

# NANUK NEW WORLD FUND



## Monthly Report - May 2021

*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<sup>1</sup> (AUD)

	1 Month	YTD	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	SI p.a. <sup>1</sup>
Fund Return (%)	0.4	12.4	19.6	15.9	11.9	14.2	13.8
Global Equities <sup>2</sup> (%)	1.3	10.5	21.6	15.7	13.0	12.7	10.7
Value Added (%)	(1.0)	1.9	(2.0)	0.2	(1.1)	1.6	3.1
Environmental Equities <sup>3</sup> (%)	0.0	6.0	36.0	26.2	19.3	17.4	15.8
Value Added (%)	0.3	6.4	(16.3)	(10.3)	(7.4)	(3.2)	(2.0)

### Fund Commentary

The Fund returned 0.4% during May, lagging traditional global equities indices such as the MSCI All Country World Net Total Return Index by around 1.0% but outperforming environmental equities benchmarks such as the FTSE Environmental Opportunities All Share Index (EOAS) by 0.3%.

This performance in part reflected significant variations in sector performance during the

month. Financials and traditional energy, sectors in which environmental indices and the Fund have little or no exposure, outperformed.

The largest positive contributions to the Fund's performance were Mimecast, SIG Combibloc and Wolters Kluwer. Mimecast, which offers email and related cybersecurity software, delivered an above expectations earnings report. The company is also a potential beneficiary of increasingly prominent cybercrime, discussed in

*Notes (1) Inception date 2 November 2015 (2) Global Equities return is the MSCI All Countries World Index Total Return Net Index in Australian dollars (3) Environmental Equities refers to the FTSE Environmental Opportunities All Share Total Return Index which is identified as the reference index for the Fund, providing a reasonable, yet approximate, reference index for the Fund's area of focus.*

the Industry Commentary below. SIG Combibloc is a global leader in aseptic carton packaging solutions for the food and beverage industry. The company continued to show strong growth in its quarterly earnings, supported by the ongoing shift towards more sustainable packaging solutions. Wolters Kluwer is a global provider of professional information services for the legal, accounting and healthcare industries.

The largest detractors included several positions that have performed strongly year to date but saw pullbacks during the month. This included medical imaging and diagnostics leader Siemens Healthineers, IT solutions provider CDW Corp and medical device manufacturer Inspire Medical Systems. The Fund's position in Cognizant Technologies also underperformed after the company downgraded its financial guidance citing unexpectedly high wage growth in India.

The Fund entered new positions in Qualcomm Inc and Mondi plc during May. Qualcomm is a leading designer of semiconductors for telecommunications and is delivering strong growth as wireless networking becomes more sophisticated and more pervasive. Mondi is a manufacturer of paper and paper-based packaging, a sector benefitting from interest in substitution away from plastic and in which the Fund now has several investments.

The Fund also increased its position in Sprouts Farmers Markets. Sprouts is an American supermarket chain focused on natural and organic food. The investment rationale is an expected improvement in the company's returns based on the strategy of a recently appointed and high calibre management team. Sprouts has replaced Hain Celestial, which manufactures natural and organic food, whose shares performed very strongly since the Fund acquired its position in early 2019 based on a somewhat similar turnaround thesis. The Fund also exited positions in industrial automation leader ABB and global industrial gas business Air Products and Chemicals, both of which have performed strongly and consequently no longer continue to offer attractive return potential.

## Market Commentary

Global equities continued to perform strongly during May, with the MSCI All Country World Net Total Return Index up 1.6% in US dollar terms. Regionally, strength was broad based: the US' S&P 500 Index rose 0.5%, Europe's Stoxx 50 Index rose 1.5%, Japan's Nikkei 225 Index rose

0.2% and Hong Kong's Hang Seng Index was up 1.5%. The first two weeks of the month saw a significant correction in many higher growth stocks as the US 10-year treasury yield rose on rising concerns of sustained inflationary pressures, but a subsequent decline in yields saw technology and growth stocks at least partially recover as these concerns subsided towards the end of the month.

The correction in higher growth stocks contributed to the underperformance of environmental indices such as the FTSE Environmental Opportunities All Share Total Return Index, along with the aforementioned outperformance of the energy and financials sectors.

## Industry Commentary

May saw perhaps the most widely impactful cybercrime attack to date as parts of the eastern United States briefly experienced fuel shortages after a major pipeline shut due to a ransomware attack on its operator, Colonial Pipeline Co. May also saw reports that CAN Financial, a large US insurer, had paid \$40m in a March ransomware attack while early in June a ransomware attack hit the world's largest meatpacker, JBS, interrupting operations in both Australia and the US. All three attacks were linked to Russia and the Biden administration has stated cybercrime will be discussed in the forthcoming US-Russia summit and released an executive order to improve the US' cybersecurity defences.

As digitisation and networking grow ever more important in the broader economy, the importance of securing these networks is following closely behind. The Fund's investments in cybersecurity related businesses include Mimecast, mentioned above, as well as Check Point Software, which makes network firewalls, and McAfee Corp, which sells anti-virus software. Security is also an increasingly important area for diversified technology firms such as Microsoft and Accenture and networking equipment manufacturers such as Cisco in which the Fund is invested.

In the automotive sector, Ford unveiled the electric version of its F-150, America's best-selling vehicle every year since 1981. The F-150 "Lightning" will be available next year. Ford promises a range of up to 300 miles, a 0-60mph time below 5 seconds and, perhaps more importantly, a \$40,000 price tag that is in line with a comparably featured internal combustion powered F-150. The announcement was part of a

broader strategic update focusing on electric vehicles, with new CEO Jim Farley increasing the company's EV investment plans by more than a third, to \$30 billion. Another iconic American truck, General Motors' 4-tonne Hummer, is being resurrected in electric form a decade after its internal combustion version was cancelled in part due to monster fuel consumption. A limited edition is due for production later in 2021 and has already sold out, with further editions due to be released in 2022 and 2023. Fund investment Lear Corporation, a leading tier one automotive supplier of seating and electronic systems, is a supplier to both Ford and GM and expected to benefit from the increasing electronic content as these and other EV models come to market.

Daimler, the world's largest truck manufacturer, also held a strategy update ahead of its split from Daimler-Benz. It is investing heavily both in battery and fuel-cell electric vehicles, as well as autonomous vehicles, where it has a partnership with Google's Waymo division. Even Lamborghini, which is owned by Volkswagen, announced a new €1.5b multi-year electrification investment plan.

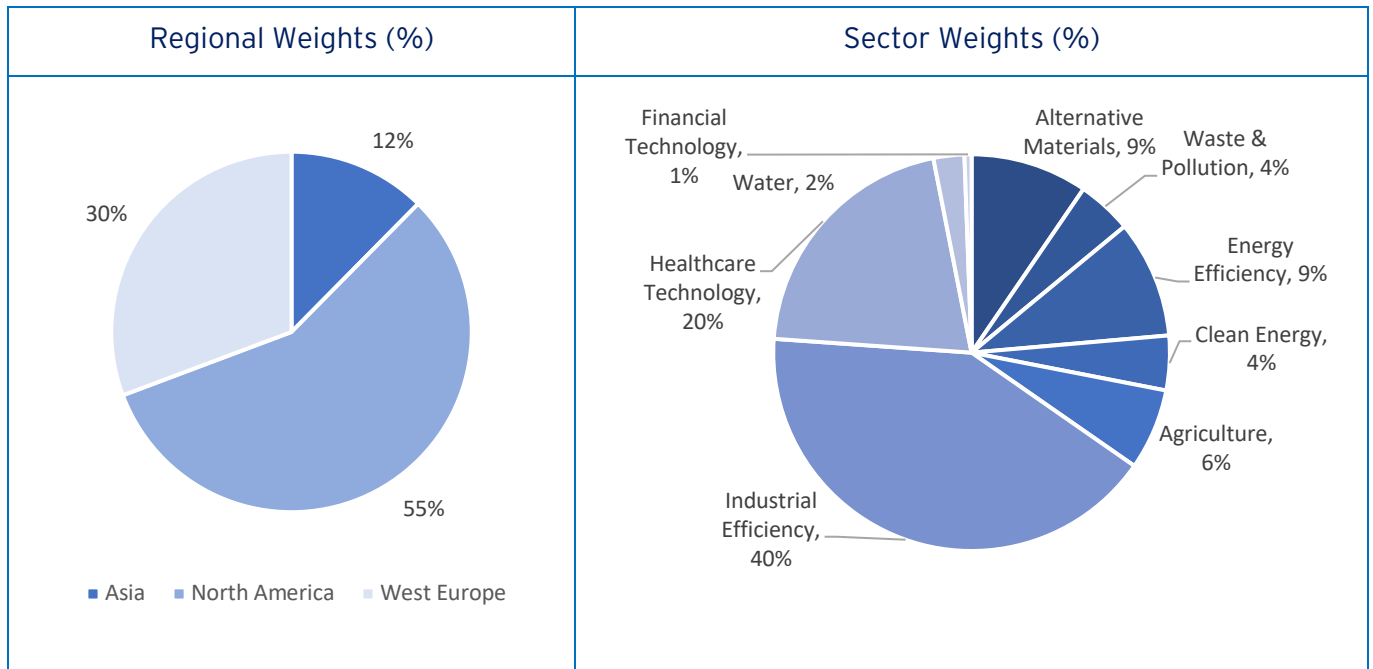
Global support for green hydrogen as a key component of decarbonising high emission industrial activities such as steel and cement manufacturing continues to increase. May saw German Energy Minister Peter Altmaier headline an event publicising up to €8b of aid for such manufacturers to transition their operations to this fuel. Air Liquide, one of the Fund's larger positions, currently generates €2b in revenue from hydrogen and forecasts this will rise to €6b by 2035. Today this is "grey" hydrogen, derived from fossil fuels, which is being replaced by "blue" hydrogen, which adds carbon capture, and increasingly a true sustainable solution, "green" hydrogen, derived by electrolysis using renewable electricity. Wind farms are increasingly looking at exporting the energy they produce in the form of hydrogen, especially if they are in remote locations. For example, in May two of Germany's largest emitters, chemicals giant BASF and utility RWE, announced a €4b investment in a wind farm, 15% of whose output will be devoted to green

hydrogen production for BASF's use. May also saw Cummins, the world's largest manufacturer of diesel engines, announce a €50m investment in a plant making hydrogen electrolyzers.

In Australia, the CSIRO announced a "Hydrogen Industry Mission" with a more modest A\$68m of investment through 2026 by a range of public and private sector entities. A separate government report, by the Clean Energy Finance Corp, forecast competitiveness for hydrogen fuel in trucking, buses and off-grid power by 2030.

In policy news, German Chancellor Angela Merkel announced an acceleration of the country's net-zero emissions target from 2050 to 2045, in response to a court ruling that the later date violated the rights of young people. The government of Indonesia, the world's top thermal coal exporting nation, said it will not allow construction of any new coal power plants and will convert thousands of small diesel generators to renewable power. The US state of Washington passed America's most ambitious cap-and-trade scheme, which plans to eliminate carbon emissions by 2050. The law, named the Climate Commitment Act, was signed by Governor Jay Inslee, who last year made a brief run to be the Democratic nominee for President in 2020 with a campaign almost totally focused on climate change.

The oil and gas industry saw a somewhat remarkable event this month as shareholders of the world's largest non-government oil company, Exxon Mobil, voted to add two independent directors championed by an activist fund citing Exxon's inadequate response to sustainability challenges. One of these directors, Kaise Hietala, previously ran Renewable Products at Neste, a Finnish oil refinery that has successfully developed a large biofuel business. Another notable shareholder revolt saw 81% of shareholders of American chemicals giant Du Pont approve a proposal for greater disclosure on its plastic pollution, against management's recommendation.



### Top 10 Holdings as at 31 May 2021

Security Name	Weight (%)	Country	Sector
Siemens Healthineers AG	4.5	GERMANY	Healthcare Technology
Garmin Ltd.	3.9	UNITED STATES	Healthcare Technology
Air Liquide SA	3.5	FRANCE	Alternative Materials
Wolters Kluwer NV	3.3	NETHERLANDS	Healthcare Technology
3M Company	3.2	UNITED STATES	Alternative Materials
CDW Corp.	3.0	UNITED STATES	Industrial Efficiency
Carlisle Companies Incorporated	3.0	UNITED STATES	Energy Efficiency
Keysight Technologies Inc	2.9	UNITED STATES	Industrial Efficiency
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	2.8	UNITED STATES	Industrial Efficiency
Alten SA	2.7	FRANCE	Industrial Efficiency

## Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Daily
Domicile	Australia	Minimum Subscription	AUD 50,000
Responsible Entity	Equity Trustees Ltd	Redemptions	Daily
Administrator & Custodian	Citi	Notice period	1 Day
Inception	2 November 2015	Buy-Sell spread	0.25%
Total management costs	1.2%	AUM (31 May 2021)	AUD 440.1m

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