

MELIOR AUSTRALIAN IMPACT FUND

Quarterly report | December 2023

PERFORMANCE SUMMARY

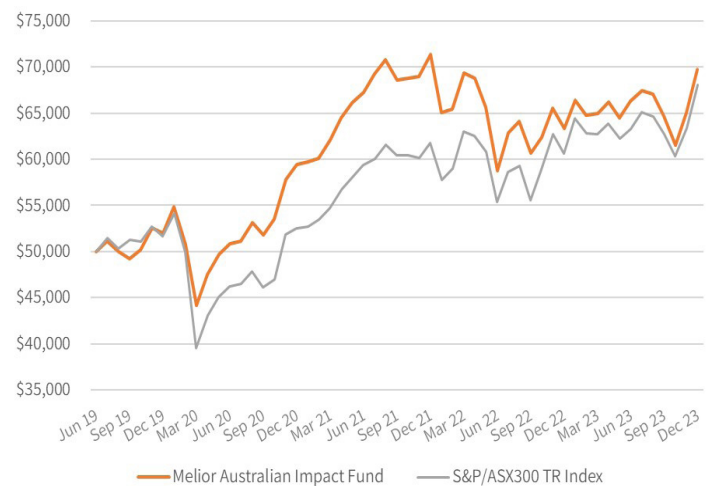
FINANCIAL PERFORMANCE	Quarter (%)	6 months (%)	1 Year (%)	2 Years (% p.a)	3 Years (% p.a)	Since Inception* (% p.a)	Since Inception* (%)
Melior Australian Impact Fund (net of fees)	7.8%	5.1%	10.0%	-1.1%	5.5%	7.6%	39.4%
S&P/ASX 300 Total Return Index	8.4%	7.5%	12.1%	5.0%	9.0%	7.1%	36.0%
Outperformance/(Underperformance)	-0.6%	-2.4%	-2.1%	-6.1%	-3.5%	+0.6%	+3.3%

*Inception 1st July 2019. **Past performance is not a reliable indicator of future performance.** Total returns shown for the Fund have been calculated using exit prices after taking into account all ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. The Melior Australian Impact Fund (**Fund**) has a long-term outperformance horizon of seven years. This Fund is likely to be appropriate for investors with "High" or "Very High" risk and return profiles. A suitable investor for this Fund is prepared to accept high risk in the pursuit of capital growth with a medium to long investment timeframe. Investors should refer to the Target Market Determination (TMD) for further information.

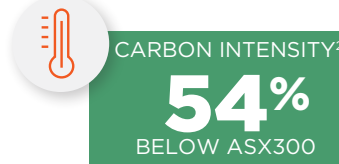
IMPACT PATHWAY PERFORMANCE

Environmental sustainability	Portfolio ¹	ASX 300
Inflation adjusted carbon intensity (t CO ₂ /\$m rev) ²	61.7	135.3
Net zero emissions target	88%	55%
Net zero emissions glidepath	76%	39%
Certified SBTi emissions reduction target ³	15%	6%
TCFD ⁴ aligned reporting	68%	40%
Waste reduction target	41%	22%
Water reduction target	21%	16%
TNFD ⁵ forum member	24%	6%
Social inclusion		
% Females on ELTs ⁶	32%	28%
% Females on Boards	40%	34%
Female Leader (CEO and/or Chair)	15%	17%
ELT ⁶ gender target of 40:40:20 ⁷	74%	37%
Gender pay gap target +/- 5%	26%	12%
Modern Slavery performance indicators	21%	16%
Reconciliation Action Plan ⁸	56%	29%
Diversity beyond gender disclosure	71%	43%
Governance & transparency		
% Independent Directors	78%	68%
Board Sustainability Committees ⁸	41%	36%
Directors' ESG ⁹ skills disclosure	6%	6%
Cybersecurity policy	85%	60%
ESG-linked management LTIs ¹⁰	21%	14%

PERFORMANCE SINCE INCEPTION*



*Growth of \$50,000 invested at inception with distributions reinvested. Does not take into account any taxes payable by the investor. Net of fees.



Impact Pathway Performance Notes: These metrics are produced by Melior using its own internally developed methodology. Melior obtains limited assurance on this methodology and these metrics each financial year (as at 30 June 23) (excluding Carbon Intensity). **Point Advisory has provided limited assurance** in accordance with Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the Australian Auditing and Assurance Standards Board. SustainCERT has validated that the Melior carbon calculator used to calculate carbon intensity is in line with best practice, as defined by the Principles of the Greenhouse Gas Protocol.

Sources: Estimates derived from 2021, 2022 & 2023 company reports, Workplace Gender Equality Agency data, ASX Announcements, company websites, Glass Lewis, Reconciliation Australia, National Greenhouse and Energy Reporting, Science Based Targets initiative (SBTi), Bloomberg and Melior estimates. Women in Management, Females on Boards and Independent Directors are calculated as an average of each company's own representation percentage. Other KPIs are calculated as the number of companies as a percentage which meet the criteria within either the Fund or the S&P/ASX300 Index.

¹ Portfolio and ASX300 as at 31st December, 2023. Green indicates outperformance and red underperformance versus the ASX300
² Includes Scope 1 & 2 emissions only. Adjusted for inflation using latest available quarterly trimmed-mean CPI released by the ABS/RBA.
³ Science-based targets provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals.

⁴ Task Force on Climate-Related Financial Disclosure
⁵ Task Force on Nature-Related Financial Disclosures
⁶ Executive Leadership Team
⁷ 40% male, 40% female, 20% either gender or equivalent
⁸ Environmental, Social and Governance
⁹ Long-Term Incentive Plans

MARKET COMMENTARY

The Australian stock market had a strong finish to the calendar year, with the S&P/ASX 300 Index up 8.4% in the December quarter.

Interest rate movements had a significant influence on equity markets during the quarter. Softer than expected inflation data in both the US and EU, followed by dovish comments from members of the US Federal Reserve committee that sets interest rates, encouraged the market to bring forward expectations for interest rate cuts in the US to as early as March 2024. The US 10 year bond rate fell 120 basis points from the mid October peak to finish the quarter at 3.88%. Australia was somewhat of an outlier during the quarter. The RBA increased the cash rate in November to 4.35% and contemplated another interest rate increase in December.

The large step down in US interest rate expectations influenced relative sector performance on the ASX. The long duration Real Estate and Health Care sectors led the market higher. Concerns around the growth outlook and disharmony within OPEC (Angola announced its decision to leave the cartel) pushed the oil price down 20% in the December quarter and meant the Energy and fossil fuel exposed Utilities sectors were the weakest on the ASX.

PORTFOLIO UPDATE

The Fund had a strong return of +7.8% in the December quarter, while underperforming the S&P/ASX 300 Total Return Index by -0.6%. The Materials sector was the largest detractor from relative performance. The Fund holds positions in three lithium stocks (IGO, Pilbara Minerals and Vulcan Energy) that will support climate action over the medium to long term. The lithium price fell during the quarter and weighed on the share prices for these stocks. Players in the battery supply chain have been responding to slower near term growth in demand for electric vehicles by destocking lithium raw materials. For IGO, the impact of weakness in lithium prices was compounded by a key customer (and JV partner) deferring some purchases.

The largest positive contribution came from the Fund holding no stocks in the relatively weak performing energy sector due to their fossil fuel exposures. Bluescope Steel (held) was a large single stock contributor benefiting from improved steel market conditions in the US pushing earnings expectations for this stock higher. Goodman Group, BHP and CSL (all held) also made material positive contributions.

This quarter Melior increased the Fund's allocation to Renewable Energy with the addition of copper producer, Sandfire Resources, increasing our exposure to copper which we view as an attractive commodity with favourable decarbonisation tailwinds. We reduced exposure to Health, with the exit from Estia Health after it was acquired for a large premium by a private equity investor.

IMPACT NEWS

CSIRO identifies pathways to lowering emissions for Australian industries

The CSIRO recently published a new report, [Pathways to Net Zero Emissions – an Australian Perspective on Rapid Decarbonisation](#), setting out decarbonisation scenarios for energy, transport, building and heavy industry sectors. The report highlights that the electricity sector has the greatest opportunity to accelerate decarbonisation in the 2020s, which could see emissions decline by 83 per cent by 2030.

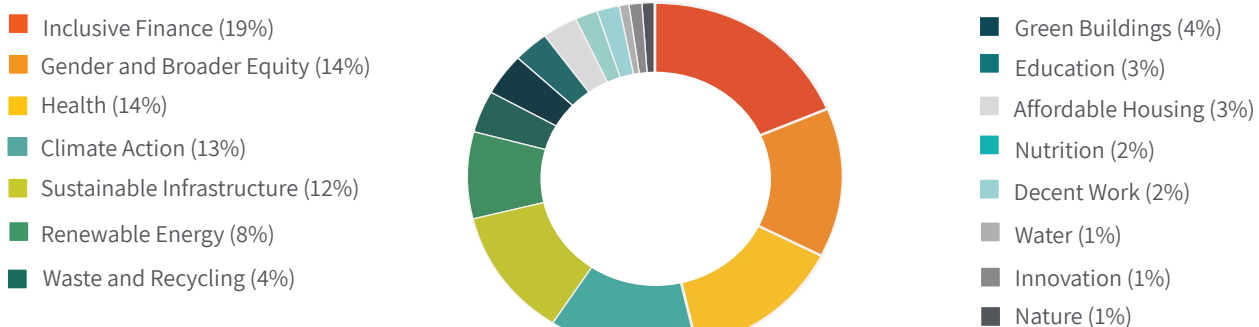
New data reveals that men account for just 14 per cent of all paid primary carers' parental leave

Recent data from the Workplace Gender Equality Agency shows that men accounted for just 14 per cent of all paid primary carers' parental leave taken in 2022-2023. This is cited as one of the reasons Australia still has a total remuneration gender pay gap of 21.7 per cent.

Less than one third of top Australian companies adopt science-based climate targets

The Climate Leaders Coalition report, [Scaling Impact on scope 3](#), November 2023, found that only 29 per cent of Australia's biggest companies had taken up Scope 3 emissions targets, which are those produced outside a company's direct industrial processes. The group warned that companies will face a crackdown on tougher disclosure rules, set to start in July 2024 for large companies.

FUND IMPACT INVESTMENT THEME EXPOSURES**



** As at 31st December 2023 - portfolio weighted primary and secondary Sustainable Development Goals (SDG) investment themes.

ACTIVE CORPORATE STEWARDSHIP

The December quarter was a busy time for Melior with a large amount of engagements with companies prior to their Annual General Meetings (AGM):

- Melior held 20 one-on-one meetings and eleven small group meetings with company management of portfolio and non-portfolio companies to engage on a range of issues including Reconciliation Action Plans, climate and nature action, gender pay gaps, water and waste reduction and cyber security.
- The team also met with 10 chairs or directors of portfolio companies ahead of the AGMs to discuss our voting intentions. Appropriately comprised boards and appropriately ESG-linked incentive structures
- In November, Melior visited Kelsian's Leichardt bus depot. The company provided an update and site tour of their electric bus operations, as well as a strategic update on its Australian Bus, International Bus, and Marine and Tourism businesses.
- Also in November, Melior visited a Sims Metal scrap yard in Sydney, where they are recycling steel, copper and aluminium, which is important for the circular economy. A key technology demonstrated at the Milpera site is the state of the art copper cable granulator which is able to recycle up to 95% of the copper in low grade telecom cables.



Melior CIO, Tim King presenting at the International Mining and Resources Conference

PROXY VOTING

- During the December quarter, Melior voted in 30 AGMs. One of the key themes during Proxy Voting season was the inclusion of ESG metrics within LTI schemes. Melior voted against 19 Remuneration Reports due to an absence of ESG metrics within LTI and engaged with multiple board directors and management teams on this issue during the quarter. Melior believes that explicitly linking long-term management remuneration to achieving material ESG factors such as employee safety and welfare, action on climate change, gender balance, and water and waste management, is critical in embedding these practices into corporate culture.

PUBLIC ADVOCACY

- **Melior together with [Adamantem Capital](#) submitted a response to the Australian Treasury's Sustainable Finance Strategy Consultation.** We view the implementation of a Sustainable Finance Strategy as crucial for Australia, as it plays a pivotal role in aligning the country with global trends and facilitating access to international capital.
- **Melior released a thought piece on why Australia is uniquely placed to respond to climate and nature challenges** in the lead up to the COP (Conference of the Parties) 28 held in Dubai in November. Read the thought piece [here](#).
- **Melior CEO participated on Sustainability panel at AFR Super and Wealth Summit 2023.** Melior CEO, Lucy Steed discussed the rise of impact investing and the role large companies can play in driving forward the energy transition.
- **Melior CIO joined keynote panel at IMARC 2023 (International Mining and Resources Conference).** Melior CIO, Tim King, discussed on the keynote panel: ESG's role in getting projects off the ground and out of the ground. Tim highlighted the importance of adopting ESG practices in the early stages of projects and establishing environmental resilience and social impact practices.
- **Melior in the news.** Over the quarter, Melior have featured in a number of publications including the AFR and our CEO and CIO discussing sustainability issues in the Company Directors Magazine. Latest news updates can be found at <https://meliorim.com.au/news/>.

TOP TEN HOLDINGS***

BHP

BHP is a global producer of future-facing materials such as iron ore, copper and nickel and is pivoting its business away from fossil fuels to materials essential for the transition to global mega trends such as decarbonisation and urbanisation. We view BHP as contributing to SDG 13.3 'climate change mitigation' by demonstrating leadership in setting emissions targets, responsibly managing down its emissions, increasing production of future-facing materials such as potash and reducing its fossil fuels exposure including exiting oil and gas and bringing forward the closure of their NSW thermal coal assets.



BRAMBLES

Brambles (BXB) is the largest provider of pallet pooling in the world. It owns and operates a large pool of mostly timber pallets that it rents to a large number of customers in developed and emerging markets to transport physical goods. We consider BXB's pallet pooling services helps to 'substantially reduce waste generation through prevention, reduction, recycling and reuse' (SDG 12.5).



COMMONWEALTH BANK

Commonwealth Bank (CBA) is Australia's largest bank. Its core services (transaction accounts, loans to small and medium sized enterprises (SMEs) and mortgages) help enable individuals and businesses to productively participate in the economy. We consider CBA helps provide 'access to banking, insurance and financial services for all' (SDG 8.10).



CSL

CSL is the global leader in plasma-derived therapies. Plasma protein therapies produced by CSL are used by thousands of patients around the world every day. We consider CSL's plasma-derived products reduce 'premature mortality from non-communicable diseases' (SDG3.4) such as immunodeficiencies, bleeding disorders, hereditary angioedema and neurological disorders. We also consider its vaccine business contributes to "end the epidemics" of "communicable diseases" (SDG3.3) including influenza and COVID-19.



GOODMAN GROUP

Goodman Group (GMG) develops, owns and manages warehouses and logistics assets that form part of critical infrastructure across Australia and New Zealand, Asia, the Americas and Europe. GMG has committed to a 100% renewable energy target by 2025, powered by a target to install 400MW of solar globally by 2025. We consider GMG's logistics and warehouse assets provide 'reliable, sustainable and resilient infrastructure' (SDG9.1).



IGO

IGO Limited (IGO) produces critical materials – lithium, nickel, copper, and cobalt – for the transition to a decarbonised economy. The company has repositioned itself as the only company globally that can supply all four key electric vehicle (EV) battery materials. These materials are also sources for other renewable energy, and we consider IGO as helping to increase 'the share of renewable energy in the global energy mix' (SDG7.2).



NAB

National Australia Bank (NAB) is one of Australia's largest banks, serving individual and business customers predominantly in Australia and New Zealand. Its core services (including transaction accounts, SME loans and mortgages) help enable individuals and businesses to productively participate in the economy. We consider NAB helps provide 'access to banking, insurance and financial services for all' (SDG 8.10).



TELSTRA

Telstra (TLS) is Australia's largest telecommunication services provider, providing essential infrastructure to metropolitan and regional areas. TLS provides mobile coverage to 99.5% of Australia's population including approximately one million vulnerable customers. We consider TLS's mobile network and services help 'increase access to information and communications technology' (SDG9.8).



WESFARMERS

Wesfarmers (WES) is one of the largest private sector employers in Australia and New Zealand and plays a significant role in driving improved gender-equality outcomes for women in its workforce via its industry-leading practices. We consider WES, as a large employer with leading gender equality practices, helps 'ensure women's full and effective participation and equal opportunities for leadership' (SDG5.5).



WESTPAC

Westpac Banking Corporation (WBC) is one of Australia's largest banks. Its core services (including transaction accounts, SME loans and mortgages) enable individuals and businesses to participate in the economy. We consider WBC helps provide 'access to banking, insurance and financial services for all' (SDG 8.10).



*** On an absolute basis in alphabetical order. Sustainable Development Goal and theme based on Melior impact assessment.

View the December 2023 Company Spotlight featuring Pro Medicus here.

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