

Nanuk New World Fund

Monthly Report - July 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 (%)	4.0	5.3	-	4.0
Benchmark Return ² (%)	3.3	4.8	-	1.2
Value Added (%)	0.7	0.5	-	2.8
MSCI ACWI Return ³ (%)	2.2	4.2	-	(3.8)
Value Added (%)	1.8	1.1	-	7.8

Commentary

Global equities had a strong July with the MSCI All Country World Index up 4.2%. Strength was broad based across major markets. The US S&P 500 index rose 3.6%, Europe's Euro Stoxx 50 4.4%, Japan's Nikkei 225 6.4% and Hong Kong's Hang Seng 5.3%. The FTSE Russell Environmental Opportunities All Share index out-performed slightly, rising by 5.3%.

The Fund was up 4.0% for the month, outperforming the benchmark by 0.7%. The AUD appreciated against major currencies in July - up 2.1% against the USD - providing a headwind to the Fund's Australian dollar returns. The top contributor to returns was the automotive sector, which added more than 1% of outperformance, reversing much of the post-Brexit declines incurred in June. The Fund also benefitted from positions in process efficiency and building efficiency related businesses. Regionally, both the US and Japan were big contributors to return with Japan in particular generating approximately a third of the month's performance. Partially offsetting these gains were losses on positions in a variety of different industries impacted by idiosyncratic drivers; Most notably a US solar inverter company, a Belgian electricity transmission system operator and a Dutch real assets design and consultancy firm.

The most notable policy news of the month came from Canada, where Catherine McKenna, Minister of Environment and Climate Change, announced a national carbon price would be introduced by the end of 2016. The measure is to form part of a national emissions reduction plan to be introduced by Justin Trudeau's government in autumn. Britain's new government, led

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

by Theresa May, has also been making its impact. It abolished the Department of Energy and Climate Change, with the energy mandate moving into a new Department for Business, Energy and Industrial Strategy. In addition, the Hinkley Point C nuclear power plant project has been put on hold pending a review. This is a truly enormous investment, with construction cost estimated at US\$24b and estimates from Britain's National Audit Office of the subsidy ballooning recently to almost US\$40b over 35 years, reflecting declining wholesale power prices since the plant was originally approved in 2012.

The glaring differences in climate change policy between the two major parties' US presidential candidates could not be more stark. Indeed it hasn't been as pronounced in any election since climate change has been a key issue. Hillary Clinton believes in continuing and extending on the work done by President Obama, with her administration intending to keep to the COP 21 accord in Paris. She has announced ambitious and aspirational plans to support the installation of half a billion solar panels by 2020 and reduce US oil consumption by a third in the next 10 years. She plans to introduce new standards for cleaner fuels and vehicle efficiency, eliminate oil and gas companies' subsidies and introduce a \$60 billion Clean Energy Challenge to partner with states, cities and communities to cut carbon pollution. Conversely, Donald Trump has a chequered history of acknowledging climate change. He once tweeted that the Chinese invented climate change to hurt US manufacturing, though he later claimed he was joking. Trump wants to "cancel" the Paris accords and stop all US payments to UN coordinated global warming programs. He has stated an intent to dismantle the EPA and rescind the Clean Power Plan limiting emissions from electrical power generation. As we enter the last 90 days of the race, the stakes for the future of US policy are high.

Plastics enjoyed a rare moment in the spotlight in July. British media widely reported an estimate that the first six months following the introduction of a tax of 5 pence per plastic bag saw usage decline 83%, the equivalent of 6 billion bags per year. San Francisco enacted extensive regulation on expanded polystyrene ("Styrofoam"), a plastic foam commonly used in food and beverage containers. Polystyrene has attracted regulators' attention due to concerns it is carcinogenic and because it contributes to pollution, as a non-recyclable, non-biodegradable material. The Fund has a small long position in Dutch chemical biochemical manufacturer Corbion NV, which makes poly lactic acid ("PLA"), a sugar based, biodegradable alternative to polystyrene. Corbion announced a major investment in PLA capacity earlier in the year, taking advantage of a market growing at 15% pa.

The M&A highlight of July was the \$31b acquisition offer for ARM Holdings, a British chip manufacturer, from Softbank, a Japanese telecommunications and technology conglomerate. The offer, which came at a 41% premium, represents a major bet on the internet of things. ARM specialises in small, efficient chips that operate in small devices such as smartphones and wearables, as well as Wi-Fi and automotive infotainment applications.

Tesla Motors maintained its grip on the headlines with the publication of an updated "[master plan](#)", which sought to explain the rationale for its recent and controversial bid to acquire related company SolarCity. The master plan's four components cover: integrated solar and energy storage solutions; a range of electric vehicles across all major segments, including buses and trucks; using autonomy to make Tesla vehicles 10x safer than manual driving; and enabling the sharing of Tesla vehicles. The SolarCity deal - which involves merging the two companies effectively led by Elon Musk and with overlapping Boards - has had a mixed reception given the financial and operational challenges currently faced by both businesses. In reaction, Tesla announced a revised, lower offer in early August, alongside a negative pre-announcement from SolarCity, which has now missed or lowered guidance in some form for four consecutive quarters. The deal is subject to a shareholder vote, from which Elon Musk has recused himself. While the increased focus on solar energy, storage and autonomous driving were no great surprise in the updated master plan, the move to expand the range of electric vehicles into buses

and trucking was not widely anticipated. However, as is the case in other parts of its business, it is unlikely to have things all its own way. This month Mercedes-Benz and Daimler Trucks unveiled a prototype heavy duty all electric truck that it claims will have a capacity of 26 tonnes and a range of 200km, and is slated for release in the early 2020s.

South American nations continue to redefine their power generation sources. They look to find sustainable solutions both in terms of pricing and emissions. Final rules for Argentina's 1 GW auction were released in late July. The country, which has had limited access to global capital markets after defaulting on \$93 billion of sovereign debt in 2001, is expecting \$2 billion worth of investments from foreign companies. Argentina has become a key market for renewables since President Mauricio Macri took office in December 2015. Neighbouring Chile is looking to lower its price of electricity (it has the third most expensive power in South America) and received 84 bids on the 27th of July for 12,430 GWh/year - the nation's largest electricity supply contract auction to date. A significant number of the bids were renewable energy bids according to Andres Romero, the Executive Secretary of Chile's National Electricity Commission.

At the end of July, the Fund's largest exposure was to the automotive sector with a specific focus on companies in the fuel efficiency space. The Fund also has significant exposure to mass transport, building efficiency and internet of things themes. Though we still hold exposure to the aquaculture sector, the positions are smaller in those names than they have been historically.

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						5.1

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%

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

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