

# NANUK NEW WORLD FUND



## Monthly Report - February 2020

*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 Summary<sup>1</sup> (AUD)

|                                   | 1 Month | YTD   | 1 Year | 2 Years p.a. | 3 Years p.a. | Since Inception p.a. <sup>1</sup> |
|-----------------------------------|---------|-------|--------|--------------|--------------|-----------------------------------|
| Fund Return (%)                   | (3.6)   | 1.5   | 18.9   | 10.4         | 16.8         | 14.0                              |
| FTSE EOAS Return <sup>2</sup> (%) | (3.4)   | 0.9   | 20.1   | 13.1         | 16.0         | 13.0                              |
| Value Added (%)                   | (0.2)   | 0.6   | (1.2)  | (2.6)        | 0.8          | 1.0                               |
| MSCI ACWI Return <sup>3</sup> (%) | (4.6)   | (0.9) | 14.6   | 11.6         | 13.4         | 9.8                               |
| Value Added (%)                   | 1.0     | 2.3   | 4.3    | (1.1)        | 3.4          | 4.2                               |

### Fund Commentary

The Fund was down 3.6% in February, underperforming its environmental equity benchmark, the FTSE Environmental Opportunities All Share Total Return Index, by 0.2% but outperforming traditional global equity indices such as the MSCI All Country World Total Net Return Index by 0.9%.

Equity markets rose during the first three weeks of February, in many cases to new record highs, but fell dramatically in the last week of the month as uncontained coronavirus transmission was

identified in Korea and then Italy and new cases quickly emerged around the world.

The major positive contributors to the Fund's performance were positions in US residential solar leasing leader SunRun and automated speech recognition leader Nuance Communications. Nuance, which is focused on the healthcare sector, reported Q1 results ahead of its guidance and good progress on the transition of towards cloud-based services and adoption of new artificial intelligence based products. The largest negative contributor was sustainable textile leader Lenzing, which

Notes (1) Inception date 2 November 2015 (2) 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

continues to face challenging conditions in its commodity viscose staple fibre business. Whilst the Fund's exposure to sectors like airlines and tourism that are likely to be more immediately and overtly impacted by global coronavirus contagion is limited, the potential effects on consumer and business confidence and global trade are widespread and the Fund's holdings were not immune from the broader impact on equities. The Fund's holdings in Japanese high speed railway operators and automotive component suppliers underperformed during the month, as did holdings in companies such as Reed Elsevier, an information services business which has a division focused on exhibitions and oncology systems specialist Varian Medical Systems which may be impacted as healthcare spending shifts towards other priorities.

In light of the circumstances and evident risks, a decision was taken mid-month to allow the Fund's cash balance to rise above its normal level of around 2-3% and to reduce identified exposures, particularly in more financially leveraged businesses that might be more negatively impacted in an expanding economic slowdown. The Fund outperformed relative to traditional global equity indices during the period in which equity markets fell, broadly in line with the predicted characteristics of the portfolio.

There were several changes in the portfolio during the month. Positions in US packaging company WestRock, only a recent addition but clearly negatively exposed to an economic slowdown, and West Japan Railway were reduced and the Fund's holding in Dupont was exited after the company divested its nutrition division leaving a lower growth and more cyclical portfolio. Positions in 5G communications play Skyworks Solutions, US water treatment leader Xylem and Hexagon AG, a global leader in industrial sensors and associated software, were exited during the month after periods of strong performance. The Fund also reduced its position in SunRun. New positions were added in electronic design and testing leader Keysight Technologies, a significant beneficiary of growing investment in 5G networks and product development, Siemens and global semiconductor leader Taiwan Semiconductor Manufacturing Co..

### **Market Commentary**

Global equity indices fell sharply toward the end of February as news emerged of significant outbreaks of coronavirus outside of China, notably in Korea and then Italy. The MSCI All Country Total Net Return Index was down 8.1% (in US dollar terms). The US S&P 500 Index finished the month down 8.4% after reaching a record high on 19<sup>th</sup> February before falling 12.8% in one of the most rapid corrections ever. Europe's Stoxx 50 Index was

down 8.6% and Japan's Nikkei 225 Index was down 8.9% amidst discussion of the possible cancellation of this year's Olympic Games. Chinese equities fared better as containment measures in China proved effective in slowing the reported spread of coronavirus and expectations rose for government stimulus. The Shanghai Shenzhen Composite 300 Index was down 1.6% and Hong Kong's Hang Seng Index, which has underperformed in recent months, was down 0.7%.

Environmental equities outperformed, with the Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return Index, down 6.9%. This was supported by the outperformance of renewable energy utilities and underperformance of the traditional energy sector, as well as the contribution of index constituent Tesla, which finished the month up 3%.

The US Government 10 year bond yield fell to a record low of 1.14% and has subsequently now fallen as low as 0.5% following the Fed undertaking an emergency rate cut of 50bp at the beginning of March. Oil prices fell sharply with WTI crude down 13% for the month. The Australian dollar weakened further against the US dollar.

### **Industry Commentary**

Headlines in the past two weeks have been overwhelmed with news and speculation regarding coronavirus. The already significant economic impact was highlighted by the February China Manufacturing PMI which came in at 35.7, below its previous lowest level recorded during the global financial crisis in 2008. The global supply chains of many industries have been impacted and with escalating government action to control the spread of the virus outside of China it is likely that consumer and business confidence measures will fall elsewhere. Central banks and governments around the world have already started to respond and it is likely that significant economic stimulus will be provided to dampen the economic effects. It is highly likely that a material proportion of this stimulus will be directed towards sustainable technology and infrastructure that is aligned with emerging environmental and climate related targets.

This has been immediately evident in China where state owned clean energy developer China Three Gorges New Energy announced the commencement of 25 renewable energy projects totaling more than \$8 billion in investment. In addition, State Grid Corp of China began construction of a pumped hydro storage project in Shanxi only three months after cancelling the project.

The European Union continues to show global leadership on environmental regulation. At the beginning of March the European Commission unveiled the European Climate Law which will make it mandatory for European member states and institutions to implement measures to reduce carbon emissions in line with the European Green Deal - a broader plan to make the EU carbon neutral by 2050. A part of this plan is to introduce an EU border carbon adjustment that would impose taxes on imported products to ensure their manufacturers face the same cost of emissions as European companies.

The EU is also progressing new sustainability regulations that will impact foreign manufacturers of products such as plastics, textiles and batteries. The new regulations, part of a draft Circular Economy Action Plan, would impose EU environmental design standards and recycled content mandates on foreign manufacturers, and potentially regulatory alignment from trading partners. New regulations that will come into effect in 2021 have also been adopted for single use plastics which will ban plastic products such as straws and cutlery and impose widespread producer responsibility schemes to address the clean-up costs for products such as PET bottles and tobacco filters.

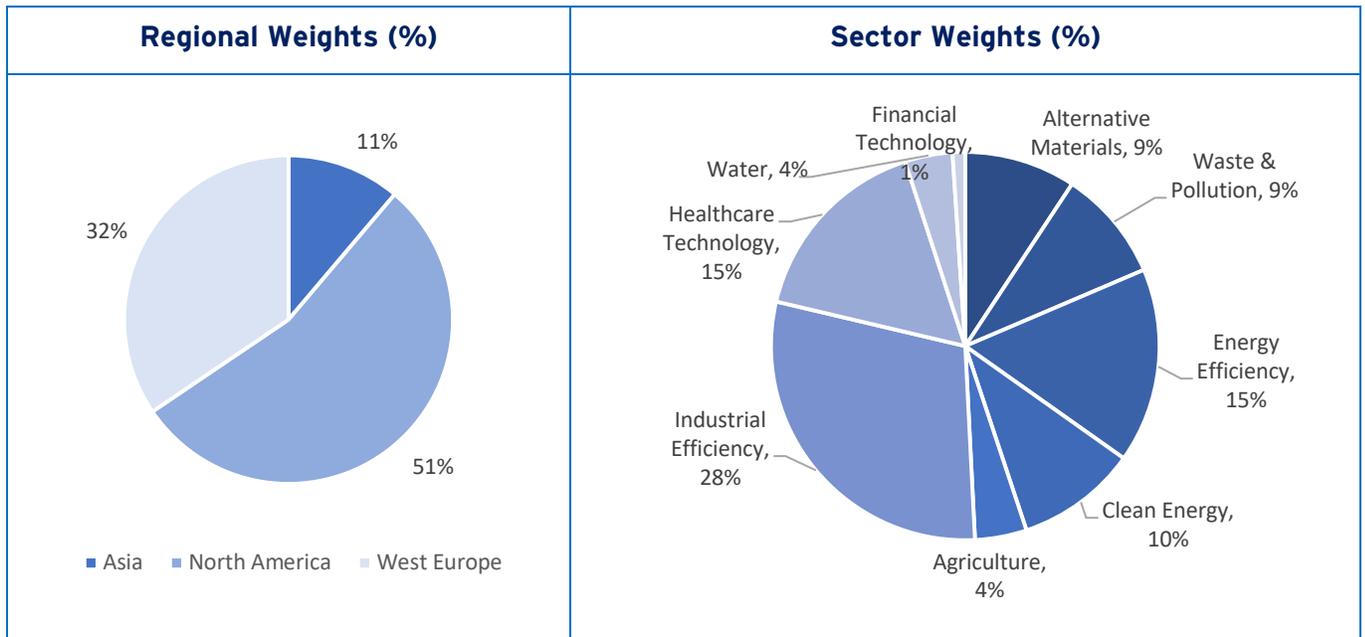
February saw several announcements that highlighted how significant capacity expansions are likely to support continued declines in the cost of key sustainable technologies. In the solar sector Chinese manufacturer Tongwei announced the development of a massive solar cell factory with an annual capacity of 30GW, equivalent to the company's existing capacity and representing more than 20% of current annual global demand and more than total global installations in 2012. Competitors JA Solar and LONGi Green Energy Technology each plan to add 10GW of capacity. Further reductions in Chinese solar subsidies were announced during the month, with the standard

tariff reduced by 18% to around US5c/kWh. Notably there was also an announcement by one of the Chinese state-owned utilities of plans to develop 2GW of unsubsidized solar generation in Xinjiang.

In the battery industry, China's Contemporary Amperex Technology Co. (better known as CATL), the world's largest electric vehicle battery maker, announced it will invest up to \$3.7b to quadruple its production capacity in the next two to three years. The plans include the construction of a 14GW plant in Germany where there are a number of similar projects under development. Earlier in the month German economy minister Peter Altmaier announced a Euro 5 billion project to manufacture battery cells in Germany and France. In other automotive news Singapore announced a target to phase out the use of petrol and diesel cars on its roads by 2040.

The offshore wind industry saw another record, this time in the US where an 800MW project to be developed off Martha's Vineyard has contracted to supply electricity at a record low price of \$58/MWh. Whilst still considerably higher than onshore wind and solar generation, the cost is far below what was considered achievable only a few years ago. The project is a joint venture between Portuguese utility EDP Renovaveis and Shell, which also announced it will build its first large scale solar project - a 120MW project in Queensland - and that it had agreed to buy capacity from a large scale battery project under development in the UK that will enable it to optimize the use of renewable power.

Finally, Amazon CEO Jeff Bezos, committed \$10 billion of his own fortune to address climate change in a new initiative called the Bezos Earth Fund. The announcement was light on details but it appears the Fund will make donations to scientists activist and NGOs. It follows the commitment made last year by Amazon to achieve net-zero emissions by 2040.



### Top 10 Holdings as at 29 February 2020

| Security Name                   | Weight (%) | Country        | Sector                |
|---------------------------------|------------|----------------|-----------------------|
| Carlisle Companies Incorporated | 4.2        | UNITED STATES  | Energy Efficiency     |
| Air Liquide SA                  | 3.9        | FRANCE         | Alternative Materials |
| RELX PLC                        | 3.1        | UNITED KINGDOM | Healthcare Technology |
| Lear Corporation                | 3.0        | UNITED STATES  | Energy Efficiency     |
| Waste Management, Inc.          | 2.9        | UNITED STATES  | Waste & Pollution     |
| Microsoft Corporation           | 2.9        | UNITED STATES  | Industrial Efficiency |
| Republic Services, Inc.         | 2.8        | UNITED STATES  | Waste & Pollution     |
| Keysight Technologies Inc       | 2.5        | UNITED STATES  | Industrial Efficiency |
| Varian Medical Systems, Inc.    | 2.2        | UNITED STATES  | Healthcare Technology |
| Sunrun Inc.                     | 2.2        | UNITED STATES  | Clean Energy          |

## Fund Details

|                           |                                     |                        |            |
|---------------------------|-------------------------------------|------------------------|------------|
| Fund Name                 | Nanuk New World Fund                | Currency               | AUD        |
| Type                      | Global Equity                       | Subscriptions          | Daily      |
| Domicile                  | Australia                           | Minimum Subscription   | AUD 50,000 |
| Responsible Entity        | EQT Responsible Entity Services Ltd | Redemptions            | Daily      |
| Administrator & Custodian | RBC Investor Services Trust         | Notice period          | 1 Day      |
| Inception                 | 2 November 2015                     | Buy-Sell spread        | 0.25%      |
| Management Fee            | 0.8%                                | Total management costs | 1.2%       |
| AUM (29 Feb 2020)         | AUD 250.9m                          |                        |            |

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