

NANUK NEW WORLD FUND



Monthly Report - May 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 Summary¹ (AUD)

	1 Month	YTD	1 Year	2 Years p.a.	3 Years p.a.	Since Inception p.a. ¹
Fund Return (%)	4.5	(0.9)	12.3	8.2	10.7	12.6
FTSE EOAS Return ² (%)	5.9	(0.6)	17.1	11.8	11.1	11.8
Value Added (%)	(1.4)	(0.2)	(4.8)	(3.5)	(0.4)	0.8
MSCI ACWI Return ³ (%)	2.9	(3.8)	10.0	8.9	9.3	8.5
Value Added (%)	1.6	2.9	2.2	(0.7)	1.4	4.1

Fund Commentary

The Fund returned 4.5% in May, outperforming traditional global equity benchmarks such as the MSCI All Country World Net Total Return Index by 1.6%, but lagging its environmental equities benchmark, the FTSE Environmental Opportunities All Share Total Return Index, by 1.4%.

The strong performance of environmental equities during the month was driven by the outperformance of more cyclical industries such as industrial gases, industrial machinery, electrical equipment, automotive suppliers, semiconductors and construction materials, many of which had

underperformed during February and March. The Fund's outperformance of traditional global equity indices also reflected exposure to some of these areas as well as the contribution from individual stocks, however the Fund's relatively defensive positioning - holding stocks with, on average, lower volatility than the constituents of its environmental benchmark - led to underperformance against the strong rise in the FTSE Environmental Opportunities All Share Total Index.

The largest contributors to Fund performance were healthcare technology company Siemens

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

Healthineers, industrial and medical gas leader Air Liquide, information services specialist Wolters Kluwer and diagnostic and testing business PerkinElmer. Other notable performers included organic food manufacturer Hain Celestial and online grocery and fulfilment technology leader Ocado Group. The largest detractor from returns was Austrian sustainable textiles business Lenzing.

The Fund added a new position in analytical systems and software company Waters Corporation, which supplies equipment for mass spectrometry and chromatography. The company is expected to benefit from increasing research and development expenditure and new product launches after losing market share in recent years through underinvestment in R&D going back to the early 2010s. Other additions to the portfolio included semiconductor capital equipment leader Advanced Materials and Hong Kong metro rail operator MTR Corporation. These positions replaced communications semiconductor supplier Broadcom and cloud network software provider Arista Networks, both of which had performed strongly, and the Fund's long held position in Norwegian seafood company Mowi (formerly Marine Harvest), the world's largest producer of Atlantic salmon.

The Fund's portfolio continues to reflect the significant uncertainty about the nature and speed of the economic recovery from the severe measures implemented to control COVID-19. Equity markets have risen strongly with incrementally positive developments in containing the virus, easing of physical restrictions, progress on vaccine development and unprecedented monetary intervention and fiscal stimulus plans. Indeed, there has been some surprisingly positive data showing remarkably sharp recoveries in areas like automotive sales in China and Europe which were severely impacted in February and March. Notwithstanding, most of the world remains a long way from returning to normal, or to a new normal, with physical restrictions of varying degrees still in place, unemployment levels at record highs and COVID-19 cases continuing to rise in many countries as well as a number of US states.

If this year has served to remind of us of anything it is that we cannot predict the future with certainty. Whilst a full, fast and relatively smooth economic recovery is a possibility, it is far from certain, and the evidence today is equally consistent with a range of far less optimistic scenarios. In this environment we continue to focus on investment in companies whose earnings are less likely to be severely impacted in the short term, or where valuations more than fully account for the impact of a potentially slow or delayed recovery and balance

sheets are sufficient to withstand this without the need for value destructive capital raising.

This approach has led to increased investment in defensive areas like healthcare and diagnostic technologies, cloud computing and food and selectively in areas like semiconductors that are continuing to see strong demand during this period. More generally it has led us to increase investment in companies with lower share price volatility and beta at the expense of slightly higher valuation multiples. Consequently, stock specific gains or losses aside, the Fund could be expected to perform better on a relative basis if markets are to decline again.

In hindsight equity markets have been quick to price many cyclical companies in a way that appears to anticipate a rapid and fairly complete recovery and our cautious approach has not capitalized to the extent we might have liked on the short term gains that might have been possible through increasing exposure in these areas at lower prices. Whether our caution was merited is yet to be seen. Either way the wild variations in stock prices this year and the continuing uncertainty about the trajectory of the recovery mean that there are likely to be many opportunities still available to us.

What appears more certain is that the recovery will not be equal. Certain businesses have benefited from the changing business and consumer practices in recent months, in many cases accelerating trends that were already underway and governments are set to deploy unprecedented levels of stimulus support in a way that will disproportionately benefit some industries. As discussed below in our Industry Commentary it is becoming increasingly certain that this will favour sustainable technologies and infrastructure.

Market Commentary

Global equity markets rose strongly in April. The MSCI All Country World Net Total Return Index was up 4.4% in US dollar terms, with most regions seeing gains. The US S&P 500 Index was up 4.5% and the tech heavy NASDAQ Composite Index was up 6.8%, surpassing its level at the start of 2020 (and subsequently in early June surpassing its all-time high reached in February). European equities have not performed as well year to date, but the Stoxx 50 Index was up 4.2% for the month, led by Germany's DAX Index which was up 6.7%. Asian equities were mixed. Japan's Nikkei 225 Index, a laggard in the recent recovery, was up 8.3% for the month as large stimulus measures were announced. Hong Kong's Hang Seng Index was an exception, falling 6.8% as China moved to assert legislative influence in response to ongoing unrest. As discussed earlier, environmental equities

outperformed during the month with the Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return Index up 7.3% in US dollar terms. The oil price rallied strongly during the month as OPEC secured production cuts.

Industry Commentary

The development of sustainable technologies has not been spared from the economic impact of COVID-19. On a positive note the sharp contraction in global economic activity and the movement of people and goods around the world has, at least temporarily, had the effect of reducing greenhouse gas emissions and the emergence of blue skies over parts of heavily polluted Asia may prompt a more concerted effort to limit pollution, but there have been environmentally undesirable consequences as well, such as the increase in the use of single use plastic products. Short term there has been very significant disruption in the supply chains and end markets for most sustainable technologies. Despite this we have seen continued announcements of new projects and technological progress, and in some cases, notwithstanding the negative effects on equity valuations, the short term disruptions have led to falls in prices that are unlikely to be fully reversed and will ultimately lead to broader economic viability and accelerated adoption.

Equally importantly, recent announcements in Europe and elsewhere have confirmed that the current crisis has not led to an abandonment of ambitious environmental targets and is, in fact, being taken as an opportunity to drive more rapid change, with a disproportionate amount of the stimulus funding directed towards or tied to investment in sustainable technologies.

On 27th May the European Union proposed a EUR750 billion recovery package that is explicitly tied to its environmental agenda. Member states accessing the funds will need to demonstrate that their investments are aligned with the ambitious objective of the EU's Green Deal to eliminate greenhouse gas emissions by 2050. The recovery package is to be followed by a revised EUR1.1 trillion budget for the next seven years (the Multiannual Financial Framework), of which at least 25% is expected to be directed to sustainable technologies. Leaked draft documents indicate that the plan is likely to target building renovation and energy efficiency upgrades, clean transport including rail upgrades and electric vehicle infrastructure, renewable energy and transmission upgrades, digitalization of energy distribution networks and green hydrogen.

More specific stimulus measures have been announced amongst EU member states.

Germany announced EUR130 billion package including allocations to build 5G data networks, improve railways and double incentives for electric vehicles. The Spanish cabinet approved a Climate Law aimed at making Spain a leader in Europe's energy transition. The law will set a binding 2050 net zero greenhouse gas emission target and involve measures such as 3 GW of clean energy auctions annually, a ban on internal combustion energy passenger and light commercial vehicle sales by 2040 and a plan to set blending mandates for clean gases. France announced an EUR8 billion package to support its automotive industry that was specifically aimed at supporting demand for EVs through increased subsidies and boosting local manufacturing of electric and hybrid vehicles. In the UK, Prime Minister Boris Johnson has signalled his strong desire for economic recovery measures to be aligned with its legislated net zero emission target by 2050 and is expected to tie upcoming stimulus announcements to the 'green' agenda.

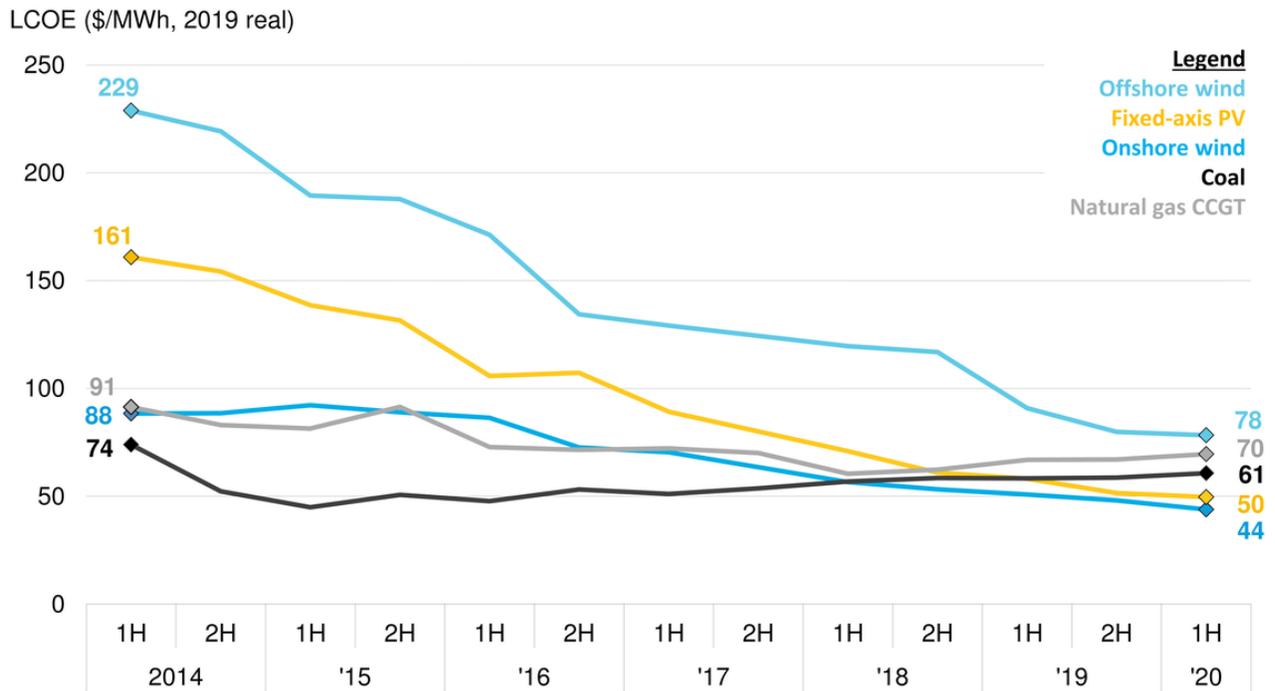
Elsewhere, South Korea's government has indicated its environmental policy agenda taken to the recent election, the New Green Deal, will form part of its plans to spend around US\$110 billion to support the Korean economy. The New Green Deal contemplates substantial investment in renewable energy, the introduction of a carbon tax and the phasing out of domestic and overseas coal financing by public sector institutions. China has not rushed to announce widespread stimulus and notably withdrew its GDP forecast for the year, however it has identified seven areas of 'new infrastructure, focused primarily on industrial digitalization and electric vehicles, that are targeted for future support - namely Rail and Metro Systems, UHV power distribution, 5G, Internet of Things, Data Centres, Artificial Intelligence and EV Chargers.

In renewable energy, project development has been interrupted around the world, and global wind and solar installations are likely to fall in 2020. In the solar industry, Chinese manufacturers have continued to add capacity. The world's largest solar panel manufacturer JinkoSolar recently started operations at the first phase of its massive new plant in Zhejiang province. The plant is expected to reach an annual capacity of 16GW when its second phase is completed in 2022, more than the entire global market a decade ago. Significant oversupply in the short term has led to falling prices, with Chinese solar PV modules around 15% cheaper than at the start of the year. Falling equipment prices translate directly to lower system costs and a lower cost of solar generation, but interestingly this effect has not been limited to capital equipment. Traditionally the promotion and sale of residential solar systems has been a large proportion of total cost for residential solar installers in the US, but a

significant shift towards online sales during the recent period has substantially reduced this cost and it is likely that at least some of this saving will become permanent.

Even prior to COVID-19 renewable energy prices were continuing their long-term declines. Bloomberg New Energy Finance's latest global

report on the levelized cost of energy (LCOE) for renewable energy indicates wind or solar are now the cheapest source of new bulk energy generation in countries representing two-thirds of the world's population and 72% of global GDP. The chart below tells the story.



Source: BloombergNEF. Note: Global benchmarks are country weighed-averages using the latest annual capacity additions with the exception of offshore wind where the cumulative installed capacities were used. Across the world, there is a wide range of coal and natural gas prices as well as renewable energy resources. Therefore competition dynamics are best described at the country or regional level rather than at the global one.

The fall in power consumption associated with slowing economic activity has seen renewable's share of power generation spike in many markets during recent months. The dispatch of renewable generation is typically prioritized meaning that reductions in demand are borne largely by traditional fossil fuel generation. Renewable generation supplied more than 40% of electricity during the first quarter of 2020 in the UK, driven by falling demand and higher than normal wind generation resulting from storms earlier in the year.

This increasing proportion of renewable generation can be problematic for grid operators seeking to balance supply and demand. In May, India introduced a novel, market based, approach to addressing this challenge - tendering for 400MW of "round-the-clock" renewable power from projects required to meet an 80% annual capacity factor and a minimum 70% capacity factor in any month. Projects could use any combination of renewable generation and energy storage to achieve the required reliability parameters. The winning bid was priced at \$39/MWh, which is lower than the cost of coal generation in some parts of India and is likely to lead to further tenders using this structure.

In a similar vein, Hawaiian Electric Co. announced in early June that it is signing contracts with 16 solar plus storage projects to replace coal generation. The projects entail 460 MW of solar generation and nearly 3 gigawatt hours of battery energy storage enabling the generation to be utilized during periods of peak demand and when the sun is not shining. Closer to home, French company Neoen won a power purchase agreement from the Queensland state's renewable company to support the development of a 480MW project that, once completed in 2022, will be Australia's biggest solar farm.

In wind energy, product development has also continued. Siemens Gamesa Renewable Energy announced a new offshore wind turbine platform with a rotor diameter of 222m! The initial model, with blades around 107m long, will be a 14MW unit but the platform has the potential to reach as much as 18MW, nearly double the power of today's largest offshore wind turbines. Not to be outdone, German company Aerodyn Energiesysteme unveiled a new 111m blade design that could power wind turbines of up to 19MW. During the month Germany announced an increase in its offshore wind installation target from 15GW to 20GW by 2030, part of broader target of having renewables account for 65% of generation by 2030.

The automotive industry has been heavily disrupted in recent months, with huge short-term falls in demand in major markets as well as global supply chain interruption. Electric vehicle sales have been

impacted along with the whole market, but electric vehicle development appears to have continued and the longer-term plans of the major auto manufacturers have mostly been reiterated. Interestingly VW subsidiary Audi announced a new project, Artemis, to accelerate the development of EVs and autonomous driving using a fast and agile development plan that mimics processes used by racing teams.

Developments also continue in autonomous driving. VW announced a US\$2.6 billion tie up with autonomous driving technology company Argo AI as part of its broader alliance with Argo shareholder Ford to jointly develop autonomous and electric vehicles. The tie up involves VW rolling in its own Autonomous Intelligent Driving unit as well as investing US\$1 billion. The move will help Argo compete with Alphabet's Waymo and General Motors Cruise. Meanwhile Volvo Car AB, now owned by Chinese Geely Holding Group, indicated it would offer LIDAR based self-driving systems in its cars beginning in 2022. Intel, a company in which the Fund holds shares, announced the acquisition of Israeli start-up Moovit, a specialist in public transport mapping, that will aid the improvement of its Mobileye products for autonomous vehicles.

The rising adoption of 2050 net zero emission targets has placed increased focus on hydrogen this year. Industrial greenhouse gas emissions account for around 30% of the global total, more than transport emissions. Most industrial emissions come from burning fossil fuels for process heat or using fossil fuel feedstocks in industrial processes like steel manufacturing. Achieving carbon neutrality requires either substitution or sequestration. Sequestration uses proven technology but is likely to be unfeasible from both an economic and practical perspective - the cost is likely to be prohibitive and storage is impractical at the scale required. Hydrogen is seen as the logical solution, both as an alternative feedstock and as a low emission alternative for high temperature heating. Renewable or 'green' hydrogen produced using electrolysis powered by renewable energy is an expensive and niche product today but has the potential to be cost competitive with fossil fuels in the future if the technology can be deployed on a large scale - in many ways this is comparable to the competitive challenges faced by solar and wind energy 10-15 years ago at which point they too were similarly uncompetitive with traditional fossil fuel generation.

Governments were already moving to support the development of green hydrogen prior to the recent crisis and it is likely to be an area that receives significant support in coming years. Germany, which has a recently announced target to 3-5GW of

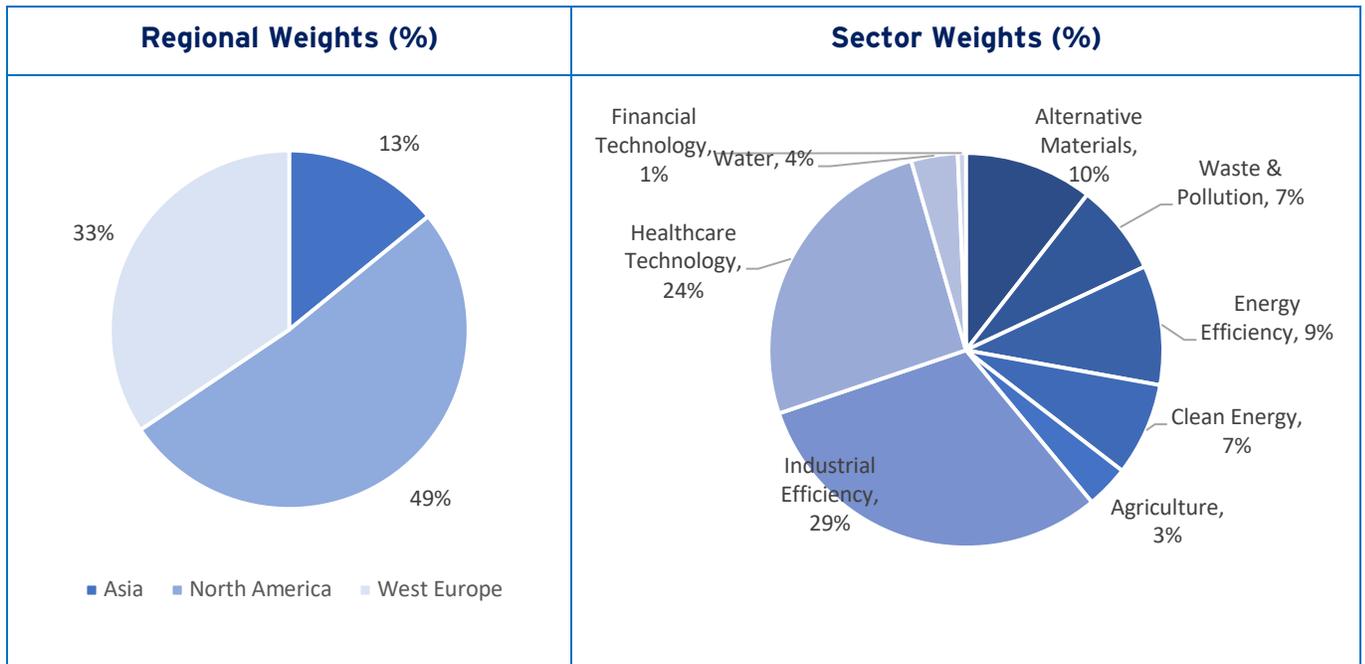
land based green hydrogen electrolysis capacity and a further 5GW of offshore capacity, has indicated that it will push aggressively to shift its economy towards the use of hydrogen during the recovery from the coronavirus. The Portuguese government recently approved a new strategy hydrogen that involves projects totaling as much as EUR7 billion aimed at supplanting natural gas usage with hydrogen. The plan involves the construction of a very large scale green hydrogen project at the site of an existing coal fired power station and using the country's existing natural gas network. The UK also announced up to GBP1.2 billion funding for capital subsidies and research and development spending in low carbon hydrogen projects and infrastructure for carbon capture and storage. In China there have been a number of recently announced renewable energy projects that contemplate producing hydrogen, including a 5GW project in Inner Mongolia supported by Beijing Jingneng Power.

Australia announced a National Hydrogen Strategy in November 2019, aimed at establishing Australia's hydrogen industry as a major global player by 2030, and has since announced collaborations with both Japan and South Korean to promote the joint development of the export industry. In May, Australia announced a A\$300m fund, the Advancing Hydrogen Fund, to promote the development of hydrogen projects for export markets and to build domestic demand, and in recent months there have been a number of projects announced. Developer Infinite Blue Energy announced that it had secured funding for a A\$300m project in Western Australia using wind and solar energy that will export hydrogen in the Asia-Pacific region. Tasmania announced that it will invest A\$50m to build a renewable hydrogen industry using its abundance of cheap hydroelectricity aimed at achieving commercial exports by 2030. Siemens, a company in which the Fund owns shares, announced that it is partnering with Hydrogen Renewables Australia on a much larger 5GW combined solar and wind project in Western Australia that will produce renewable hydrogen for export to Asia. The project is estimated at A\$10 billion and is targeted to ramp to full capacity by 2028. APA Group, which operates 15,000km of natural gas pipelines across Australia, announced a pilot project that will use solar energy to produce hydrogen which would then be converted to methane for use in natural gas fired generation.

In the US, the Utah based Intermountain coal fired power station that supplies electricity to Los Angeles is planning to replace its ageing coal plant

with a combined cycle gas turbine that will use two-thirds natural gas and one-third hydrogen, ramping up to 100% hydrogen by 2045. Turbine suppliers such as GE and Siemens are upgrading their combustion technology to achieve 100% hydrogen capability across their products by 2030. Finnish technology group Wartsila Oyj, a leading supplier of fossil fuel based generators, has also announced that it is developing a combustion process that will allow its natural gas generators to run on 100% hydrogen.

One of the less desirable outcomes of recent shifts in consumer behaviour has been a shift, for hygiene reasons, back towards single use plastic packaging and disposable containers for food. It flies in the face of the trend towards more sustainable packaging solutions, which is a trend that should favour investments of the Fund such as aseptic packaging business SIG Combibloc. Spain has now proposed a tax on non-recyclable plastic packaging and bans, to be implemented in 2021, on products like plastic cutlery and plates. Such taxes have been encouraged by the EU as means through which revenue may be raised to repay stimulus funding.



Top 10 Holdings as at 31 May 2020

Security Name	Weight (%)	Country	Sector
Air Liquide SA	4.1	FRANCE	Alternative Materials
Microsoft Corporation	3.9	UNITED STATES	Industrial Efficiency
Wolters Kluwer NV	3.9	NETHERLANDS	Healthcare Technology
Carlisle Companies Incorporated	3.3	UNITED STATES	Energy Efficiency
Siemens Healthineers AG	3.3	GERMANY	Healthcare Technology
Waste Management, Inc.	3.0	UNITED STATES	Waste & Pollution
3M Company	2.9	UNITED STATES	Alternative Materials
PerkinElmer, Inc.	2.8	UNITED STATES	Healthcare Technology
Varian Medical Systems, Inc.	2.7	UNITED STATES	Healthcare Technology
Republic Services, Inc.	2.3	UNITED STATES	Waste & Pollution

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 (31 May 2020)	AUD 261.7m		

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