Nanuk New World Fund

Monthly Report -July 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] p.a.
Fund Return (%)	**(1.7)**	**1.6**	**11.4**	**17.8**	**12.3**
Benchmark Return[2] (%)	(2.5)	(1.4)	8.0	14.5	8.8
Value Added (%)	**0.8**	**3.0**	**3.4**	**3.3**	**3.5**
MSCI ACWI Return[3] (%)	(1.2)	(1.1)	6.1	11.4	4.0
Value Added (%)	**(0.4)**	**2.7**	**5.3**	**6.4**	**8.3**

Macro and industry commentary

Sustainable technologies are increasingly undercutting traditional technologies on price and, despite some notable exceptions in the US, political support is only accelerating these transitions. Several events in the past month have highlighted the potential for massive disruption of global industries.

Legacy power industries saw arguably their most spectacular examples of "stranded assets" to date, as two partially built nuclear power plants in South Carolina were abandoned, as was a "clean coal" plant in Mississippi. The nuclear reactors had already cost $9 billion, but were less than 50% finished. They were first proposed in 2007, since which time their cost estimate more than doubled from $11.5 billion to $25 billion and their construction timeline stretched from 2018 and 2021. Meanwhile competing energy sources such as natural gas, solar and wind have become much cheaper than expected. The nuclear plants' designer, Westinghouse, is in bankruptcy. Westinghouse's parent company, Toshiba, paid over $2 billion to be released for its liabilities for the project, its chairman has resigned and it is selling assets to repair its balance sheet. Customers have also been impacted. Under South Carolina's regulatory framework, they are liable for the plants' cost, despite their abandonment. 18% of South Carolina Electric & Gas customers' bills are due to the two plants. A sister plant of the same design in Vogtle, Georgia, is also at risk, with an updated budget estimate due before month end. Vogtle's owner, Southern Company, is also the owner of the Kemper Clean Coal plant, which was design to capture coal

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 emissions. The plant will now burn natural gas. The Kemper plant has cost $7 billion to date, $4 billion over budget.

While investments in legacy technologies struggle, US utility giant American Electric Power (AEP), once the largest consumer of coal in the US, announced a potential $4.5 billion investment in a 2,000 MW wind farm spanning 4 states across the Oklahoma panhandle. The project, which will be the largest in the US and second largest in the world, is projected to save consumers $7 billion over 25 years, and comes as AEP is shuttering coal fired power plants that are no longer economic.   The project involves construction of a 563km high voltage transmission line to deliver power to its customers, indicative of the large scale transmission projects related to renewable energy investment that are providing a favourable outlook for Prysmian Group, the global leader in high voltage underground and submarine transmission cable - a holding of the Fund.

Onshore wind power reached new record low price in Europe, with a recent renewable energy auction in Spain seeing contracts set a EUR43/MWh (around 5c/kWh), the minimum level allowable in the auction process.

The growing penetration of renewable generation is having a significant impact on electricity markets, but the response of regulators and governments as well as industry participants is quickly shifting away from defending traditional 'baseload' generators and towards storage and intelligent grid management. The California Independent System Operator (CAISO), which manages the state's grid, reported negative power prices occurred 50 times during the first quarter of 2017, as intermittent renewables sources rise. To date CAISO has managed the situation without having to order any shutdowns, for example by exporting power to neighbouring states, and is providing regulatory support to facilitate the use of energy storage and demand response solutions.

Last month Italian multinational utility Enel, an investment of the Fund, acquired demand response business EnerNOC. This month we saw German engineering giant Siemens, also held by the Fund, announce a 50-50 joint venture with US utility AES Corp which will combine their industrial and grid scale battery storage offerings. At a smaller scale, Swedish retail giant Ikea announced it would begin selling home storage systems in the UK, to complement the solar panels it was already selling. Ikea's UK website includes a lengthy "IKEA Solar" panels FAQ section. This comes as the UK announces regulatory reform to assist the integration of home storage into the grid.

Similarly disruptive changes in the automotive industry and the related impact on the oil industry were highlighted this month by the UK's proposal to ban the sale of gasoline and diesel engine cars entirely by 2040, matching the recent proposal in France. Norway has gone further, proposing a complete ban by 2025, and perhaps more significantly India, where air pollution is at crisis levels, has announced an ambitious target to eliminate sales of gasoline and diesel cars by 2030.

The rapid shift in direction in the auto industry is quickly being acknowledged in the oil & gas industry. Oil supermajor Royal Dutch Shell announced new projections that oil demand could peak within a decade. CEO Ben Van Beurden announced a "lower-forever mindset" for the oil price, as well as that his next personal car will be a plug in hybrid. Shell CFO Jessica Uhl already drives an electric vehicle, a BMW i3. Corporate behaviour continues to lead government policy making, highlighted again this month when fuel cell forklift truck manufacturer Plug Power announced a strategic investment by Walmart. Following April's strategic investment by Amazon, Plug, a company with ~$100m of annual revenue, now counts both the world's largest brick and mortar and online retailers as strategic shareholders.

Disruptor Tesla delivered the first production version of its mass-market Tesla Model 3 during the month. The reception was positive, particular for the 500 kilometre range of the premium model which sets a new benchmark for EV performance. It now remains to be seen how successfully Tesla can ramp up production of the Model 3 - as well as the performance of the bare bones US$35,000 version - in contrast to more expensive upgraded versions used by reviewers. Consumers seem to have responded positively and the company claims to be adding 1,800 reservations a week.

Germany held a diesel summit to highlight efforts by its auto giants Volkswagen as well as Daimler-Benz and BMW to move past the diesel emissions cheating scandal. VW remains the worst affected, but it is notable that Daimler recalled 3 million vehicles across Europe during July. The summit announced the auto giants would pay for software upgrades in 5 million vehicles across Europe. This was viewed as the most industry friendly solution, with a cost of ~€500m, below hardware solutions costing in the billions. BMW attempted to distinguish its sustainability credentials. In the industry's deal with the German government, BMW recalled only 300,000 cars, compared to Daimler's 900,000 and VW's 3.8 million.

Legislative proposals in the US continue to send mixed messages and highlight the increasing irrelevance of the US administration in setting policy direction on environmental issues. On the one hand, the US House passed an amendment to a spending bill to block enforcement of Energy Department rules requiring manufacturers to phase out sales of incandescent light bulbs to cut power use. While the measure faces an uncertain future in the Senate, and its sponsor called it an important victory for "freedom", lighting manufacturers have already indicated they will comply with standards voluntarily. On the other hand, US House Republicans joined Democrats to preserve language in a defence spending bill labelled climate change a "direct" national security threat and directing the Department of Defence to conduct certain risk mitigation activities. An amendment to strike the language was defeated 185-234. Shortly thereafter the Pew Research Center published a survey of 38 countries across the world which found climate change as the second most cited threat to global security, behind the militant group ISIS.

As a final note on the renewable "yieldco" saga that began in 2015, US solar manufacturer SunPower announced it would join First Solar in attempting to exit the YieldCo that they had co-sponsored, and diversified utility NRG announced plans to divest 50 to 100% of its renewable energy assets, including at least part of its stake in NRG Yield. The Fund has profited on both long and short investments in YieldCos as valuations have fluctuated wildly with investor sentiment over time. The rationalisation of ownership of these vehicles may present opportunities yet again.

Market commentary

Global equity markets had an unusual month in July, with the strength in the US dollar playing a significant role. The MSCI All Country World Total Return Index rose 2.8% (in US dollar terms), while the Dollar index (DXY) declined 2.9%. For a third consecutive month the € appreciated strongly, 3.4% against the US$ to extend its YTD rise to 12%. At $1.18, the € is now higher than in January 2015 when the European Central Bank's quantitative easing programme began. By region, the US' S&P500 was up 1.9%; Europe's Stoxx 50 was up 0.2% in local terms and 3.7% in US$ terms; Japan's Nikkei 225 fell 0.5% in ¥ terms but rose 1.2% in US$-terms. Hong Kong's Hang Seng index was the top performer, rising 6.1%. The Fund's benchmark index, the Environmental Opportunities All-Share Total Return Index, after a roaring start to the year, had a relatively weak month, rising by 1.5% in US dollar terms. The underperformance against traditional global benchmarks of around 1.3% was primarily due to underperformance of multinational industrial businesses within the index as well as the financial and technology services sectors which are relatively underweighted in the index. In Australian dollar terms the index fell 2.5%, reflecting the sharp rise in the AUD-USD exchange rate during the month.

Fund commentary

The Fund was down 1.7% in July in Australian dollar terms, outperforming its benchmark index by 0.8%. The loss was primarily driven by the appreciation of the Australian dollar, with the Fund up 2.4% in US dollar terms. The top contributor to Fund performance was George Fischer, a recent addition to the Fund. Georg Fisher is a Swiss industrial business specialising in water piping systems and precision metal and plastic machining. There have been concerns about the company's exposure to longer term declines in the production of internal combustion engine (for which it supplies components like engine blocks) but in its quarterly report, the company delivered above expectations revenue and profits, and announced a surge in orders for new parts serving electric vehicles, such as battery casings. 25% of their automotive order book is now for EVs, up from 5% two years ago. Other positive contributors included Indutrade, a European industrial firm which reported another quarter of double digit growth in 17Q2, as well as SolarEdge which reported an anticipated improvement in growth and margins driven by continued cost reduction and improving competitive positioning. Offsetting these gains were a number of companies which reported below expectations results due to rising input costs impacting short term profitability.

At the end of July 2017 the Fund's major sector exposures remain in areas including aquaculture, automotive efficiency and vehicle electrification, waste management, building energy efficiency, high speed rail, and electronic technologies related to the internet of things..

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)	0.5	3.6	5.4	5.3	(1.9)	(1.7)	-	-	-	-	-	8.1

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Weekly
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Weekly
Administrator & Custodian	RBC Investor Services Trust	Notice period	2 Days
Inception	2 November 2015	Buy-Sell spread	0.25%
Management Fee	0.8%	Total management costs	1.2%

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

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