTHER	4.7%
CASH	7.9%

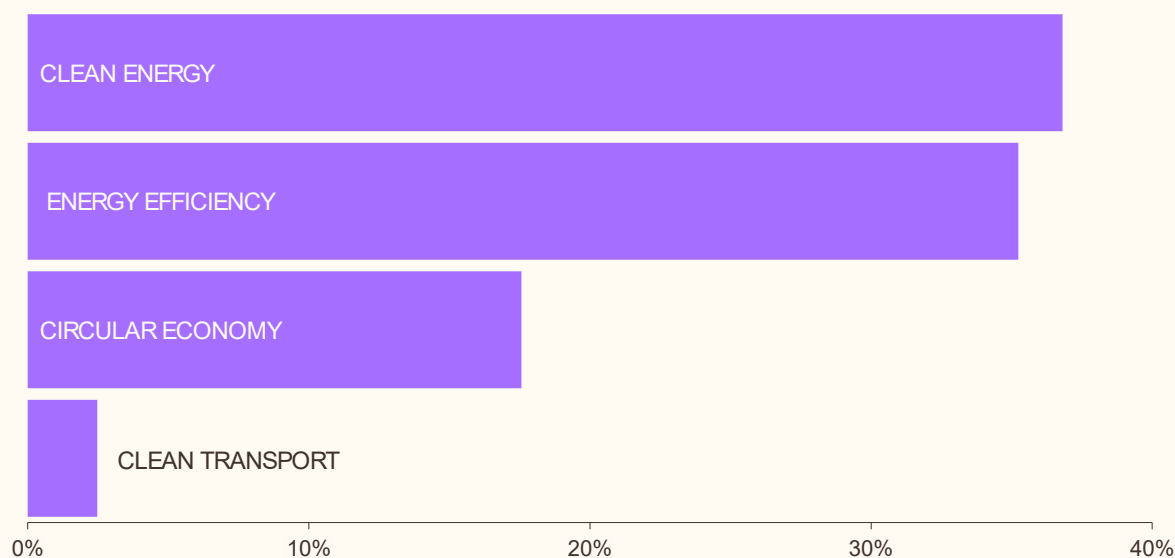
Region

	LONG
UNITED STATES	78.1%
EUROPE	14.0%
FRANCE	5.1%
IRELAND	3.6%
DENMARK	2.8%
GERMANY	2.5%
TOTAL	92.1%
CASH	7.9%

Holdings

TOP 5 HOLDINGS	
NVIDIA	9.0%
CONSTELLATION ENERGY	8.8%
CLEAN HARBORS	5.7%
GE VERNOVA	5.6%
NEXTERA	5.5%

Sub-areas of interest



Net Performance - MCCL

	3MTHS	6MTHS	1YR	2 YRS	INCEPT P.A.	INCEPT CUM.
MUNRO CLIMATE CHANGE LEADERS FUND (AUD)	4.9%	40.3%	42.8%	31.6%	12.6%	37.4%
MSCI ACWI TR INDEX (AUD)	0.5%	13.7%	19.0%	19.7%	9.3%	26.7%
EXCESS RETURN	4.3%	26.6%	23.8%	11.9%	3.3%	10.6%

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%

Net Performance - MCCL.ASX

	3MTHS	6MTHS	1YR	2 YRS	INCEPT P.A.	INCEPT CUM.
MCCL.ASX (AUD)	4.9%	40.3%	42.8%	31.6%	16.5%	45.3%
MSCI ACWI TR INDEX (AUD)	0.5%	13.7%	19.0%	19.7%	9.8%	25.8%
EXCESS RETURN	4.3%	26.6%	23.8%	11.9%	6.7%	19.6%

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%

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 June 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. Aol refers to Area of Interest. EM refers to Emerging Markets (including China). GSFMR 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 dated 9 February 2024 and the Additional Information to the Product Disclosure Statement (AIB) which may be obtained from www.gsfrm.com.au, www.munropartners.com.au or by calling 1300 133 451. GSFMR 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.gsfrm.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 July 2024.

