June 2023

Responsible Investment Report

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Unless otherwise noted, this report covers the period 1 July 2022 to 30 June 2023.

Introduction

We are excited to present our second annual Responsible Investment Report.

Last year, our focus was on enhancing how we integrate environmental, social and governance (ESG) issues into our investment process. The key component of this integration continues to be our proprietary 'ESG Score'. Four detailed case studies of how we applied this framework are set out in this report.

One of the benefits of doing our own ESG analysis, rather than relying solely on third-party providers, is a much better understanding of where each company can improve. This enables us to be more effective in engagement, which has been a focus this year.

Specifically, in this report, we introduce Munro's current priority engagement themes: climate change, human rights, and safety. We also present our overall progress with the target companies in our portfolios following engagement on these themes, and three case studies where we saw improvements following engagement.

In addition to more transparency around our integration and engagement activities, we have included three voting case studies and a table of each voting item we opposed. We also continue to report using the Task Force on Climate-related Disclosures framework.

We always welcome input on our responsible investment efforts and encourage you to provide feedback.

Thank you for your interest.

Nick Griffin, Chief Investment Officer

Mike Harut, Responsible Investment Manager

Integration

In this section, we demonstrate how environmental, social and governance (ESG) issues have impacted our financial analysis, stock selection and portfolio construction.

ESG Score

Our belief is that managing exposure to ESG issues contributes to achieving superior, sustainable long-term investment returns on behalf of our clients.
To that end, in 2022, we adopted a new proprietary framework for evaluating companies on ESG. An explanation of the framework and how it impacts valuation is in our ESG Policy, available here.
This is one of six qualitative factors which we use to determine the premium or discount to the peer or market multiple to be applied, and so influences the valuation of every long portfolio position.[1]

In numbers

100%
Percentage of long positions in companies where Munro had completed an ESG score.

1 of 6
ESG is one of six equally weighted characteristics that Munro uses to determine the premium or discount to the peer or market multiple to be applied.

4
Integration case studies provided in this report

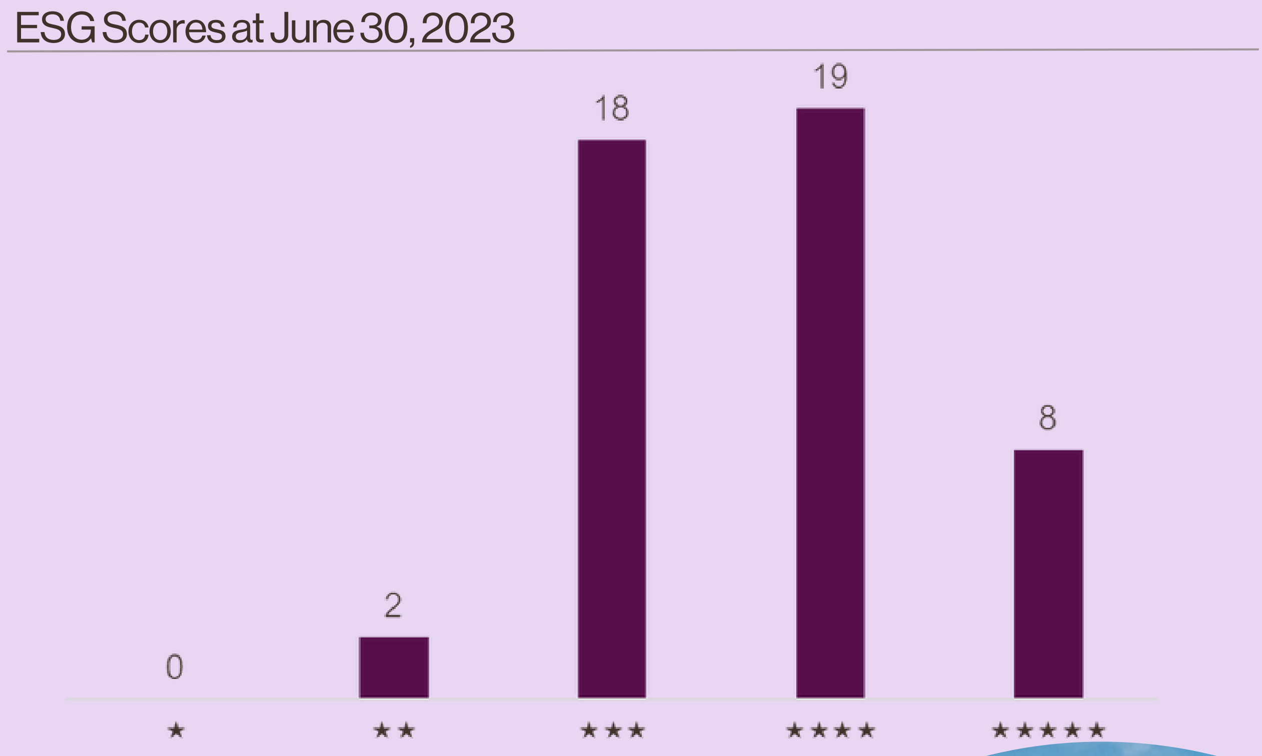
[1] As explained in our ESG Policy, due to expediency requirements for new holdings, we may temporarily use a third-party research provider's ESG score (for example, Sustainalytics ESG scores) as a substitute for our proprietary ESG score. We aim to have no more than 10% of long portfolio holdings with third-party ESG scores at any time.

Distribution of ESG scores

As described in our ESG policy and as part of our fundamental research process, we assign an overall ESG score in our qualitative analysis of the companies that we invest in. This score is a 1 – 5 star rating. The chart below shows the ratings for our long positions held at 30 June 2023.

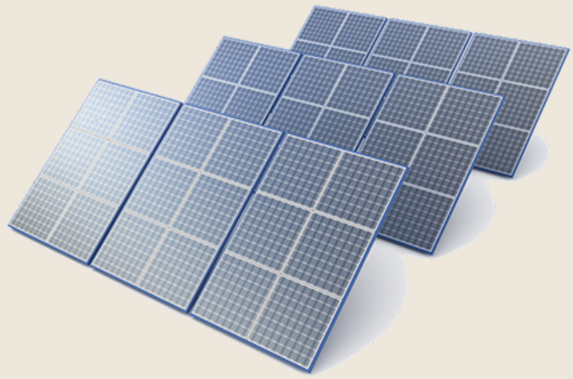
Integration case studies

Four case studies on how we assess companies are below. In each case, they also link with our stewardship activities, namely engagement and voting.



Source: Munro Partners

Case Study - Solar Sourcing

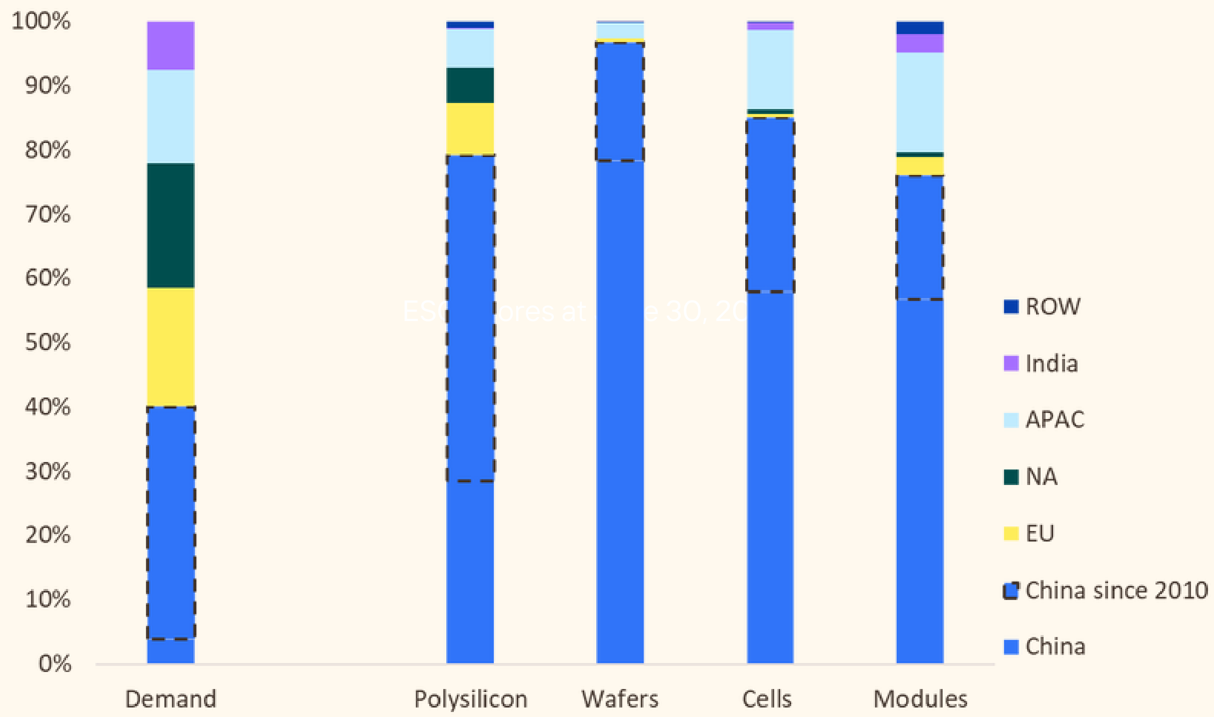


Munro currently invests in companies which develop solar projects, including NextEra Energy and RWE.

Given China's manufacturing dominance – including around 80% of the global supply of solar panel cells – the treatment of the Uyghurs in Xinjiang and the regulatory responses of the US and EU are material social issues.

This is particularly pertinent in the first step of making solar panels, producing polysilicon, where it's estimated that roughly a third to half comes from Xinjiang.

Solar panel demand and supply 2021



Source: International Energy Agency (2021)

Case Study - Solar Sourcing continued

Notably, the US regulatory response includes the Uyghur Forced Labor Prevention Act, which essentially requires importers to show that their panels were not created with forced labour.

For NextEra Energy, our analysis in early 2022 suggested that the company could improve transparency of how solar panels are sourced, and any supplier audits it undertakes. We engaged the company on these issues in March 2022.

Later in 2022, the company improved its disclosures and practices. Specifically, new contracts now require suppliers to review human rights risks and no longer allow sourcing from Xinjiang in China. The company also disclosed that supply chain audits are done using an independent party.

We engaged again in March 2023, where the company reiterated its preference to buy from US manufacturers to avoid these (and related) issues.

The company also showed a desire to underpin manufacturing capacity-building in the US.

These disclosures and direct engagement insights have led us to upgrade the human rights score for the company to 3 out of 5. In our view, further improvements could still be made.

While sourcing is a risk for many solar companies, these engagements have also helped us understand companies that offer solutions to this challenge. A good example is First Solar, a US solar module manufacturer which does not rely on Chinese crystalline silicon (a key input into most other modules) in its manufacturing process. Munro has engaged with First Solar on sourcing issues since November 2022.

Case Study - Racing in Russia

At the time of writing, we invest in Liberty Formula One, which promotes and sells the media rights to Formula One.

In our view, the three most material environmental and social issues for this company are climate change, sovereign risk, and driver and spectator safety.

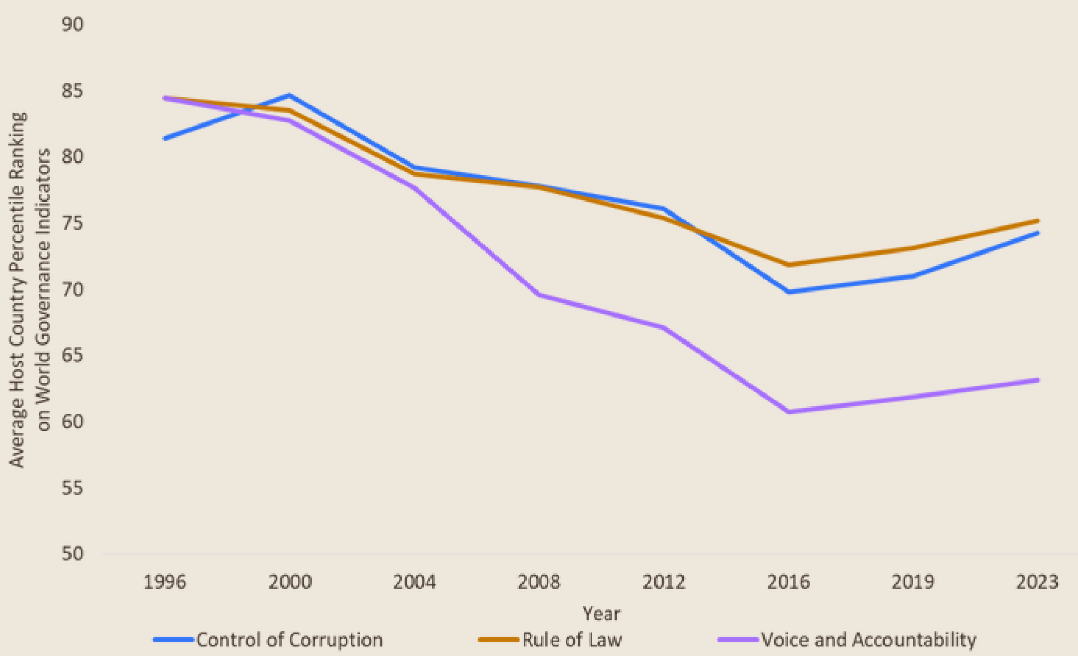
For example, under sovereign risk, we considered that over the last 30 years, the sport has shifted to racing in countries with worse sovereign governance, according to the World Bank's World Governance Indicators (WGI) data. Some of the WGI data is shown in the chart below.

While these races are more financially lucrative, it exposes the franchise to more risk around negative fan/sponsor sentiment and, more importantly, having races cancelled due to conflicts or international pressure. Notably, Russia hosted the Sochi Grand Prix from 2014 until 2022, when the race was cancelled after the invasion of Ukraine.

Of the 19 countries to host 2023 races, five are in bottom quintile countries (Saudi Arabia, Azerbaijan, Bahrain, United Arab Emirates, Qatar) on Voice and Accountability and one (Azerbaijan) on Terrorism/Violence, according to WGI. For this reason, we scored the company 2 out of 5 on this topic.

We have engaged with former Formula One insiders (including previous employees) to understand the implications of this issue for the company.

Governance indicators of countries in which F1 races over time



Source: World Bank World Governance Indicators, Munro Partners estimates. For definitions, see here

Case Study - Googling Governance

Our governance analysis is done separately and, for every company, primarily considers the board (including composition, independence and diversity), executive pay and entrenchment. Entrenchment considerations include issues like the use of multiple share classes.

In the case of Alphabet, which owns Google, the use of multiple share classes reduces our rating. Specifically, founders Sergey Brin and Larry Page together own around 12% of the stock but hold over 50% of the voting power through their ownership of class B stock, which has 10 votes per share. This means that even if the majority of shareholders wanted to (for instance) remove directors or undertake an asset sale, Page and Brin could together thwart those plans.

In mitigation, these controlling shareholders are now non-executive directors and so don't have a day-to-day role in the company. This is less concerning than, for example, Meta (which owns Facebook) where the founder remains the CEO and controlling shareholder.
The existence of multiple share classes led us to reduce the governance component of Alphabet's ESG score.

We also supported a shareholder proposal in 2023 to collapse the multiple share classes, although it's entirely symbolic given the concentration of voting power.

Case Study - Unchallenging hurdles

When reviewing executive pay, which is done as part of our governance (or 'G') analysis, we look at whether a company's incentive hurdles are challenging.

One example where we found this not to be the case was NextEra Energy. In this case, the bonus was based partly on EPS and required 6.1% growth for maximum vesting. However, the company's guidance was 6 to 8% growth, and it had also said "We will be disappointed if we are not able to deliver financial results at or near the top end of our adjusted EPS expectations ranges through 2026".

As such, in our view the bonus structure was not sufficiently challenging and so we lowered our governance score.

Our analysis was done at the same time as deciding how we would vote at their 2023 AGM. Ultimately, we also voted against the company's remuneration report – contrary to the recommendation from our proxy advice provider and the company.

Climate Change Solutions
A key area of interest

Separate from our analysis of ESG for each long position, we continue to actively invest in the climate change 'Area of Interest' (or 'theme'). Munro's Areas of Interest are listed and explained on our website, www.munropartners.com.au.

These are companies which, in our view, are enabling decarbonisation, and by way of example, could include the following four sub-sectors or sub-trends of interest we consider to be 'climate change solutions':

- 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); and
- Circular Economy (companies most likely to benefit from efforts to improve recycling, alternative packaging materials and management of waste, wastewater, agriculture technologies and other services aimed at reducing reliance on raw materials).

Thought leadership on Climate solutions

We actively engage with the investment community on climate change solutions, including as part of our membership of the Investor Group on Climate Change (IGCC).

In March 2023, we provided a case study on investing in climate change solutions to IGCC's State of Net Zero Investment report (available here).

We are part of IGCC's Paris-Aligned Investment Working Group and were invited to speak to the working group in May 2023. We shared our views on the climate change solutions opportunity and the drawbacks of relying solely on third-party data to define a climate change solution.

Investor Group on Climate Change

As of June 30, our investments in the climate change Area of Interest were:

Fund	Fund	Allocation
Munro Global Growth Fund	CI Munro Alternative Global Growth Fund	10%
Munro Concentrated Global Growth Fund	CI Munro Global Growth Equity Fund	10%
Munro Climate Change Leader Fund	CI Global Climate Leaders Fund	100%

Stewardship

In this section, we demonstrate how we use our ownership rights to influence companies towards improved ESG performance through engagement and voting.

Engagement

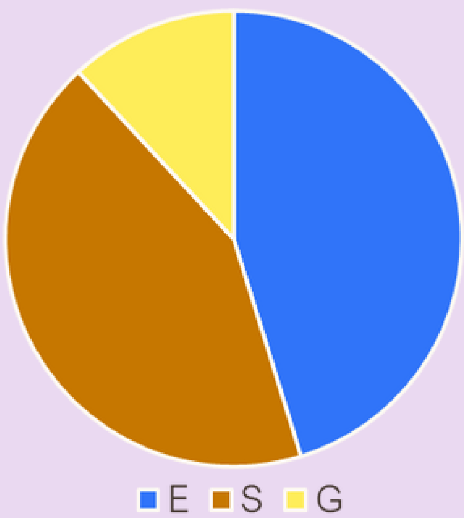
In numbers

42%
Priority engagement issues where the company improved following engagement

49
Number of meetings

3
Engagement case studies in this report.

Split of topics on which we engaged



E issues include climate change and circular economy

S issues include workforce issues, human rights, lobbying and safety

G issues include board composition and independence, and remuneration

Introducing Munro's proactive engagement priorities

During the year, we selected three issues – climate change, human rights and safety – as our priority issues for proactive engagement. This means that we will proactively seek out engagement with companies in our portfolio on these topics.

We chose these issues because we consider each material for several companies in our portfolio. We identify materiality based our view of the potential for the issue to impact the company's financial performance, and our assessment is based on the Sustainability Accounting Standards Board (SASB) framework, supplemented by external research and company disclosures.

The underlying companies were chosen because of the materiality of the issue and because of gaps identified in their performance.

Topic	Objective	Companies
Climate Change	Where material, we are seeking disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD), targets aligned with the Paris Agreement and disclosure of downstream scope 3 emissions.	RWE, NextEra Energy, Nutrien*, Constellation Energy, American Electric Power*, Costco
Human Rights	Where material, we are seeking an understanding or improvement of supplier human rights standards or requirements and disclosure of supply chain audit outcomes.	RWE, NextEra Energy, Costco
Safety	Where material, we are seeking disclosure of safety performance and explicit disclosure of fatalities. In one case, the objectives relate to safe gambling tools for customers.	Costco, Quanta Services, Waste Management, Flutter

*As at 30 June 2023, we no longer hold these positions

Our four milestones to measure progress are as follows:

1
Have we directly engaged?

2
Has the company acknowledged the issue?

3
Has the company improved following our engagement?

4
Is the issue completely resolved?

Our progress is outlined below

	Climate Change	Human Rights	Safety
Target portfolio companies selected for engagement on each issue.	6	3	4
1. Direct engagement	6	3	2
2. Acknowledgement of issue	6	3	2
3. Improvement following engagement	3	2	1
4. Issue resolved completely	0	0*	0

*One issue was resolved after we had set our objective, but before we had an opportunity to engage

Of course, any improvement is likely a result of many investors' engagement efforts, and a range of other factors. We are simply measuring whether engagement occurs, and an improvement is made subsequently.

Engagement case studies

Two engagement case studies are provided below. These are in addition to the engagement on human rights in the solar supply chain explained on page 5.

Case Study - American Electric Power

In May 2022, Munro engaged with US electricity utility American Electric Power (AEP) on their emissions reduction targets. Despite already targeting an 80% reduction in emissions from 2000 to 2030 and leading peers on coal retirements, our analysis suggested that the company could transition faster. The company acknowledged our input and said their targets are reviewed annually.

Then in early October, AEP announced an updated target, increasing the gradient of their reductions to 2030 and aiming to hit net zero 5 years earlier. We engaged again at that time to acknowledge this improvement.

Assuming they reduce emissions linearly, Munro estimates the difference to be equivalent to the lifecycle emissions of 5.5m cars.

Of course, it's the collective effort of many investors, not just Munro, which drives any such outcome, and the passage of the US Inflation Reduction Act played an important role here. Nonetheless, it was a pleasing and tangible example of how company engagement can drive real world impacts.

We increased our ESG score for the company after this change.

Case Study - Constellation Energy

Constellation Energy operates the largest nuclear energy fleet in the US, where nuclear accounts for 18% of the energy mix. Key to Munro's investment thesis is that nuclear energy has the lowest lifecycle emissions of any source (including renewables) and that the existing fleet provides baseload power. These attributes have since led to significant policy support in the Inflation Reduction Act.

Munro engaged with the company in December 2022 on nuclear safety, nuclear waste and supply chain risks in securing fuel. On nuclear safety, the company explained how each site reviews other sites and how the entire industry collaborates on safety in addition to oversight from the Nuclear Regulatory Commission. Further details of this engagement are available via an episode of Munro's Invest in the Journey podcast available here.

Munro also encouraged Constellation Energy to align climate disclosures with the Task Force on Climate-related Financial Disclosures (TCFD). Pleasingly, in response, Constellation Energy confirmed its plans to start incorporating the framework from 2023. Going forward, we will encourage the company to fully adopt the framework.

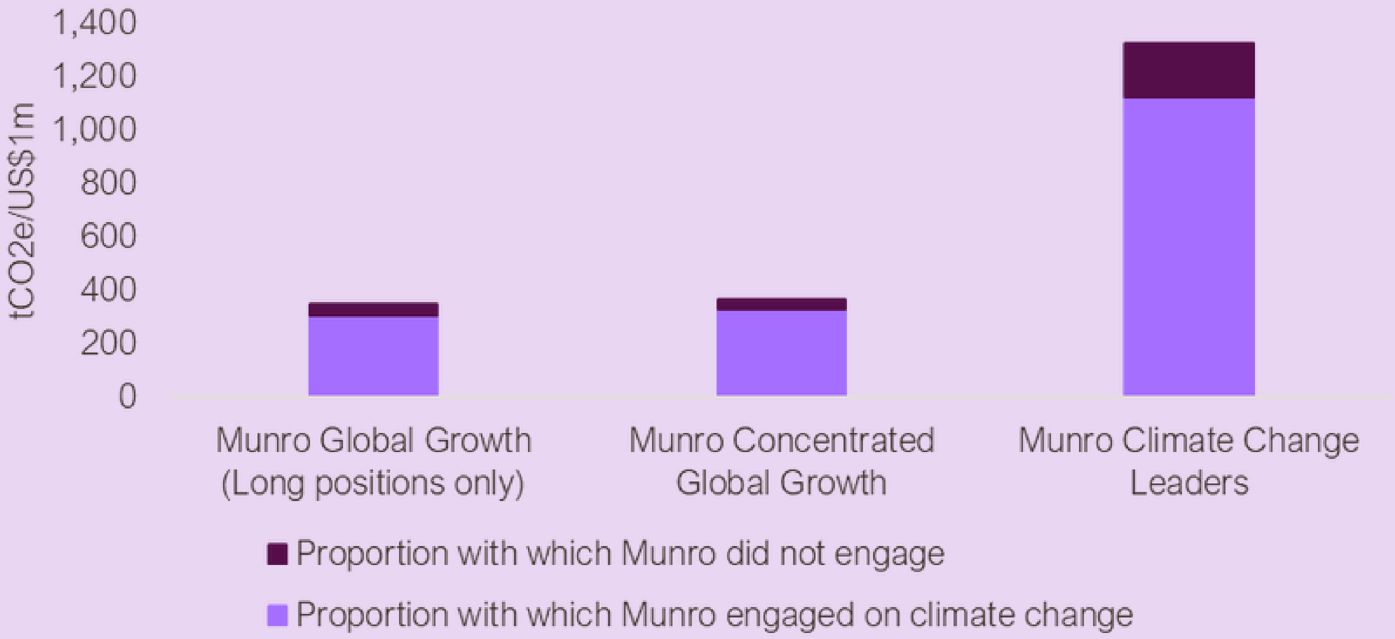
Engagement with high emitters

As noted above, our new goal is to annually engage on climate change with companies representing at least 50% of the portfolio weighted average carbon intensity (WACI)[1] of each strategy.

The graph on the following page shows the WACI of each portfolio, split by the proportion we engaged and did not engage with in FY23. The WACI of each portfolio is as at the beginning of the period.

[[1] Carbon intensity is a relative metric used to compare company emissions across industries.
Our data provider Sustainalytics divides the absolute (scope 1 and 2) emissions by total revenue, meaning the figure is expressed in tonnes of carbon dioxide equivalent per million USD of total revenue. Although they try to base this on reported emissions, the vast majority of companies still fail to report, so in many cases the emissions are based on their proprietary estimation models.

Proportion of WACI engaged in FY23



Source: Sustainalytics, Munro Partners estimates, June 2023 (WACI as at the beginning of FY23.)

We were able to engage with such high percentages in FY23 due to each of these strategies being relatively concentrated.[1] Additionally, two companies (particularly RWE and NextEra Energy) made up over 50% of each strategy's footprint.

It may be counterintuitive that our Climate Change Leaders strategy has a higher operational emissions footprint than our other strategies or the benchmark. This is because rather than being a fund that simply invests in companies with low emission operations, its focus is companies enabling decarbonisation via their products and services. Given the nature of what is required to decarbonise the economy, this leads naturally to a greater weighting to utilities and industrials (which are higher emitters) and away from sectors like financials and technology (which are lower emitters).

In the case of our Climate Change Leaders strategy, over 80% of the strategy's WACI at the beginning of FY23 was driven by 3 utilities which are among the biggest renewables developers globally and have targets to transition away from fossil fuels.

[1]The strategies typically only have 30 to 50, 20 to 40 and 15 to 25 positions respectively.

Voting

In numbers

51
meetings voted (100% of eligible meetings)

3
Voting case studies provided in this report

19%
meetings where Munro voted differently to the board recommendation on at least one resolution

4%
resolutions where Munro voted different to the board recommendation (full list provided in appendix)

How we exercise our votes

Voting rights are an important power and are managed with the same care as any other asset managed on behalf of investors, and in the funds' best interest.

In FY23, we continued to exercise our voting rights after considering dedicated proxy voting advice, the company's ESG score, and our engagement with the company. We also use the voting principles (outlined in our ESG Policy) to inform our decisions.

All voting decisions are made in-house by the portfolio manager or analyst responsible for the position and the Responsible Investment Manager.

Case Study - LVMH

At luxury goods company LVMH, we voted against four items related to executive pay. Our concerns included low disclosure of incentive hurdles, a long-term incentive that was unchallenging relative to our expectations, and little responsiveness to past high votes against remuneration. Excluding the controlling Arnault family (which represents the majority of votes and key management roles), most shareholders voted against these items.

Two further voting case studies are provided above, namely Alphabet and NextEra Energy.

TCFD Disclosures

We are committed to transparently disclosing our approach to climate change, outlined in our Climate Policy. In that policy, we commit to both engaging with companies to encourage the adoption of the Task Force on Climate-related Financial Disclosures (TCFD) framework (see the case study of Constellation Energy explained on page 14) and aligning our own reporting to the framework.

We present below our disclosures against its four pillars.

Governance

Munro's board maintains oversight of climate-related risks and opportunities through a dedicated responsible investment report presented quarterly, which includes analysis of ESG issues including climate-related risks within our portfolios.

Munro's primary exposure to climate change is through its investments. The investment team led by Nick Griffin, Chief Investment Officer (CIO), is responsible for managing climate-related risks and opportunities, while Mike Harut, Munro's Responsible Investment Manager, reports to the CIO, and has additional responsibilities in managing the portfolios' exposure to climate-related risks.

Munro's operational footprint is also important and is managed by the Chief Executive Officer, Ronald Calvert, with support from the Compliance Manager.

The Chief Executive Officer oversees both the investment and operational functions.

Strategy

Munro's strategy regarding climate change is outlined in the Climate Policy, available here. In summary, our strategy includes:

- investing in companies offering climate change solutions (see above);
- assessing climate-related risk as part of the ESG score process outlined above where it is material;
- engaging with companies on how they manage climate-related risks and opportunities, as well as seeking targets and disclosures (see above); and
- managing our operational footprint and being a carbon neutral business, in terms of operating emissions.[1]

We continue to monitor the exposure of our long/short and long-only strategies to the transition to a low carbon economy.

Our Climate Change Leaders strategy invests in companies enabling decarbonisation so will be positively affected by the transition to a low carbon economy.

[1] Munro was certified by the Australian Government's Climate Active initiative as carbon neutral in terms of our business operations for the financial year ending 2022, and are undergoing the certification for financial year 2023 with the aim of maintaining the certification. Further information is available at https://www.climateactive.org.au/buy-climate-active/certified-members/munro.

Risk Management

For all Munro strategies, climate-related risk management is done primarily via the ESG score process outlined above and in our ESG policy. Where that process identifies climate-related risk as material, it is assessed and a quantitative score is assigned. A lower score (due to higher risk or poor management) reduces the ESG score and therefore the company valuation, which affects the investment decision.

This is supplemented by regular portfolio carbon risk reporting and analysis using a third-party provider.

Engagement is also used to understand how companies manage climate risk and encourage targets and disclosure. As detailed above, nearly half of the topics discussed in FY23 were about environmental issues including climate change and two case studies are provided.

Metrics and Targets

We present 3 metrics below, which we track on a portfolio basis. Additionally, our engagement metric and target is explained on page 14.

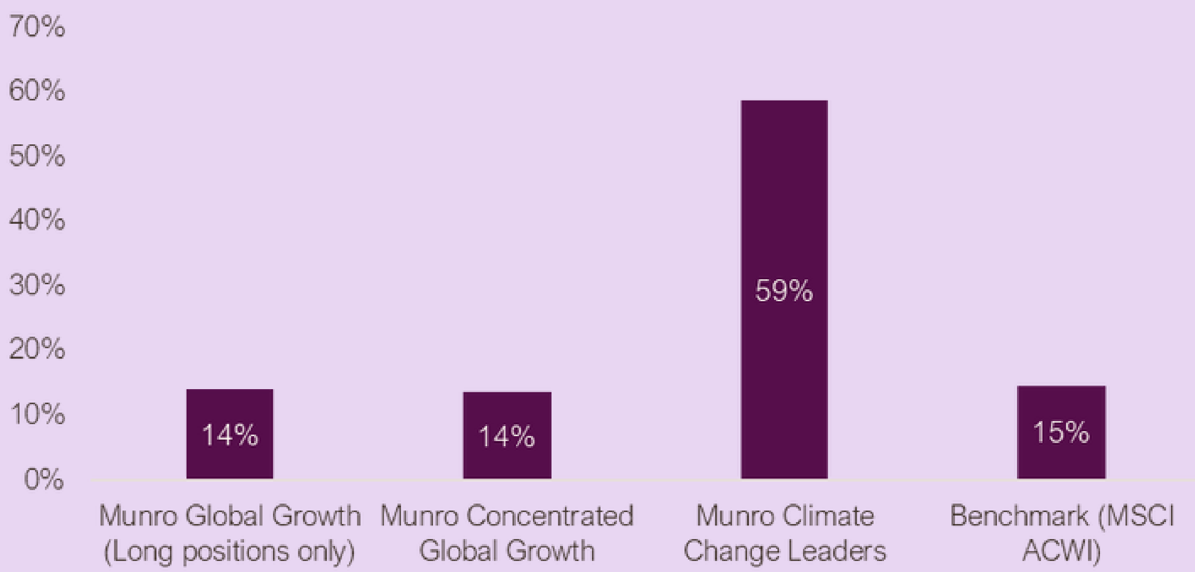
Exposure to 'carbon solutions'

This metric shows each portfolio's percentage of revenues that the underlying companies derive from 'green transportation' and 'renewable energy' as determined by a third-party data provider, Sustainalytics (together 'carbon solutions').

In Munro's view, all companies in the Climate Change Leaders strategy are enabling decarbonisation. The differences are due in part to how some industries are classified. For example, waste management is not considered a carbon solution in the third-party's data despite the industry's contribution to recycling and capturing landfill methane gas, which can be many times their operational emissions.

The Climate Change Leaders strategy also invests in companies which are transitioning towards enabling decarbonisation. In other words, they are not required to derive 100% of revenue from climate solutions.

Carbon Solutions (Weighted Average Revenue)



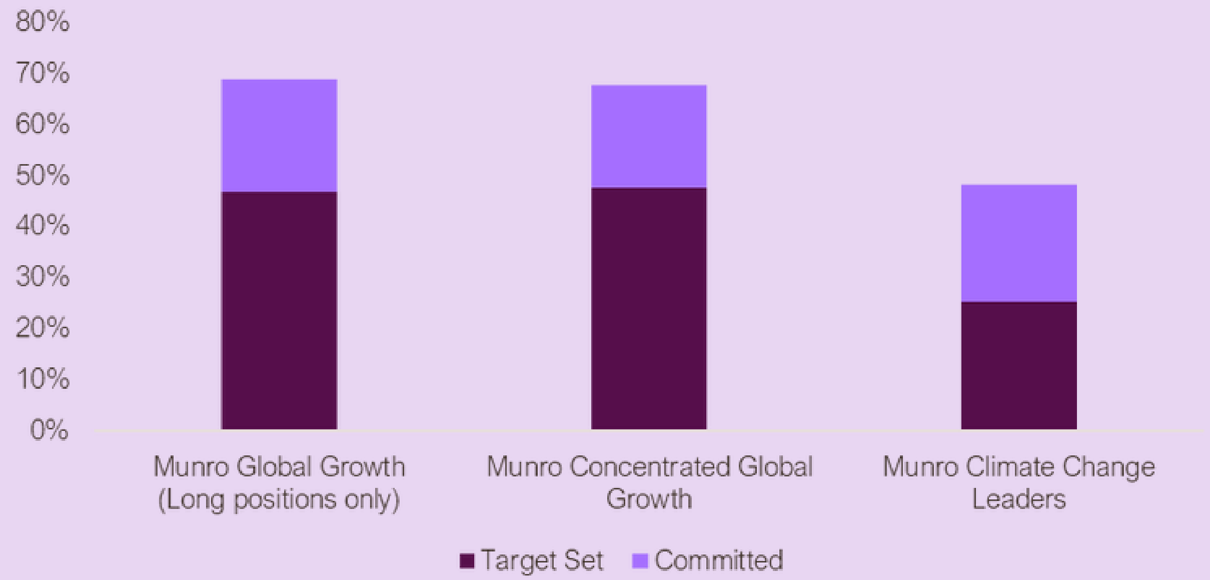
Source: Sustainalytics, Munro Partners estimates, June 2023

Net zero alignment

We analyse companies on their alignment to net zero greenhouse gas emissions ('net zero'). Currently, we use data from the Science-Based Targets Initiative (SBTi), which is an established platform where companies make public commitments to reduce emissions.

In our view, the data below presents a conservative estimate of whether companies are aligned to net zero. This is because there are several companies in our portfolios that have very ambitious decarbonisation goals but have not formally signed up to SBTi. We are exploring alternative data sources.

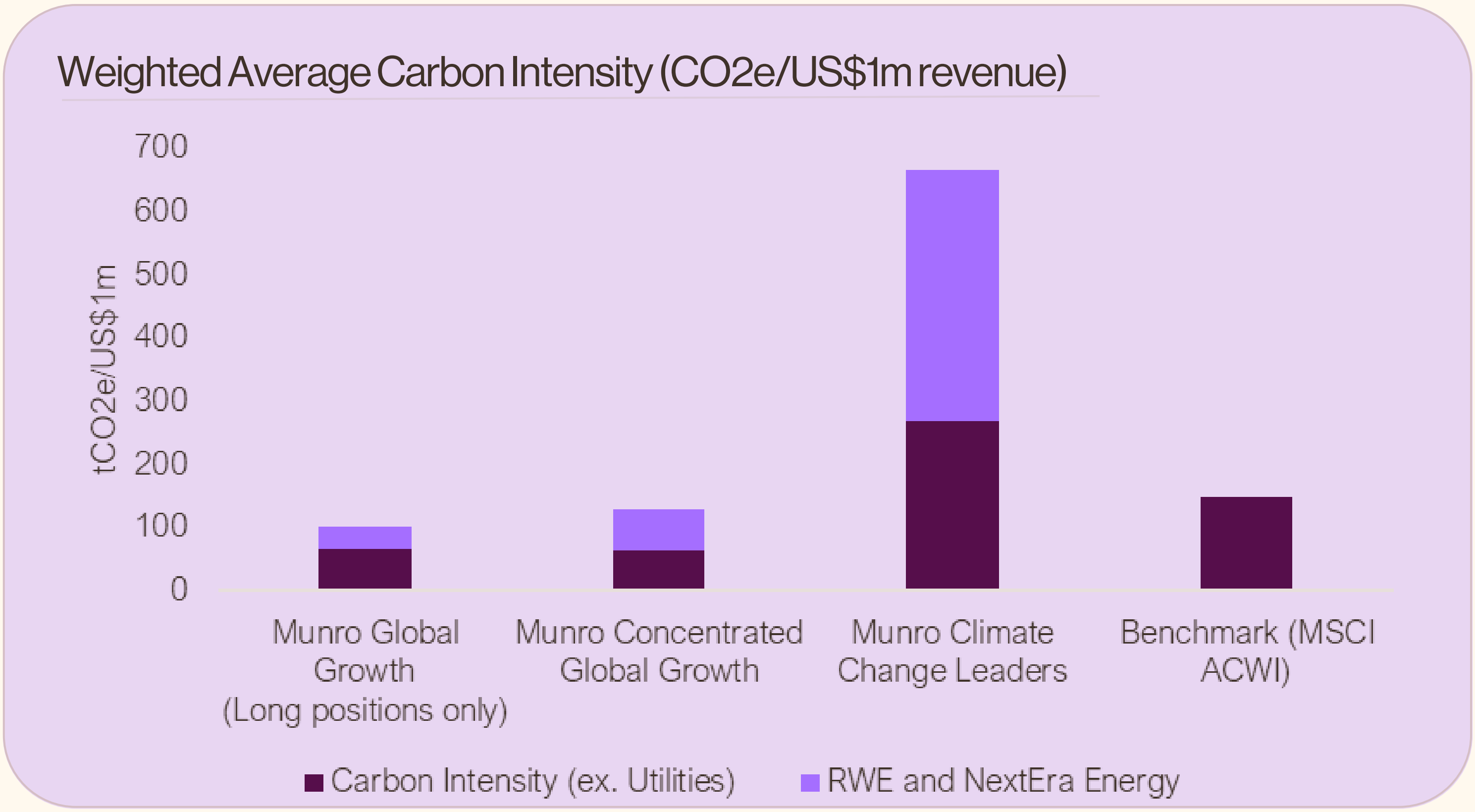
Companies with Science-Based Targets



Source: Sustainalytics, Munro Partners estimates, June 2023

Weighted Average Carbon Intensity (WACI)

Weighted average carbon intensity is used to compare company emissions across industries. Carbon intensity is absolute scope 1 and 2 emissions divided by revenue, and this is weighted by the proportionate holdings.



Source: Sustainalytics, Munro Partners estimates, June 2023

As explained above, it may be counterintuitive that our Climate Change Leaders strategy has a higher operational emissions footprint than our other strategies or the benchmark. This is because rather than being a fund that simply invests in companies with low emission operations, its focus is companies enabling decarbonisation via their products and services. Given the nature of what is required to decarbonise the economy, this leads naturally to a greater weighting to utilities and industrials (which are higher emitters) and away from sectors like financials and technology (which are lower emitters).

In the case of our Climate Change Leaders strategy, 60% of the strategy's WACI at the end of FY23 was driven by RWE and NextEra Energy, which are among the biggest renewables developers globally and have targets to transition away from fossil fuels.

Appendix

Resolutions voted differently to the board recommendation in FY23

Company	Date	Item	Proposal	Munro Vote*
Alphabet	02 Jun 2023	4.	Advisory vote on executive remuneration	Against
Alphabet	02 Jun 2023	11.	Shareholder proposal regarding a human rights assessment.	For
Alphabet	02 Jun 2023	18.	Shareholder proposal regarding equal shareholder voting	For
Amazon	24 May 2023	7.	Shareholder proposal regarding customer due diligence	For
Amazon	24 May 2023	22.	Shareholder proposal on packaging materials	For
Amazon	24 May 2023	23.	Shareholder proposal on technologies (with potential human rights implications)	For
NextEra Energy	18 May 2023	3.	Advisory vote on executive remuneration	Against
Tesla	04 Aug 2022	6.	Shareholder proposal regarding proxy access.	For
Tesla	04 Aug 2022	11.	Shareholder proposal regarding freedom of association and collective bargaining policy	For
Diageo	06 Oct 2022	22	Reduced notice of a general meeting other than an AGM	Against
LVMH	20 Apr 2023	4	Related party transactions approval	Against
LVMH	20 Apr 2023	11	Renewal of Lord Powell of Bayswater as Censor	Against
LVMH	20 Apr 2023	12	Renewal of Diego Della Valle as Censor	Against
LVMH	20 Apr 2023	13	Compensation Report	Against
LVMH	20 Apr 2023	14	Compensation for CEO	Against
LVMH	20 Apr 2023	15	Compensation for CFO	Against
Eli Lilly	01 May 2023	7.	Shareholder proposal to publish an annual report on lobbying activities	For
Eli Lilly	01 May 2023	8.	Shareholder proposal to eliminate supermajority voting requirements	For
Raytheon Technologies	02 May 2023	8.	Shareholder proposal requesting a report on Greenhouse Gas Reduction Plan	For
Targa Resources	23 May 2023	5.	Shareholder proposal requesting a report on policy options related to venting and flaring	For
UnitedHealth Group	05 Jun 2023	6.	Shareholder proposal requesting a report on political contributions	For

* In all cases, where Munro voted 'For', the board recommendation was 'Against' and vice versa.

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