NANUK
ASSET MANAGEMENT

Nanuk New World Fund

Monthly Report – January 2017

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[1] (AUD)

	1 Month	3 Months	6 Months	1 Year	Since Inception[1]
Fund Return (%)	**(2.9)**	**6.3**	**5.8**	**16.4**	**8.0**
Benchmark Return[2] (%)	(0.9)	6.6	6.1	15.8	5.9
Value Added (%)	(2.1)	(0.3)	(0.3)	0.6	2.1
MSCI ACWI Return[3] (%)	(2.0)	6.0	5.1	9.9	0.8
Value Added (%)	(0.9)	0.3	0.7	6.5	7.2

Commentary

Macro and Industry Commentary

Donald Trump was inaugurated as President of the United States on January 20. While the President has already signed a number of executive orders, concrete actions impacting the Fund's areas of focus have been limited to date, and the range of possibilities remains wide. While one advisor has claimed that Mr Trump sought to ultimately abolish the Environmental Protection Agency, the President held a meeting with Republican luminaries ranging from former Treasury secretary Hank Paulson to former Walmart Chairman Rob Walton to discuss a proposal for a major carbon tax. We have also seen oil giant Exxon Mobil, whose former CEO is the new Secretary of State, praise the Paris Climate Accord (incidentally, which Mr Trump had promised to withdraw from) as a monumental achievement, then added a prominent climate scientist, Susan Every, to its Board of Directors.

Actions outside of the US continued to mark a contrast with the mixed messages emanating from the White House. Chinese President Xi Jinping featured climate change prominently in his speech at the World Economic Forum. China's National Energy Administration announced plans

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 for US$360 billion of renewable energy investment through 2020, as well as suspending over 100GW of new and under-construction coal fired generation projects across 11 provinces. India has pledged to install 175 GW of renewable capacity by 2020. Notably, a tender for 750MW of solar capacity in the central state of Madhya Pradesh was 10 times oversubscribed in the first round of bidding. The reverse auction attracted more than 20 major international and domestic companies. The significant falls in prices across the solar industry over the last 12 months are expected to result in bids well below the record low levels seen in similar auctions last year. Further afield, the first renewable energy tenders will be awarded this year in Saudi Arabia, which is embarking on a massive program to install around 10GW of solar, wind and nuclear generation by 2023 at a cost of $30 to $50 billion. Its aim is to produce 30% of its power from renewable resources by 2030. Saudi Aramco, the world's largest oil producer, is expected to participate in this transition and is understood to be considering as much as $5 billion of investment in renewable energy firms as part of its plan to become a diversified energy business.

In Europe, Paris banned diesel cars made before 2000. There are two million such vehicles in France. London is considering similar plans after it breached the annual limit for spikes in nitrogen dioxide concentrations five days into this calendar year.

Meanwhile, industry developments continued apace. Storage had a banner month in January. Tesla announced that mass production had begun at its extraordinary Gigafactory in Nevada. Though the factory won't be complete until 2018, initial production will serve Tesla's stationary battery products, the Powerwall and Powerpack. Production of battery packs for the new Model 3 electric vehicle is expected to commence later this year, and when fully ramped up the factory is expected to produce more lithium ion batteries than were produced globally in 2013. In California, three different storage projects were unveiled, bigger than previously built. These projects came in being largely as a response to a fossil-fuel problem, i.e. a major leak at a natural gas storage facility in Aliso Canyon near Los Angeles which left utility Southern California Electric scrambling to ensure it would have capacity to meet peak demand previously met by natural gas peaker plants. Siemens, a major manufacturer of natural gas power plants, announced a partnership with storage provider Eos Energy to offer grid-scale storage. Italian utility Enel and Israeli-American geothermal developer Ormat Technologies both made investments in energy and grid management software, acquiring respectively Demand Energy Networks and Viridity Energy, the latter transaction disclosed at a value of $35m.

Elsewhere, CES, arguably the leading consumer electronics and technology conference, was held in Las Vegas. OLED TVs featured prominently, offering superior image quality, lower power consumption, and the possibility of curved or even flexible screens. In the automotive space, Ford announced hybrid options are coming for two of America's most iconic car brands: the F-150, America's top selling vehicle since 1981; and the Mustang sports car. We also saw continued challenges being faced by traditional energy sources. The Volkswagen emissions scandal rumbled on, with criminal charges filed against six executives, in addition to costs estimated at nearing $20 billion. Shares of Fiat Chrysler fell 20% on January 12 on news that the EPA was investigating emissions of Chrysler vehicles, but have since recovered following confirmation (a) of a much smaller number of vehicles affected (approximately 100k vs approximately 11m for VW) and (b) that Fiat Chrysler is not accused of a employing deliberate "defeat device", unlike VW. In nuclear, the EU approved a $4.8 billion bail-out for Areva SA, helping it to cope with massive cost over-runs at nuclear plants under development in Olkiluoto, Finland, and Flamanville, France.

Market Commentary

Global equity markets made a strong start to 2017, with the MSCI All Country World Total Return Index up 2.7%. The performance of regional equity markets differed notably: the US dollar, which had strengthened almost 5% post-election, reversed course and depreciated by 2.7% in trade-weighted terms during January. Many major indices, including Europe's Stoxx 50, Japan's Nikkei 225, the UK's FTSE 100 and Australian ASX 100 fell despite rising in US dollar terms. The US S&P 500 index was up 1.8%, Hong Kong's Hang Seng index up 6.2%, but the Stoxx 50 fell 1.8% and the Nikkei 0.4%. Environmental equities out-performed strongly, with the Fund's benchmark, the FTSE Environmental Opportunities Total Return Index rising 3.9% during the month.

Returns for Australian investors were muted by the strengthening of the Australian dollar (which was up 5.2% against the US dollar during January) and in Australian dollar terms the FTSE Environmental Opportunities Total Return index was down 0.9%, and the MSCI ACWI TR index down 2.0%.

Fund Commentary

The Nanuk New World Fund was up 1.7% in US dollar terms, but down 2.9% for the month in Australian dollar terms, underperforming its $A benchmark by 2.1% and reversing the Fund's outperformance for the prior two months. The losses in January stemmed from a low hit rate during the month, due in part to the particularly strong performance of the benchmark index (which outperformed broader global equities by 1.2%) and how this interplayed with the Fund's current 83% active share. Also contributing was the underperformance of more defensive low-beta stocks held by the Fund, as well as benchmark stocks and industry sub-sectors which were not held by the Fund and which rallied strongly. The losses were unusually widespread and the Fund underperformed significantly in four of its eight key industry groupings – namely agriculture, clean energy, energy efficiency and industrial efficiency. In total these four segments, which encompass some of the Fund's larger exposures to areas like building energy efficiency and rail transportation, fully accounted for the monthly underperformance.

The Fund's positions in defensive businesses like US waste management company Waste Management Inc., Belgian regulated transmission utility Elia System Operator, and Japanese high speed rail operator Central Japan Rail, underperformed as markets rose in January. Additionally, the relative performance against the benchmark index was impacted by the strong performance of stocks such as Tesla (up 17% in January) and sectors such as robotics and agricultural machinery which performed strongly and to which the Fund currently has limited or no exposure.

The largest negative contributor was Safran, the dominant supplier of fuel efficient engines for narrow-body jet aircraft, which made an offer to acquire Zodiac Aerospace, another French aerospace manufacturer. It is a large deal representing around one third of Safran's enterprise value, and its shares fell around 5% on the announcement. We continue to hold the position given the strength of Safran's core business.

Another material negative contributor was Sprouts Farmers Market, discussed in more detail below, which was a new position in the Fund added during January. Its shares fell around 10% in the days after it was added to the portfolio. There was no obvious news driving the fall and most of it has been recovered in early February.

Sprouts is a "natural and organic" food retailer in the US, with similarities to its larger and better known peer, Whole Foods Market. In a manner somewhat reminiscent of the auto industry, food retail is a very mature industry that is being transformed. Traditional grocery retailers face growing competition from by discounters such as Lidl and Aldi, meal kit services such as HelloFresh and BlueApron, online services such as Ocado, Amazon Fresh and Google Express, and potentially Amazon Go, a physical store without checkouts, discussed last month. Natural and organic food is another key trend in the retail industry: the sub-sector has grown around 10% p.a over the last decade, a trend we expect will continue. Within this complex environment Sprouts has performed outstandingly. Its strategy is to offer organic and natural food at a competitive cost (by contrast, its competitor, Whole Foods, is so expensive it has been nicknamed Whole Paycheck!). Sprouts has delivered an organic growth rate just under 20% since 2008, at superior margins and return on capital to Whole Foods. The respect in which its competitors hold it is reflect by the fact that when Amazon decided to offer grocery to Amazon Prime customers, Sprouts was the retailer chosen; and that when Whole Foods CEO John Mackey listed emerging competitive challenges faced by his company during an earnings call in November, Sprouts was first among them.

At the end of January 2017 the Fund's major sector exposures include advanced and sustainable materials (eg composite materials like carbon fibre as well as sustainable materials like biochemical and bioplastics), building energy efficiency, industrial efficiency, waste management and high speed rail.

The Fund is relatively defensively positioned with an expected beta of less than one against its benchmark index and a lower expected volatility. This is a result of the Fund's valuation-driven approach to stock selection but it also reflects our top-down view that equities markets, particularly in the US, are expensive at a time when equity market volatility is at historically low levels and is at risk of rising significantly.

Historic Returns[2] (AUD)

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	-	-	-	-	-	-	-	-	-	-	(0.7)	(0.3)	(1.0)
2016	(4.5)	(0.0)	2.0	2.5	7.2	(5.2)	3.6	0.9	0.0	(1.3)	4.5	4.8	14.5
2017	(2.9)	-	-	-	-	-	-	-	-	-	-	-	(2.9)

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

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%

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