Nanuk New World Fund

Monthly Report - May 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 Summary[1] (AUD)

	1 Month	3 Months	1 Year	Since Inception[1]
Fund Return (%)	7.2	12.0	-	5.9
Benchmark Return[2] (%)	5.4	9.7	-	1.8
Value Added (%)	**1.8**	**2.3**	**-**	**4.1**
MSCI ACWI Return[3] (%)	5.5	7.6	-	(2.7)
Value Added (%)	**1.7**	**4.4**	**-**	**8.6**

Commentary

Equity markets had a relatively sedate May, with the MSCI All Country World Index down 0.2%. The US S&P 500 gained 1.5%, while the Euro Stoxx 50 and Japan's Nikkei 225 both posted local currency gains, of 1.2% and 3.4%, but fell in US dollar terms, as the euro depreciated by 2.6% and the yen by 3.6%. Crude Oil prices continued to recover, with Brent Crude finishing the month just below $50/barrel, up 3% for the month. The FTSE Environmental Opportunities All Share index fell 0.3%, slightly underperforming broader global equities. In Australian Dollar terms and including dividends, its total return was 5.4%, reflecting primarily the 5% depreciation of the Australian Dollar over the month.

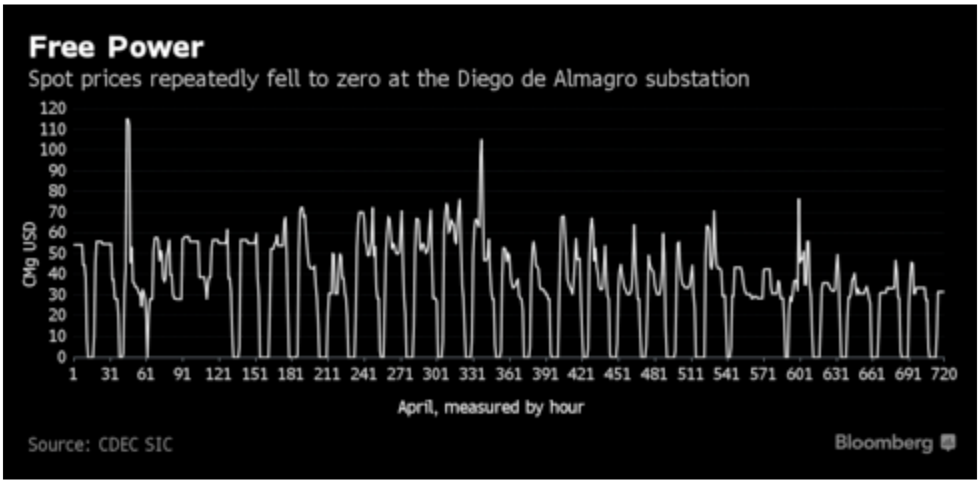
The Fund returned 7.2% for the month, out-performing by 1.8%. The top stock contributor was Saft Groupe, which was subject to a takeoffer offer at a 38% premium. The proposed acquisition is discussed below. The Fund's positions in Norwegian salmon farming stocks contributed 60bps of alpha as the salmon price continued to climb. This reflects a genuine crisis in Chile, the source of 20% of global farmed salmon, where production is expected to fall by 20% this year due to disease and an algal bloom. The Fund's Japanese positions also performed well, with notable contributions from Nichias Corp, a diversified manufacturer whose products include insulation and automotive components and Kyudenko Corporation, which designs, builds and operates infrastructure in fields including transmissions and distribution and renewable generation.

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

May was a busy month of M&A in our universe. Royal Philips spun off its global lighting business, forming a separately listed $3.7b independent company called Philips Lighting. The IPO of Dong Energy, controlled by the Danish state, was set for June 9. Dong is Denmark's leading utility and a major investor in wind energy, particularly offshore wind farms. Its IPO would be Denmark's biggest ever listing, with the IPO range valuing it between $12.5b and $16b. May also saw German chemical giant Bayer offer to acquire agricultural seeds and chemicals business Monsanto. The offer has not been recommended but if concluded this would be a $50b takeover and result in significant consolidation of the global crop protection and seeds industries, particularly if an ongoing public tender offer by Chemchina to acquire Monsanto's major global competitor Syngnta is successful.

Saft Groupe is to be acquired by Total, the French oil supermajor. Total announced the formation of a "Gas, Renewables & Power" Segment in April. Explaining that decision, Patrick Pouyanné, its Chairman, said "Electricity will be the energy of the 21st century… driving us to fully capture margins across the entire electricity value chain", and specifying energy storage as one of their target markets. Saft fits well into this division, which also includes Total's investment in US solar manufacturer SunPower. Saft makes batteries for demanding industrial applications ranging from aerospace, space & defence to metering, backup power and grid storage. We know Saft well; the Fund has owned the stock for more than three of the five years since its inception, and we have visited its headquarters and spoken to its management team many times. We attach a note reviewing how the company has been able to compete successfully over the last decade against peers that are both larger and operate in countries with lower labour costs.

May saw several countries grapple with what is likely to be the top driver for Total's interest in Saft: "renewable integration", a term describing preparing the grid for high shares of intermittent wind and solar generation. This is the market for Saft's "energy storage system", otherwise known as 'ESS" or "grid storage", which can provide load balancing, frequency regulation and other services critical to maintaining grid stability. Wind and solar generation require a higher level of flexibility from power grids than they have traditionally been designed to provide. Not only are these sources intermittent, as climatic conditions vary; but in the case of solar in particular, production is concentrated in the middle of the day and often does not align with the time of peak electricity demand. With priority given to the dispatch of renewable generation this can result in excess supply and create a situation where coal and gas generators, which are unable to ramp production up or down quickly, are forced to pay to dispatch their power into the grid. On May 8, German spot power prices troughed at *minus* €130/MWh as good conditions for both wind and solar saw these two sources' production reach as much as 95% of the country's electricity demand. Chile, which has also seen heavy investment in large scale solar projects, announced that through April it had seen 113 days when spot electricity prices hit zero for at least part of the day. The chart below illustrates the extreme variation in hourly prices: on almost every day, prices fall to zero at the time of the solar generation peak.



Source: Bloomberg

In China, whose reliance on inflexible coal generation makes coping with intermittency particularly challenging, grid operators have responded by severely "curtailing" renewable generation – refusing to take renewable power, while coal plants, that often provide district heating as well as electricity, continue to run.

At the same time, wind and solar create a need for backup power when climatic conditions are poor, and the German government has long been in negotiations with its utilities over their approach to facilities that are needed for backup power but run for so little time that they are loss-making under current arrangements. Grid storage can help to resolve these challenges by storing power at periods of excess production and releasing it when demand rises, but it is far from the only tool being used to address the renewable integration challenge. PJM Interconnection, which serves 60 million people in the East Coast and Midwest of the US, meets the backup power challenge by holding auctions for capacity, which are intended to ensure a certain level of guaranteed capacity will be available at all times. Germany has been investigating this option for some years. This month, China's National Development and Reform Commission announced grid operators would simply be required to pay for a guaranteed minimum amount of generation from wind and solar projects in regions suffering from curtailment, regardless of whether than power is utilised or not. While this measure won't solve the underlying problem, if implemented it will provide a strong incentive for the grid operators to utilise the available generation and to invest in their grids' flexibility. Another tool is grid interconnection: improving the grid's ability to export power away from regions with excess generation. Both China and the US are investing heavily in ultra high voltage lines exporting power from regions with favourable wind conditions and low power demand, such as Inner Mongolia and the Great Plains. Germany, too, is developing a number of high voltage transmission lines to connect northern and southern regions of the country where there is excess wind and solar generation respectively, and is also working with neighbouring countries to enable further integration of Germany's grid with other European power markets. Nevertheless, grid storage provides a very appealing simple and direct solution to delivering grid flexibility. The CEO of NextEra Energy, a US utility, already said by 2020 storage may mean the US never builds another "peaker plant", which are open cycle gas turbines designed to meet surges in demand, such as hot days when air conditioning demand is high.

In other policy news, the US Environmental Protection Agency published its proposal for biofuel blending mandates for 2017. After a chaotic period of biofuel regulation since 2013, with mandates issued late or even retrospectively amid a flurry of lawsuits, this was a return to normalcy, with the mandates proposed ahead of their implementation period. The rule itself was also relatively undramatic, with total mandated volumes rising 4%.

Vehicle electrification and automation remained a hive of activity in May. Tesla upgraded its production targets, from 500,000 vehicles by 2020 to 500,000 by 2018 and 1 million by 2020. This reflects an order of magnitude increase in production in 5 years and the company noted that delivering the targets will be challenging. To help fund the expansion in production, it raised $1.5b in equity. Volkswagen said it plans to also sell 1 million electric vehicles per year by 2025. Its figure includes plug-in hybrids as well as full EVs. VW also announced a $300m investment in Gett, a ride-sharing firm, with Chief Executive Matthias Muller stating "mobility on demand" will be "the second pillar alongside the classic automobile business". Apple also made a move into the ride-sharing space, investing $1bn to acquire a stake in Chinese ride-hailing business Didi Chuxing, a local competitor to Uber. Autonomous driving technology company Mobileye was reported by the Wall Street Journal to have signed deals with two automakers for fully autonomous vehicles in 2019. General Motors and ride-sharing firm Lyft announced they will begin testing self-driving electric taxis within a year. Toyota announced an initiative with Uber. Google announced it will open an R&D centre near Detroit, the historical capital of the US auto industry, following on from April's announcement of a collaboration with Fiat-Chrysler. Finally, BMW announced its flagship product by 2021 will be an electric vehicle called "i Next" following its existing i3 and i8 models.

The Fund's positions in companies benefitting from these accelerating trends towards vehicle electrification and autonomy represent one of the larger sector exposures. Other major sector exposures currently include building energy efficiency, salmon farming, high speed rail and machine to machine communication.

Historic Returns[2] (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								6.98

[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%

Contact Details

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