

Nanuk New World Fund

Monthly Report - August 2016

The Nanuk New World Fund is a long only equity fund generating its returns from investments in a universe of listed equities exposed to the broad theme of environmental sustainability. The Fund invests globally in companies involved in clean energy, energy efficiency, agriculture, water, waste management, recycling, pollution control and advanced manufacturing and materials. All of these industries are undergoing significant changes as the world tries to reconcile economic growth with longer term sustainability and are a potentially rich and ongoing source of investment returns.

The Fund seeks to hold a globally diversified, yet relatively concentrated, portfolio of positions that align with Nanuk's views on security valuation and the evolving trends within these industries. The Fund aims to achieve long term capital appreciation and outperformance of traditional global equity indices while reducing volatility of returns and risk of capital loss through appropriate diversification and risk management strategies.

Performance Summary¹ (AUD)

	1 Month	3 Months	1 Year	Since Inception ¹
Fund Return (%)	0.9	(0.9)	-	4.9
Benchmark Return ² (%)	2.4	1.8	-	3.6
Value Added (%)	(1.5)	(2.7)	-	1.3
MSCI ACWI Return ³ (%)	1.5	0.3	-	(2.4)
Value Added (%)	(0.6)	(1.2)	-	7.3

Commentary

Global equities had a relatively quiet August with the MSCI All Country World Index up 0.1%. Performance varied across equity markets. The US S&P 500 was down 0.1% and Europe's Euro Stoxx 50 rose 1.1%. In Asia, Japan's Nikkei 225 rose 1.9% while Hong Kong's Hang Seng index was up 5%. The Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return index out-performed broader global equities, rising by 1.2% in US dollar terms and by 2.4% in Australian dollar terms.

The Fund was up 0.9% for the month but underperformed the FTSE Environmental Opportunities index. The Fund had a difficult month for some of its positions in Japan, in particular a position in the Japanese high speed rail industry which fell during the month in part due to a weak earnings report by West Japan Railway. The main positive contributor was SunRun Inc, which provided ~70bps. SunRun is the US' #2 solar leasing company. The company is a peer to SolarCity and Vivint Solar, which have both faced a range of significant and well documented challenges over the last 12 months. As a result its shares have significantly underperformed since its listing last year and now present an interesting opportunity with the company valued at little more than the value of its existing solar assets. We believe, relative to its competitors, it has a significantly superior balance sheet and funding structure, and a better execution track record. The company demonstrated these during its 16Q2 report and the stock performed well.

Notes (1) Inception date 2 November 2015 (2) Benchmark return is the FTSE Environmental Opportunities All Share Total Return Index in Australian dollars (3) MSCI ACWI return is the MSCI All Countries World Index Total Return Net Index in Australian dollars

August saw progress continue across several sustainability themes. Grid-scale batteries dominated a tender by the UK's National Grid for frequency regulation systems, representing 61 of 64 chosen sites in a program worth £50m, or approximately \$65m, per year. In the US, AES Corp. announced its plans to build 37MW of grid storage systems by the end of the year in Southern California to address the risk of shortfalls in natural gas fuelled peaking plants. In renewable energy, Chile's recent power auction resulted in a new global record low price for unsubsidised solar energy, with a 120MW project securing pricing of 2.9c/kWh. This was lower than prices achieved by wind, and substantially lower than prices bid by natural gas and coal fired generation in the same auction.

In autonomous driving (AD), ride-sharing leader Uber announced that it would commence trials of driverless cars in Pittsburgh within coming weeks. But the claim on this world first has gone to Singapore company nuTonomy which began trials of its driverless taxis within Singapore's business district in late August. Uber burnished its AD capability with the acquisition of [Otto](#), a start-up whose initial focus was self-driving trucks, as well as a \$300m joint project with Volvo Cars to develop AD ready vehicles. Mobileye, a leading provider of AD sensing systems, and Delphi Motors (a company held by the Fund), announced "an end-to-end production-intent fully automated vehicle solution" that would be "production ready for 2019". Coming from two Tier 1 suppliers rather than an original equipment manufacturer (OEM), this will support OEMs who have not made multi-billion dollar investments in AD, in providing AD-capable vehicles. The electric vehicles (EV) theme saw Daimler, parent company of Mercedes, announce more ambitious plans to expand in the growing EV market, with an executive saying "we believe the time has come to earn money in e-mobility over the next 5 to 10 years". Mercedes had previously discussed plans for two sedans and two SUVs but has now indicated it is working on at least 6 electric cars and maybe more, possibly including a plug in hybrid relying on a hydrogen fuel cell to provide added range. In the internet of things (IoT) area, Verizon, a leading US telecom provider, announced a \$2.4b offer for Fleetmatics, a telematics provider for small and medium sized fleets. Verizon has been expanding aggressively in IoT, and had previously acquired Telogis, a private telematics company.

On the policy front, China and the US announced they would ratify the Paris climate accord. Although not a surprise, this is a key step, with the two nations representing 38% of global emissions. The state of California passed legislation to accelerate carbon emission reductions, mandating a 40 percent reduction from 1990 levels by 2030. The State of New York effectively announced a bailout of its local nuclear plants, another example of the difficulties nuclear generation is facing, while the future of Hinkley Point C, discussed last month, remains unclear.

At the end of August, the Fund's largest industry exposures remained to suppliers to the automotive sector exposed to the rapidly evolving trends towards vehicle electrification and autonomous driving and the continued shift towards improving fuel efficiency. The Fund also has significant exposure to high speed rail operators in Japan, building efficiency technologies and services and component suppliers benefitting from increasing use of data collection, wireless networking and data analytics in industrial applications (a trend commonly referred to as the industrial internet of things). The

Historic Returns² (AUD)

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	-	-	-	-	-	-	-	-	-	-	(0.66)	(0.31)	(0.97)
2016	(4.46)	(0.03)	1.98	2.47	7.19	(5.6)	4.0	0.9					6.0

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Monthly
Domicile	Australia	Minimum Subscription	AUD 500,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Monthly
Administrator & Custodian	RBC Investor Services Trust	Notice period	One week
Inception	2 November 2015	Buy-Sell spread	0.25%
Management Fee	0.8%	Total management costs	1.2%

Contact Details

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²Returns are calculated net of all fees and expenses and on the basis of a shareholding since inception (2 November 2015).