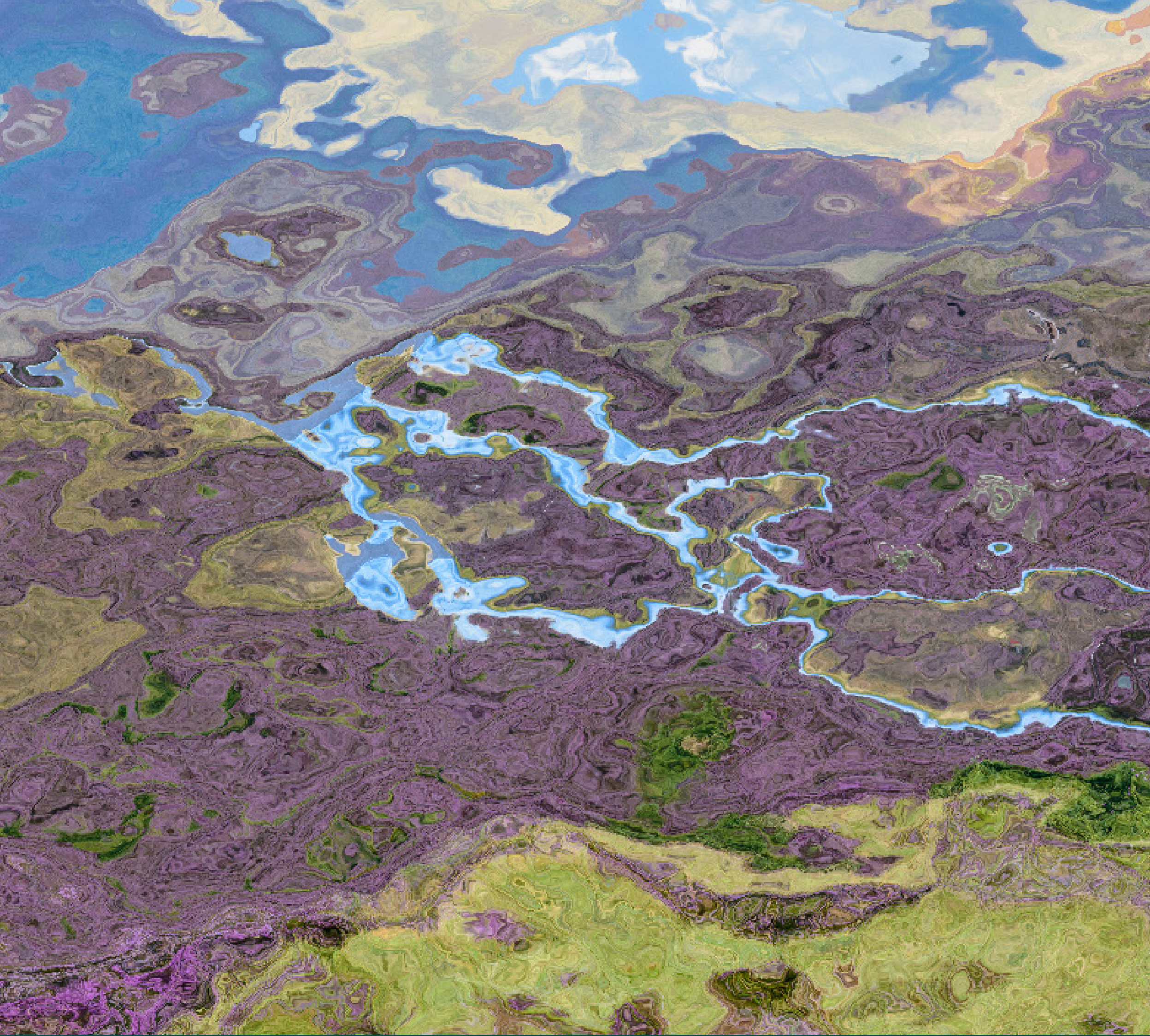

MUNRO

Quarterly report

Munro Climate Change Leaders Fund

MCCL.ASX

March 2024

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

MCCL Fund quarter return
33.8%

MSCI quarter return
13.1%

MCCL.ASX Fund quarter return
33.8%

MSCI quarter return
13.1%

QUARTERLY HIGHLIGHTS

- The Munro Climate Change Leaders Fund and MCCL.ASX both returned 33.8% for the March quarter.
- Key contributors to performancefor the quarter included energy efficient semiconductor companies Nvidia and Arm Holdings, as well as nuclear power generator Constellation Energy. Other positive contributors included Comfort Systems and Vertiv, HVAC liquid cooling companies.
- We expect many of our Clean Energy companies to continue to benefit from concerns around the reliability of the US energy grid with renewed electricity demand growth driven by reshoring, electrification, and renewables intermittency issues.

MUNRO MEDIA

15 to 20 enablers of one of the biggest investment themes for the coming decades
19 March 2024
Read the article here

How to adjust portfolios to manage climate risks
11 March 2024
Read the article here

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QUARTERLY COMMENTARY

Fund commentary

The Munro Climate Change Leaders Fund returned 33.8% for the March quarter while the MSCI ACWI returned 13.1%.

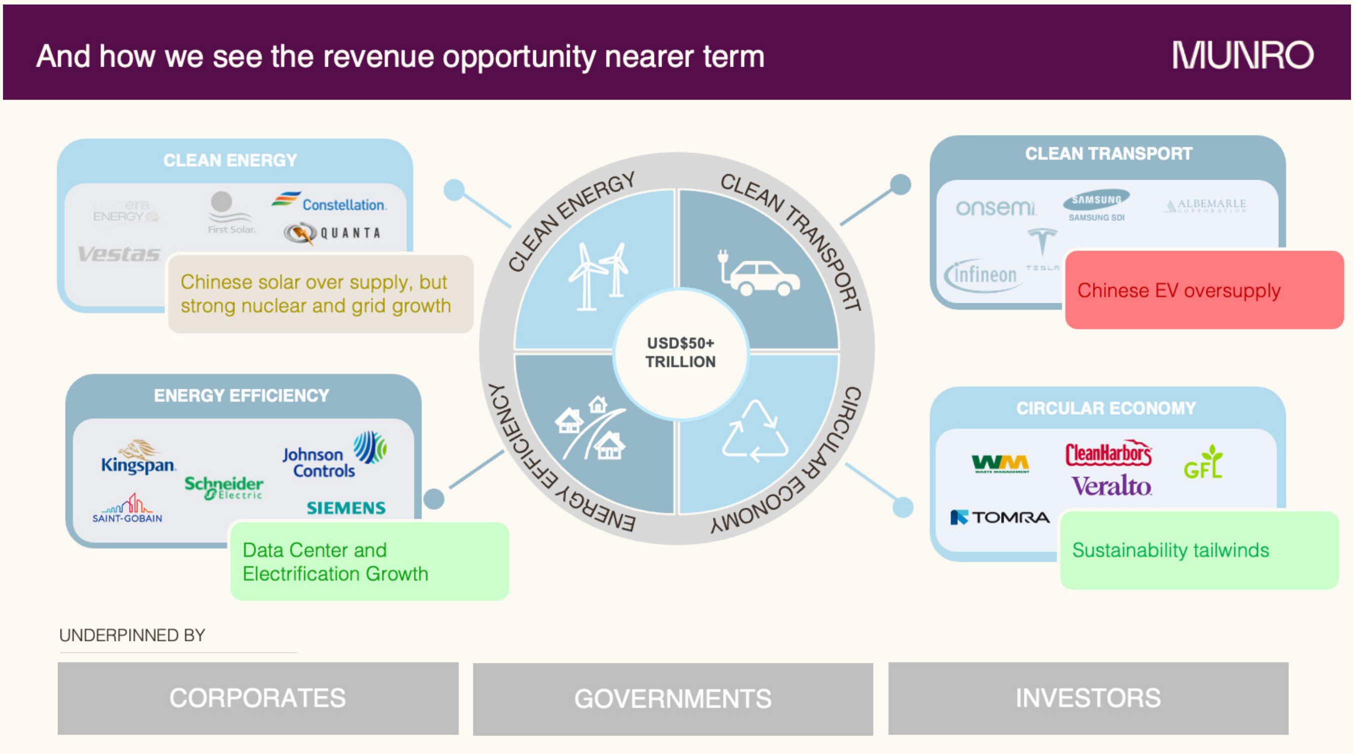
Global markets rallied during the quarter, driven by strong company earnings and guidance above market expectations. Returns broadened away from the narrow leadership of the "Magnificent Seven" (Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia and Tesla) towards a wider distribution of gainers across different sectors and stocks. Following the Federal Reserve's signals, markets continued to expect rate cuts this year, contributing to the bullish sentiment.

From a Fund perspective, key contributors to performance for the quarter included Energy Efficiency semiconductor companies Nvidia and Arm Holdings and nuclear power generator Constellation Energy. Other positive contributors included Comfort Systems and Vertiv, HVAC and liquid cooling companies. All five of these companies performed well over the quarter due to growth in data centres, which are now responsible for 2.5% of total global emissions. This is more than the estimated contribution of the Airline industry and, given the AI-fuelled growth, risks becoming a bigger contributor to global warming over time. Nvidia and Arm are the pure "High Performance Computing" semiconductor companies that are the backbone of artificial intelligence workloads, but the other stocks are also critical suppliers of data centres. Data centres are extremely energy intensive and the cloud providers have set targets on 24x7 carbon-free (and still uninterrupted) power, which matches well with what nuclear generators like Constellation Energy offer. Meanwhile, data centres require significant cooling to run the super-hot GPU and CPUs, which is where efficient cooling solutions providers come in.

For more information on how Arm Holdings and Nvidia are enabling decarbonisation, refer to the Arm Holdings stock story on page 7 and the Nvidia stock story from the June 2023 MGGF quarterly report.

While energy demand driven by AI was a dominant theme, there were multiple other stock winners in the Fund from other sub-AoIs over the quarter. Concerns around the reliability and age of the US energy grid are increasing, especially as the physical effects of climate change (like bushfires that are caused by or damage the grid) become more apparent. At the same time, the energy mix becomes more intermittent as solar and wind replace baseload coal and gas. The situation is set to worsen further as we are now expecting renewed electricity demand growth after two decades of no growth. We expect this demand growth to come from US reshoring (bringing manufacturing back from China), electrification of the economy (including heat pumps and electric cars) and the build-out of data centres. We expect some of our Clean Energy companies like Quanta Services (electrical engineering and construction), NexTracker (solar trackers to increase the yield from panels) and NextEra Energy (renewable power generation, transmission and distribution) to continue to benefit from these increased energy and reliability requirements.

While the Fund has performed well year to date, many companies in the climate thematic have struggled over the past two years. The rapid rise in interest rates throughout 2022 and the first half of 2023 led to a sharp decline for many companies in this universe, further impacted by high competition in an ultra low cost of capital environment. While many of the key decarbonisation thematics are playing out as hoped, our bottom-up research has enabled us to identify companies that we think can sustainably benefit from this structural growth. Since 2022, even many of the profitable climate related companies witnessed substantial declines in their share price, but as rates have peaked and less mature competitors have fallen away, many of these companies with strong industry positions and sound balance sheets have come to the fore. The slide below shows some of the areas we have actively been avoiding and where we have preferred to allocate the Fund's capital.



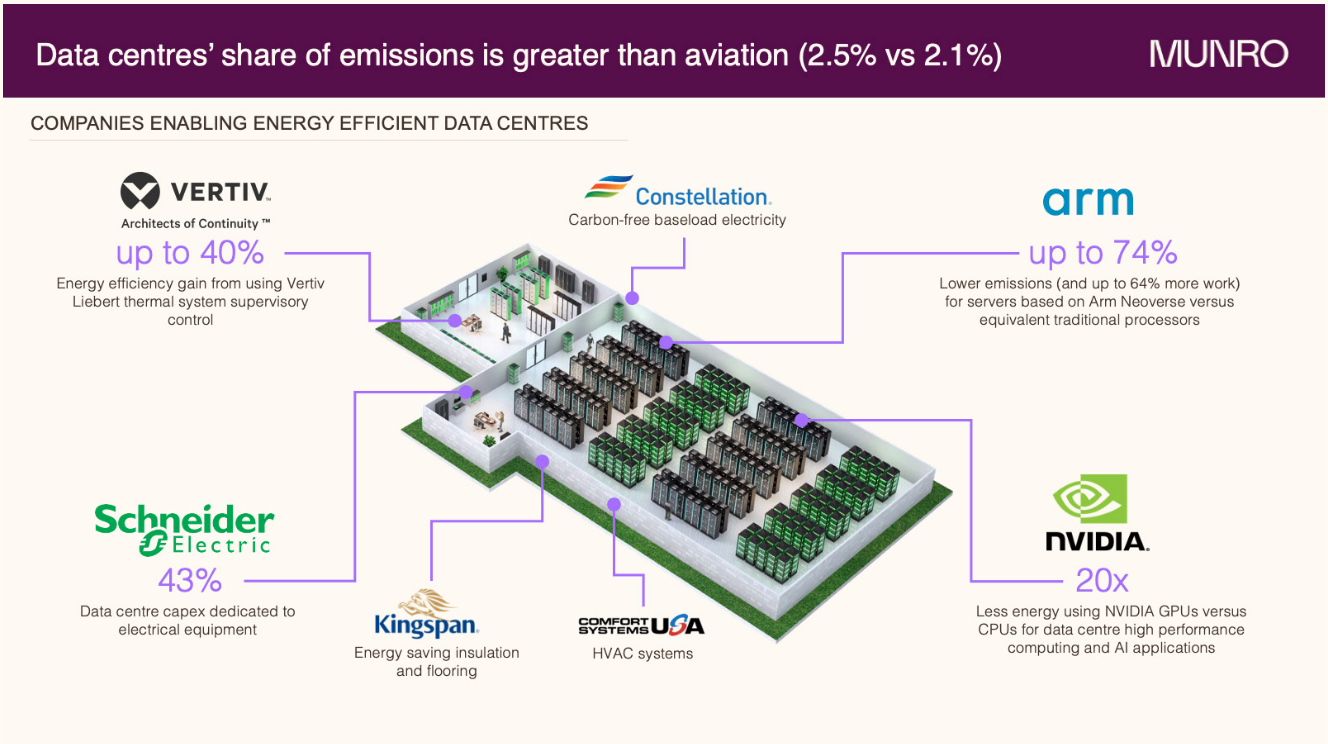
Companies mentioned may or may not be held by Munro Partners' funds and are used for illustrative purposes. Munro Partners estimates based on industry research (31 December 2020).

Market Outlook

Global markets have made a strong start to the year, continuing the positive momentum coming out of 2023. There is reason to continue to be optimistic throughout 2024 and beyond.

The US Federal Reserve has indicated that the interest rate tightening cycle is over, and whether there are two, three or no rate cuts this year, we believe it doesn't matter. What matters is that the hard work of taming inflation is largely done, and central banks can cut rates from here if need be. 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, we expect them to be prudent in managing their 500 basis points of economic 'ammunition', ultimately putting themselves in a good position to manage a long and sustained period of future economic growth.

With the interest rate tightening cycle behind us, equities can return to doing what they do best: following their earnings growth. The earnings growth of companies tied to strong structural growth themes has continued to be robust and, in many cases, has started to accelerate. In the charts below, we highlight the primary driver of incremental growth globally for the Climate thematic over the shorter term - that is the need to manage the additional strain on the demand for electricity from the growth in data centres.



Source: Schneider Electric, NVIDIA, ARM, Vertiv, Kingspan, Constellation, Comfort Systems, Industry Research, World Economic Forum, slide prepared December 2023. Companies mentioned may or may not be held by Munro Partners' funds and are used for illustrative purposes.

STOCK STORY: CONSTELLATION ENERGY

Constellation.

CLIMATE SUB AREA OF INTEREST: **Clean Energy**
MARKET CAP: **USD $58.3 bn**

Constellation Energy added 406 bps 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 over 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 CO_2 avoided annually.

At their recent earnings release, CEG initiated 2024 EPS guidance which was 26% ahead of expectations. Management provided lots of helpful insights, breaking the guidance down into 'base earnings' (assuming that they receive the nuclear production tax credit (PTC) floor value of $43.75/MWh on their nuclear generation) and 'enhanced earnings' (driven by higher power prices, retail margins and volatile power markets). They also outlined expectations for these base earnings to grow at 10% per year, as a function of inflation adjustments to the nuclear PTCs and continued strong operating performance. This has since led to a greater investor appreciation for the underlying earnings power and resilience of the base business, in a power industry that is typically deemed cyclical, and the stock has since re-rated to reflect a new earnings profile.

We also see considerable long-term upside to the 'enhanced earnings' component of CEG's guidance stemming from their unique ability to sign long-term contracts with data centre customers to provide carbon-free, baseload generation. During the quarter, a smaller US nuclear generator company, signed a contract with Amazon to repurpose their Susquehanna plant to solely power a new 960MW data centre, highlighting the attractiveness of nuclear power's characteristics. Rough maths implies that Amazon is paying a $30/MWh premium to the nuclear PTC floor (67% uplift), substantially higher than historical retail margins of $3.50/MWh. This dramatic step-up is due to the scarcity of nuclear power, with ~40GW in the US, and only 24GW well-suited for data centre usage (of which we estimate CEG own more than 60%). We expect CEG to follow suit with a considerable portion of its dual unit nuclear capacity, driving company-wide retail margins higher, which has a very strong flow-through to earnings. Ultimately, we can see a path to CEG's earnings tripling over the next 6 years.

STOCK STORY: ARM HOLDINGS

CLIMATE SUB AREA OF INTEREST: **Energy Efficiency**
MARKET CAP: **USD $128.4 bn**

Arm Holdings added 364 bps 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 centre, 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 leader in designing and licensing chips for the mobile industry, with almost 100% market share, but it remains relatively underpenetrated in the data centre, automotive, and broader IoT markets.

Arm's energy efficient chip architecture is a key enabler of AI workloads on edge-devices. Consider an AI-enabled smartphone (such as the recently announced Samsung Galaxy S24), when inferencing these large language models with billions of parameters, energy efficiency becomes critical to ensuring lower power consumption, lower device temperatures and longer battery life – all important properties for consumer electronics. As a result, licensing revenues have begun to reaccelerate as chip designers opt for Arm's architecture to design new products enabled for AI applications. This is a forward indicator for future royalty revenues as these devices eventually come to market, which underpins our expectation for strong double-digit revenue growth over the long-term.

STOCK STORY: COMFORT SYSTEMS

SUB AREA OF INTEREST: **Energy Efficiency**
MARKET CAP: **USD $11.3 bn**

Comfort Systems contributed 225bps to performance for the March quarter.

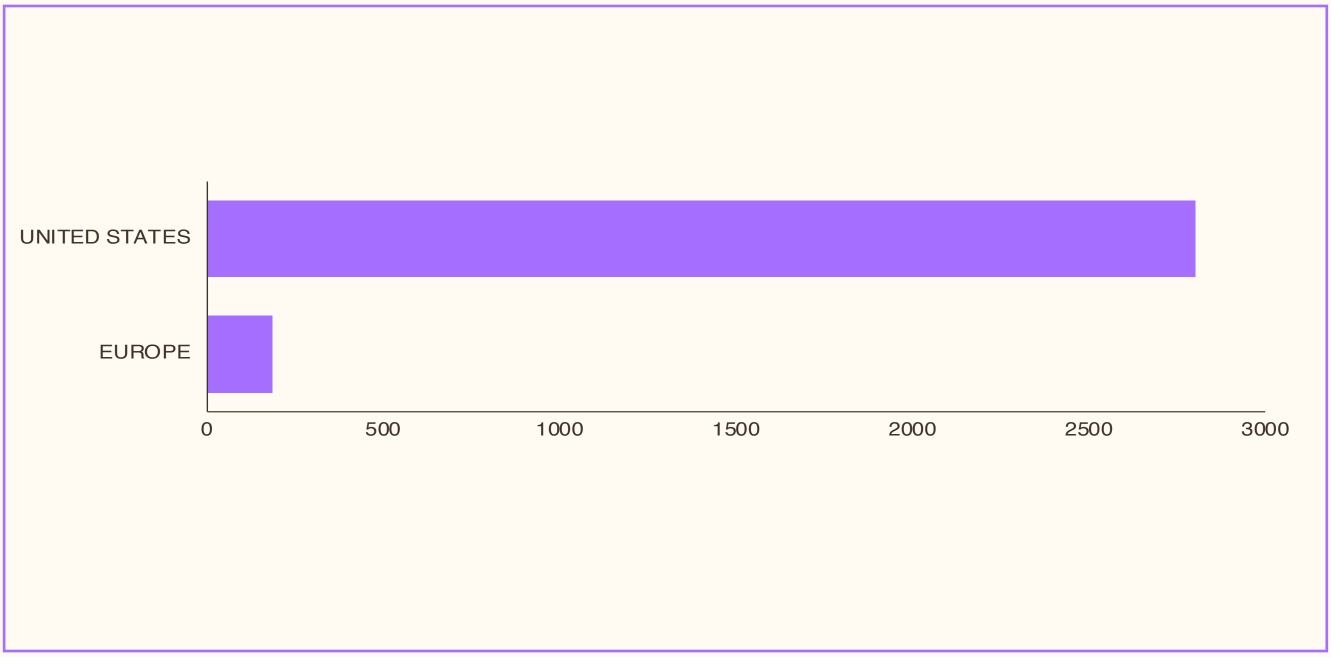
Comfort Systems (Comfort) provides mechanical and electrical contracting services, including heating, ventilation, air conditioning, plumbing, piping, and offsite construction. The company primarily operates in commercial end markets, and most of its services are provided to the manufacturing, healthcare, education, office, technology, and government end markets. Comfort Systems benefits from the need to upgrade and install more climate effective solutions, as well as re-shoring of manufacturing back to the US, and data center and technology buildouts.

In February, Comfort Systems reported a strong result, with total revenue growing over 20%, but what surprised the investment community was the significant growth in backlog, which underwrites future revenue growth for the company. The reported backlog figure of over USD 5bn grew 20% sequentially, a significant acceleration driven by increased spending in the technology, life science and food end markets. This increase demonstrated that growth is sustainable into the future. In addition, the company provided guidance that revenue growth in 2024 will be in the mid-teens range on an organic basis, another positive compared to consensus estimates, leading to expected strong future earnings growth.

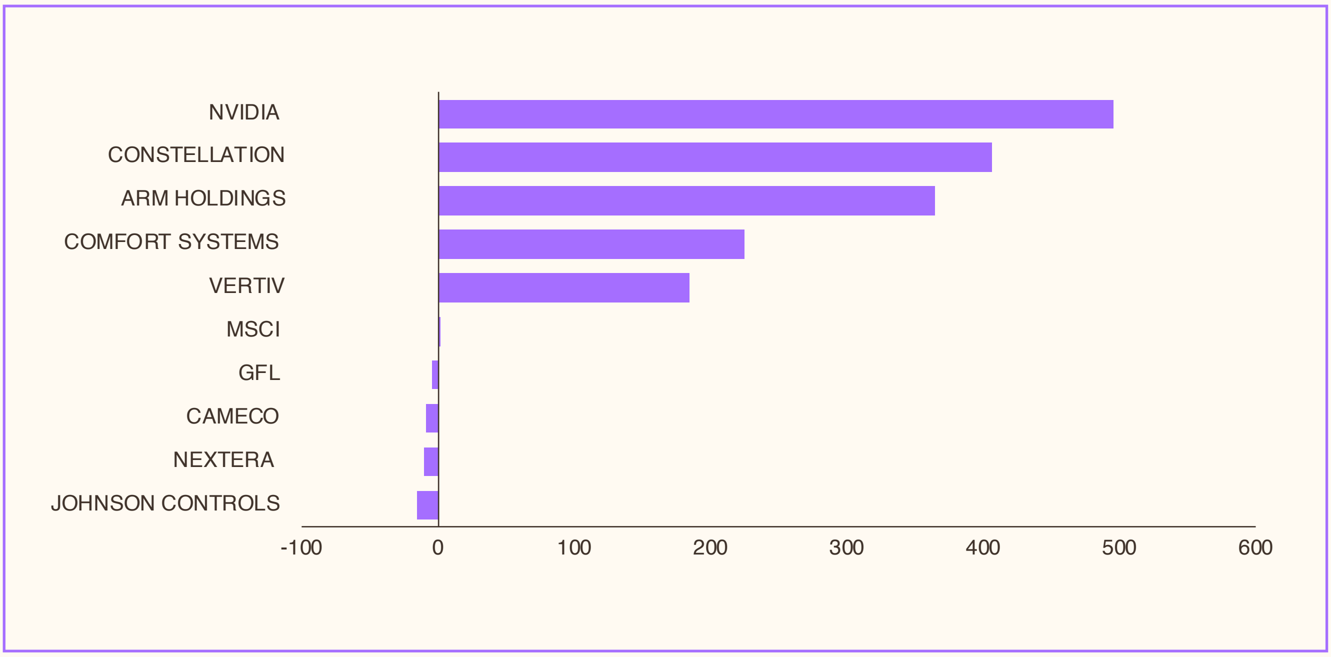
Comfort engages heavily in M&A activity to add to this expanding organic growth profile. The business operates in a relatively fragmented industry and has a strong track record of acquiring family-run and owned businesses and generating significant cashflow over time. Recently, Comfort purchased two larger businesses, Summit Materials and J&S Mechanical Contractors, both of which will contribute meaningfully to Comfort's earnings in the future. In our view, the earnings growth opportunity that Comfort Systems provides has been under-appreciated by the market.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

Region (equities only)



Top & bottom contributors



QUARTER END EXPOSURE

Category

EQUITIES	98%
CASH	2%
NO. OF POSITIONS	21

Sector

INDUSTRIALS	58%
UTILITIES	14%
INFORMATION TECHNOLOGY	14%
MATERIALS	6%
ENERGY	5%
OTHER	2%
CASH	2%

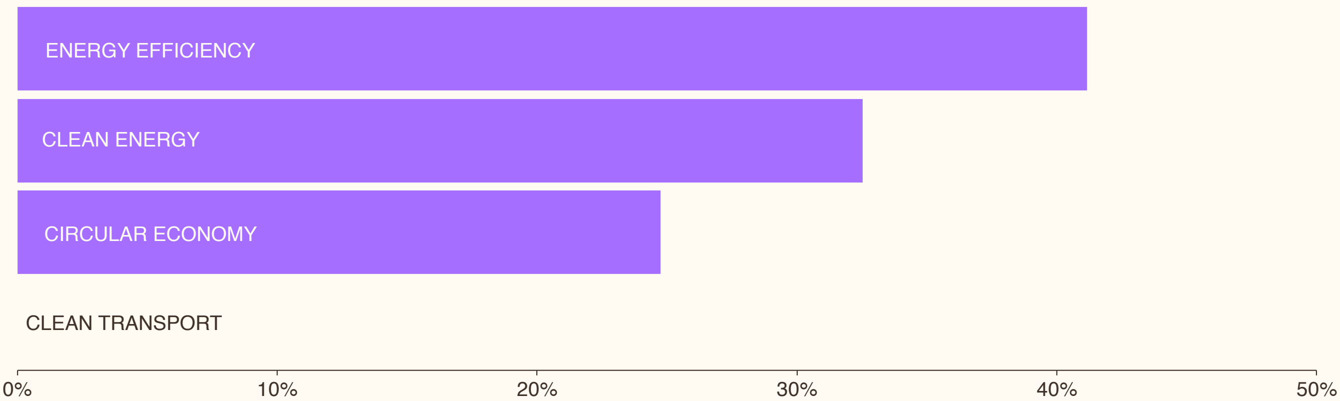
Region

	LONG
UNITED STATES	87.1%
EURO AREA	11.3%
IRELAND	4.6%
FRANCE	4.4%
DENMARK	2.3%
TOTAL	98.4%
CASH	1.6%

Holdings

TOP 5 HOLDINGS	
CONSTELLATION ENERGY	9.6%
NVIDIA	8.7%
QUANTA SERVICES	6.1%
WASTE MANAGEMENT	6.0%
LINDE	6.0%

Sub-areas of interest



Net Performance - MCCL

	3MTHS	6MTHS	1YR	2 YRS	INCEPT P.A.	INCEPT CUM.
MUNRO CLIMATE CHANGE LEADERS FUND (AUD)	33.8%	41.1%	43.6%	20.7%	11.8%	31.0%
MSCI ACWI TR INDEX (AUD)	13.1%	18.8%	26.4%	14.5%	10.0%	26.1%
EXCESS RETURN	20.7%	22.4%	17.1%	6.1%	1.8%	4.9%

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%				36.1%

Net Performance - MCCL.ASX

	3MTHS	6MTHS	1 YR	2 YRS	INCEPT P.A.	INCEPT CUM.
MCCL.ASX (AUD)	33.8%	41.1%	43.6%	20.7%	16.0%	38.6%
MSCI ACWI TR INDEX (AUD)	13.1%	18.8%	26.4%	14.5%	10.7%	25.1%
EXCESS RETURN	20.7%	22.4%	17.1%	6.1%	5.3%	13.5%

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%				36.2%

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 31 March 2024 unless otherwise specified. The inception date of the Munro Climate 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 dated 9 February 2024 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 12 April 2024.