Quarterly report

Munro Climate Change Leaders Fund

MCCL.ASX

December 2024

Munro Climate Change Leaders Fund & MCCL.ASX

December 2024 – Quarterly report

MCCL Fund quarter return (net)
9.8%

MSCI ACWI quarter return
10.9%

MCCL.ASX Fund quarter return (net)
9.8%

MSCI ACWI quarter return
10.9%

QUARTERLY HIGHLIGHTS

- The Munro Climate Change Leaders Fund returned 9.8% for the December quarter (MCCL.ASX 9.8%).
- Key contributors to performance over the quarter were GE Vernova, Comfort Systems (see stock story on page 5) and Quanta Services (see stock story on page 6). Key detractors from performance over the quarter were Constellation Energy and Linde.
- We expect the bull market, which began in 2023, is entering its third year. Conditions are favourable for further corporate earnings growth and, hence, equity market growth in 2025. Interest rates have stabilised, inflationary pressures are easing, and central banks can now support a stable economic upcycle via interest rate cuts if required.

MUNRO MEDIA

Australian Financial Review, 9 December 2024
Top fundies name their stock picks for 2025
Read the article here

Equity Mates Podcast, 9 December 2024
The Nvidia story is not over
Listen to the podcast episode here

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QUARTERLY COMMENTARY

Fund commentary

The Munro Climate Change Leaders Fund returned 9.8% for the December quarter (MCCL.ASX 9.8%) underperforming the benchmark return of 10.9% by 1.1%.

Global markets had mixed performance for the quarter in local terms, with equity market performance bifurcated by regions. The US market gained, led by technology, with the Nasdaq outpacing gains in the S&P 500, whilst many other markets, including Europe, Hong Kong and China, were weaker.

The US Presidential Election was the major event of the quarter. Donald Trump won a clear mandate to govern with Republicans gaining a majority vote in the Senate and the House of Representatives. This led to the bifurcation of the market with the US seen as having a stronger economy and lower taxes under Trump and the impact of potential tariffs threatening growth in other parts of the world including China and Europe. The market had a weak close to the quarter following the US Federal Reserve's meeting in mid-December when they disclosed a likely two rate cuts in 2025, versus market expectations of four rate cuts.

Key contributors to performance over the quarter were electrical equipment and labour suppliers GE Vernova, Comfort Systems (see stock story on page 5) and Quanta Services (see stock story on page 6). The key drivers for these stocks came from the growing power demand relating to the build-out of the data centre capacity required for artificial intelligence (AI), the increased focus on Trump 2.0 and the promotion of re-shoring.

Key detractors from performance were Constellation Energy, which slumped after regulators blocked peer Talen Energy's deal to supply an Amazon data centre with nuclear power. We expect this regulatory path to clear post Trump taking office as we ultimately expect the new administration to be supportive of the nuclear energy industry, as well as data centre construction, to ensure the US maintains its leadership position in technology. Other detractors included industrial gas company Linde, which is possibly seeing some slow down due to a weaker outlook in some of its end markets.

Currency contributed to performance as the AUD depreciated for the quarter against the USD. This was driven by positive economic growth expectations in the US following the US election and the US Federal Reserve's meeting in mid-December when they disclosed a likely two rate cuts in 2025, versus market expectations of four rate cuts.

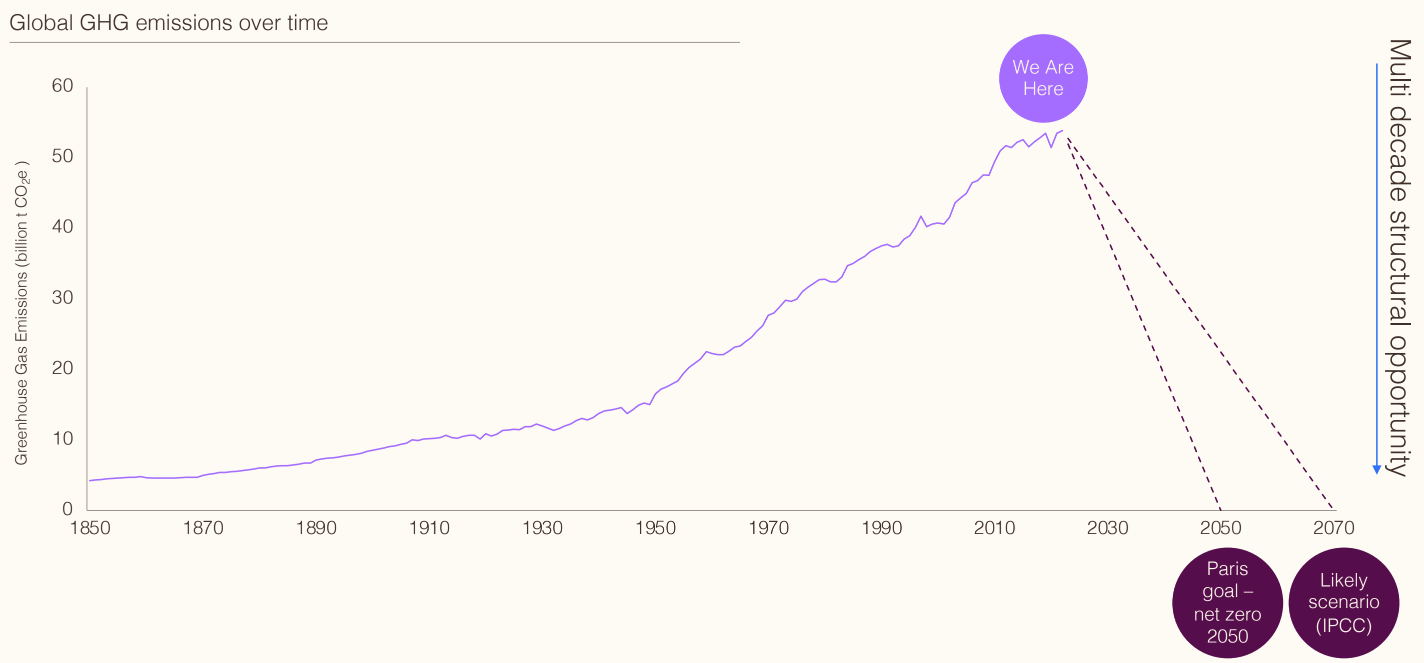
Market Outlook

For Munro's broad market outlook please refer to the Annual Letter prepared by CIO Nick Griffin, published on December 20, 2024. Alternatively, you can listen to the Invest in the Journey 2025 outlook podcast episode here.

Key highlights from the Annual Letter relating to the Munro Climate Change Leaders Fund include the impacts of data centre capex, electrification and reshoring that will continue to drive the earnings of the stocks within the Climate Area of Interest. We believe these dynamics are getting stronger as AI is scaling, electrification is becoming increasingly critical, and the Trump administration promotes US re-industrialisation. The stock stories below on two of the Fund's top five contributors for the quarter, Comfort Systems and Quanta Services, help illustrate this, as these large top-down thematics intersect with the companies' bottom-up fundamentals via their roles as the "picks and shovels" in their respective booms.

Lastly, while the Munro Climate Change Leaders Fund has had a strong period of performance, the global emissions curve is yet to bend. With decarbonisation spending being the key driver of the earnings growth of the Fund's investments, we would expect the tailwind for growth for these companies to last for multiple decades until we achieve net zero.

UNTIL WE GET TO NET ZERO, THE MONEY MUST FLOW



Source: Our World in Data, IPCC, Munro Partners, November 2024.

COMFORT SYSTEMS USA

CLIMATE SUB AREA OF INTEREST: **Energy Efficiency**
MARKET CAP: **USD $15bn**

Comfort Systems contributed 68bps to Fund performance for the quarter.

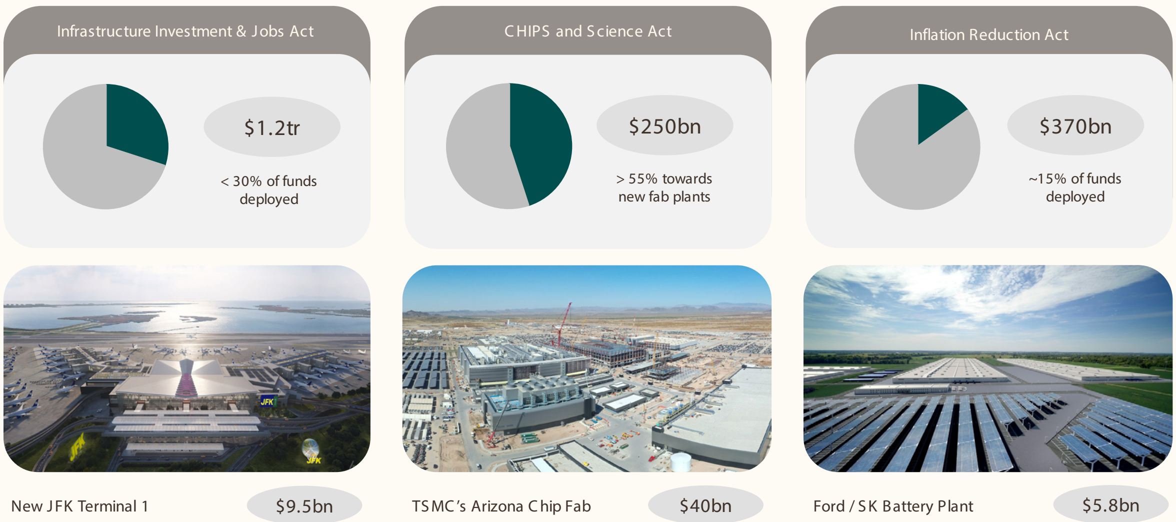
Comfort Systems, based in Houston Texas, is comprised of more than 45 operating companies and is a leading building and service provider for mechanical, electrical and plumbing building systems. They offer a broad range of services, including commercial and industrial electrical construction, installation and maintenance of HVAC systems, installation and maintenance of plumbing and process piping systems, along with other more specialised applications. They have a skilled non-union labour force of over 18,000 people, consisting of electricians, plumbers, welders and service technicians.

Today in the US, there is a considerable shortage of skilled labourers as two large demand drivers are intersecting: US industrial reshoring and data centres to power AI. Both of which require significant human capital to deploy the necessary infrastructure. Comfort Systems has been successfully able to retain staff and hire from their competitors, largely due to their project selection approach that firmly prioritises worker conditions, training and safety, which we view as a competitive advantage with respect to employee retention and attracting talent.

Comfort Systems isn't just a great place for employees to work but is also uniquely viewed across the industry as a trusted party for retiring founders to sell their contracting businesses. Comfort Systems forges decade-long relationships with these local companies, who often entrust them to look after the owner's 'life's work' at a fair price when the time is right. These founders stay involved for at least 5 years, and a thorough succession plan is put in place to ensure continuity of operations. This sense of goodwill and transparency limits surprises in the acquisition process, and they have been able to achieve returns above 20% on every M&A deal they've carried out under the existing CFO (who has been at the company for 20 years). This allows Comfort Systems to continue to recycle capital into growing their geographic footprint, along with strong cash-on-cash returns due to the considerable network effects that can be realised from bringing stand-alone contractors under the Comfort Systems umbrella.

From a demand perspective, the outlook for Comfort Systems, in our view, has never been better. The US reshoring efforts mark the reversal of globalisation – a multi-decade headwind to the US construction industry. This endeavour is backed by almost US$2tr of US infrastructure funding, which creates tremendous revenue visibility for Comfort Systems, with a pipeline of projects that extend well into the end of the decade. As a result, their backlog has grown by almost 4x over the last 4 years, and the CEO has mentioned that he could double his backlog tomorrow if they wanted to, given the sheer demand for their services. The construction of data centres in the US has also been a key demand driver for Comfort Systems given the increasing portion of electrical and thermal content required for next-generation semiconductors, and technology customers accounted for over 30% of sales in 2024. We expect the US data centre capacity to more than double by the end of the decade, and Comfort Systems is well positioned to continue to grow alongside this market.

ALMOST $2 TRILLION IN US INFRASTRUCTURE FUNDING OVER THE NEXT FEW YEARS MUNRO



Source: Our World in Data, IPCC, Munro Partners, November 2024. All $ are in USD.

STOCK STORY: QUANTA SERVICES

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

Quanta Services contributed 47bps to Fund performance for the quarter.

Quanta Services provide a range of infrastructure solutions to the electric power industry, from design and installation to the repair and maintenance of transmission and distribution systems. They are based out of Houston Texas, but service their predominately US customer base with over 50,000 skilled workers, possessing more manpower than their next three largest competitors combined.

Quanta is arguably one of the most important companies in the energy transition. As we head towards the electrification of 'everything', including how we fuel our cars, heat our homes and power our industries, first and foremost requires a grid that is reliable. However, about 70% of electrical cables in the US are over 25 years old - which is an electrical cable's stated useful life according to International Standards, and as such, outages are running at record levels. Climate change itself only exacerbates this issue, with blackouts from severe weather increasing over the past decade, as seen most recently with the devastating impacts of Hurricane Helene leaving some locations without power for up to 13 days. Therefore, it is critical that the US grid is modernised and hardened to ensure long-term resilience.

In our view, it will also be critical to upgrade the capacity of the grid, as electrical load requirements in a net zero economy will be far greater than they are today. The simplest way to contextualise this is, to quote the CEO of Quanta, who said that on some streets in the US, the additional electrical load of Christmas lights has caused parts of the grid to break down. The system is not remotely equipped to handle every car on the street to be simultaneously recharging overnight. We anticipate that the US will need to spend around US$2tr on the electrical grid alone if they are to electrify their economy by 2050. A significant portion of this spending creates a revenue opportunity for Quanta, as they solve some of the biggest bottlenecks of the energy transition.

There is also huge demand for grid interconnection work as renewable energy is deployed in the US, as evidenced by Quanta's renewable energy infrastructure backlog that has more than tripled over the last 3 years. Most of these renewable projects are in remote areas and require extensive transmission and distribution infrastructure to connect to the grid. Quanta is also involved in the development of renewable energy projects. A 700MW solar plant requires 400 electrical workers, for example, and when considering the many gigawatts of renewable capacity being deployed across the US each year, this creates a multi-decade opportunity for Quanta as the existing energy mix is transitioned towards clean energy solutions.

Beyond the many structural tailwinds underpinning Munro's positive outlook for Quanta, we view the scale of Quanta's skilled labour force as a key competitive advantage, especially given the industry-wide labour supply shortages that have only been exacerbated by the incremental electrical demand driven by data centres and reshoring. Given labour is now the biggest bottleneck in delivering new capacity, this is increasingly translating into pricing power for companies like Quanta, which is a profit lever they have been unable to pull historically. We expect recent earnings momentum to continue well into the end of the decade as the US rushes to lay the foundational infrastructure for an electrified economy.

How a sample of companies in the Munro Climate Change Leaders Fund are enabling decarbonisation

The Munro investment process seeks to identify companies across a range of industries and countries whose earnings prospects would improve with increased investment and focus on decarbonisation, as the global economy moves towards reducing carbon emissions. Companies Munro considers climate change leaders and decarbonisation enablers generally fit one or more of the following sub themes:

- Clean Energy – companies benefiting from the demand for carbon-free and renewable energy including energy generation covering wind, solar and renewable fuels
- Clean Transport – companies benefiting from the growth of electric vehicles, battery technology and other low carbon transportation
- Energy Efficiency – companies offering insulation products, electrical switches, lighting, metering and other energy efficient technologies
- Circular Economy – companies benefiting from efforts to improve recycling, alternative packaging materials and management of waste, water-waste, agricultural technologies and other services aimed at reducing reliance on raw materials.

How the Fund's largest five holdings meet Munro's defintion of a climate change leader:

Constellation Energy

Clean Energy

Constellation Energy owns the largest fleet of nuclear power stations in the US.

Nuclear energy is a carbon free source of electricity.

Nearly 90% of their annual output is carbon-free.

Quanta Services

Clean Energy

Quanta Services develops electricity infrastructure, which is essential to decarbonisation because it allows things including cars, heating and cooling to be electrified.

Separately, Quanta has a dedicated business which develops renewable energy projects.

Nvidia

Energy Efficiency

As the world's demand for artificial intelligence grows rapidly, Nvidia is enabling more energy efficient data centres through their GPU chips

Nvidia's GPUs are as much as 20 times more energy efficient for certain AI and High Performance Computing workloads versus CPUs.

And, pleasingly newer products are continuing to achieve large energy efficiency gains per unit of computing.

Clean Harbors

Circular Economy

Clean Harbors collects, manages and destroys or stores hazardous industrial waste. Some of this waste has high global warming potential (GWP) if it is released into the atmosphere. Clean Harbors' safe destruction helps avoid emissions.

Clean Harbors also recycles used motor oil, this process is less emissions intensive than making oil from crude.

Linde

Energy Efficiency

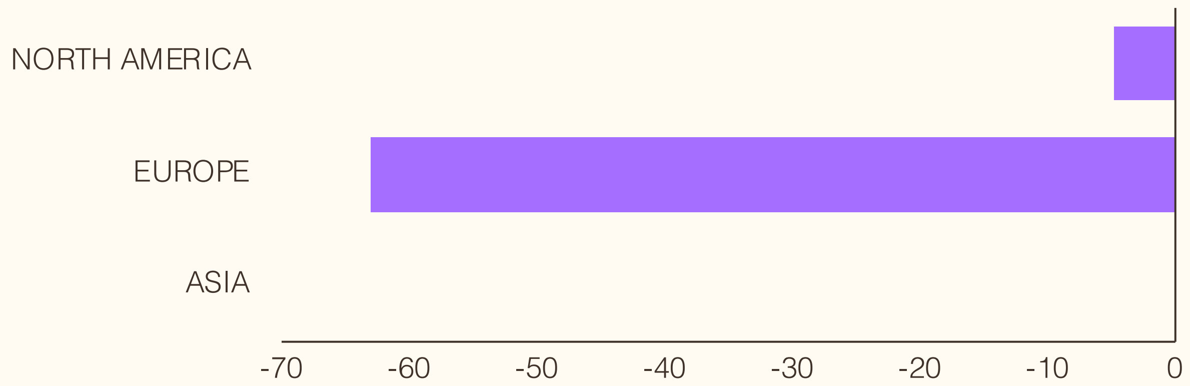
Linde enables decarbonisation through providing industrial gases, some of which help industrial operations run more efficiently with lower emissions.

Linde is also developing large clean energy projects, specifically 'blue hydrogen', which is hydrogen produced with natural gas where the carbon is captured and stored. Hydrogen, which has no carbon emissions when combusted, can help decarbonise industrials and heavy transport.

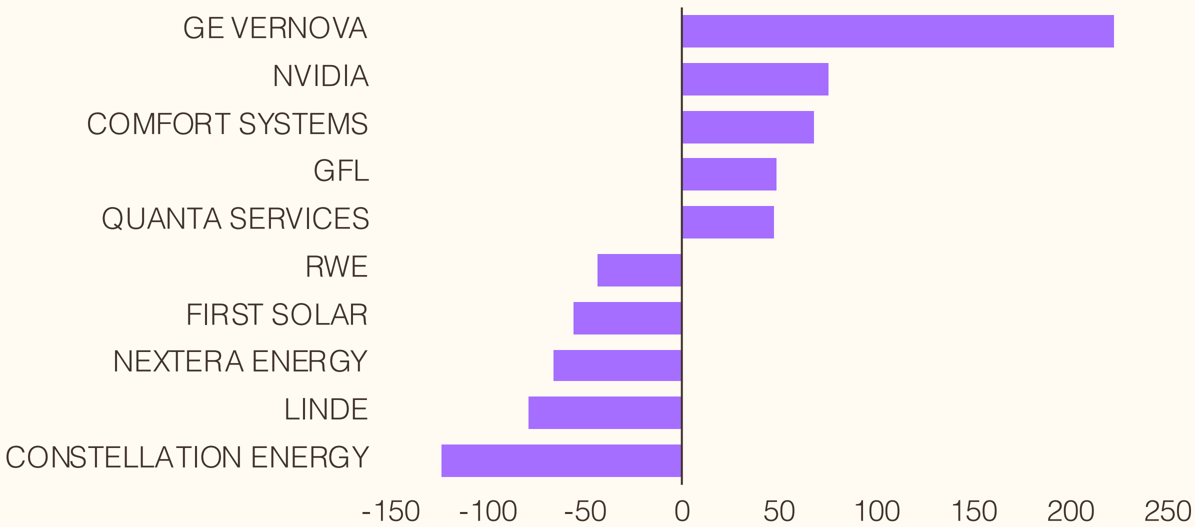
The full list of fund holdings, presented on a one-month lag basis, is available on our website.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

Region (equities only)



Top & bottom contributors



QUARTER END EXPOSURE

Category

EQUITIES	97.9%
CASH	2.1%
NO. OF POSITIONS	21

Sector

INDUSTRIALS	57.4%
UTILITIES	18.2%
INFORMATION TECHNOLOGY	13.2%
MATERIALS	6.9%
OTHER	2.3%
CASH	2.1%

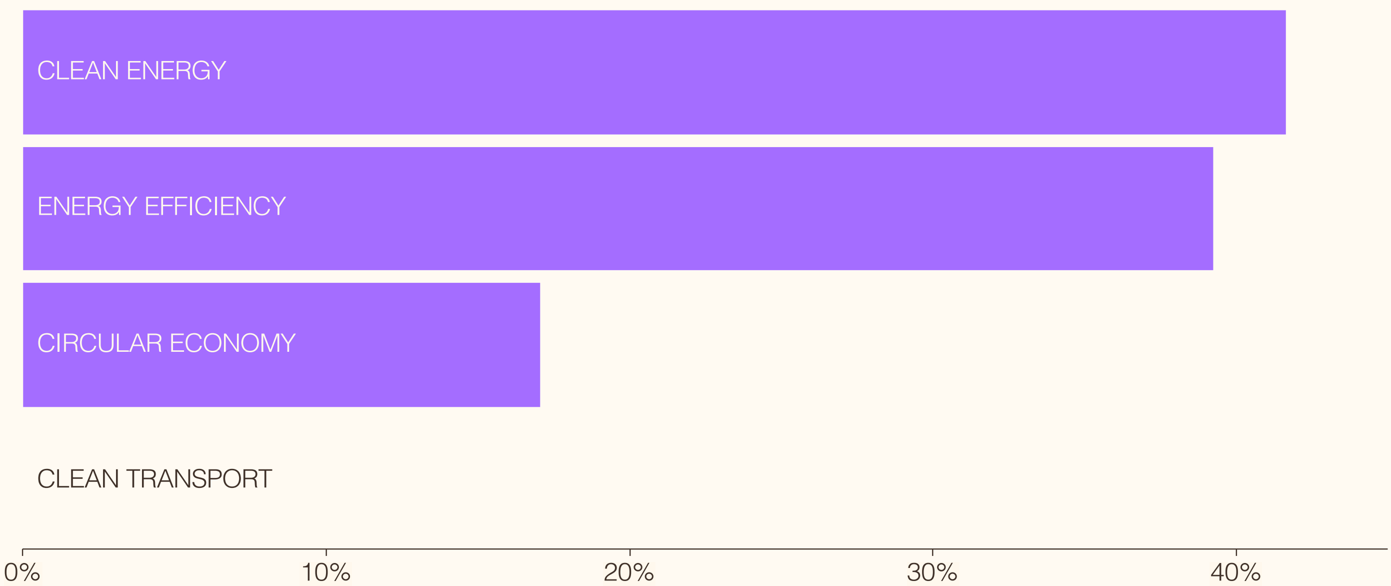
Region

	LONG
UNITED STATES	78.3%
EUROPE	19.6%
FRANCE	9.3%
IRELAND	1.3%
GERMANY	9.0%
TOTAL	97.9%
CASH	2.1%

Holdings

TOP 5 HOLDINGS	
CONSTELLATION	9.6%
CLEAN HARBORS	7.9%
QUANTA	7.6%
LINDE	6.9%
NVIDIA	6.3%

Sub-areas of interest



Net Performance - MCCL

	3MTHS	6MTHS	1YR	3 YRS	INCEPT P.A.	INCEPT CUM.
MUNRO CLIMATE CHANGE LEADERS FUND (AUD)	9.8%	18.0%	65.6%	15.8%	16.4%	62.1%
MSCI ACWI TR INDEX (AUD)	10.9%	13.9%	29.5%	11.2%	12.2%	44.3%
EXCESS RETURN	-1.1%	4.2%	36.1%	4.6%	4.2%	17.8%

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%	5.6%	7.0%	-2.8%							18.0%

Net Performance - MCCL.ASX

	3MTHS	6MTHS	1 YR	2 YRS	INCEPT P.A.	INCEPT CUM.
MCCL.ASX (AUD)	9.8%	18.0%	65.6%	38.0%	20.1%	71.5%
MSCI ACWI TR INDEX (AUD)	10.9%	13.9%	29.5%	25.4%	13.0%	43.2%
EXCESS RETURN	-1.1%	4.2%	36.1%	12.6%	7.1%	28.3%

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%	5.6%	7.0%	-2.8%							18.0%

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.