Nanuk New World Fund

Monthly Report – November 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 (%)	4.5	3.1	8.9	7.5
Benchmark Return[2] (%)	3.3	0.4	5.0	3.7
Value Added (%)	**1.2**	**2.7**	**3.9**	**3.8**
MSCI ACWI Return[3] (%)	3.8	1.4	1.7	(1.0)
Value Added (%)	**0.7**	**1.7**	**7.2**	**8.5**

Commentary

Global equities had a mixed November following the surprise election of Donald Trump as the next US President. US equities rose strongly, with the S&P 500 index up 3.4%, however broader global equities saw more modest gains amid disparate regional performance, with the MSCI All Country World Index rose 0.6%. The Organisation for Economic Cooperation and Development (OECD) summed up expectations following the election: "a significant change in direction for macroeconomic policy…fiscal measures raise…growth by around 0.4% in 2017 and 0.8% in 2018". These "fiscal measures" are primarily tax cuts and, of special relevance to the equity market, cuts to the US federal corporation tax rate from 35% to as low as 20% or even 15%. The Russell 2000, an index of US small-caps whose sales and tax rates are more closely tied to the US economy than the S&P 500, was up 11% during the month. Amid warnings from US Federal Reserve officials that if growth picks up rates would likely follow, US sovereign yields also rose with the US 10-year yield rising to 2.4%, about 60 bps above its pre-election level. This in turn pushed up the US dollar, with the Japanese Yen weakening 9% and the Euro weakening 3.5% during the month. The Australian dollar also weakened against the USD dollar by around 3%, positively impacting the Fund's Australian dollar denominated returns. Europe's political difficulties continued, with the focus on a referendum on constitutional reform proposed by Prime Minister Renzi, which he lost by a 20 percentage point margin early in December, leading to his resignation. Equity markets outside the US were indeed weaker, with Europe's Stoxx 50 index flat in Euro terms but down 3.4% in US dollar-terms, and Japan's Nikkei 225 index up 5.1% in local currency but down 3.3% in US dollars. Hong Kong's Hang Seng index fell 0.6%. Oil

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 prices jumped sharply at the end of the month following an OPEC agreement to cut production. Environmental equities under-performed slightly, with the Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return Index, up 0.3% (in US dollar terms). Within the environmental space, clean energy equities were a notable underperformer during the month, which was not surprisingly given Trump's anti clean energy rhetoric during the election campaign. We discuss this in more detail below.

The Fund was up 4.5% for the month, outperforming its benchmark index by 1.2%. The sources of outperformance were well diversified, with the top contributor being US composite materials company Hexcel Corporation. The Fund had limited exposure to clean energy leading into the US election, and this was further reduced immediately following the result. As discussed later in the report this recent fall in clean energy equities, on top of already significant underperformance during 2016, is now presenting some good longer term opportunities for the Fund.

Trump's impact on companies exposed to environmental sustainability has been hotly debated. It seems clear his election represents a setback: he has called climate change a hoax, championed fossil fuel extraction, and deregulation in general, and he has been outspoken in his dislike for wind energy (especially offshore wind farms located near his golf courses!). It is important to note Trump has repeatedly defied predictions thus far and to be cautious in jumping to conclusions. It does seem clear that President Obama's Clean Power Plan, affecting primarily conventional (fossil fuel) utility power generation, will not come into effect. Beyond this however, key policies such as the wind Production Tax Credit, the solar Investment Tax Credit, the biofuels' Renewable Fuels' Standard and fuel economy standards for passenger vehicles have gone largely unmentioned post-election. It appears the focus thus far is on making the fossil fuel industry's life easier, rather than directly attacking alternative energy. Meanwhile, Democratic ruled states such as California and New York, as well as leading countries such as France, Germany and China, have made clear that they will act to counterweigh any major move backwards on climate policy by the US, including on the Paris Climate Accord.

Trump's trade policy is another source of policy uncertainty for companies in our universe, and indeed beyond it. Tough talk about foreign countries and companies that move jobs overseas has been plentiful, but as ever the policy details remain key. So far, these remain unclear. For example, with respect to perhaps Trump's favourite rhetorical target, China, he has appointed as ambassador Iowa Governor Terry Branstad, who supports increased trade with China and indeed hosted President Xi Jinping for a lavish visit to Iowa in 2012.

Corporate news took a back seat amid the avalanche of election related newsflow, but progress continued. Tesla completed its contentious acquisition of SolarCity, winning the shareholder vote with 85% of shares cast, despite some fears of a shareholder revolt. Total SA, whose renewable division owns a majority stake in SunPower and recently acquired battery maker Saft Groupe, established a bioplastics JV with Corbion, a company which the Fund continues to own and has been mentioned in previous investor letters.

Corporate renewable power acquisitions continued, with Microsoft purchasing 237MW of wind power capacity in Wyoming where it has recently opened a large data centre. Interestingly the data centre will operate at times as a virtual power plant, with the centre's gas fired backup power generators being made available to meet peak demand on the grid. With the increasing use of renewables and storage by large power users the interface between customers and traditional utilities is becoming increasingly complex. Apple announced a deal to buy stakes in 4 Chinese wind farms from leading Chinese wind turbine manufacturer Xinjiang Goldwind, with the intention that these wind farms supply renewable energy to factories producing Apple products. Google also announced that it would meet its goal to have all of its offices and data centre powered 100% by renewable energy in 2017.

The steady drumbeat of vehicle electrification announcement continued. Toyota, the global leader in hybrid electric vehicles, announced a new focus on pure electric vehicles, with the company's president to head a new EV department and plans to launch a new range of electric vehicles in 2020. Mazda also announced it would launch an EV in 2019, possibly with a rotary engine range extender. Jaguar, the luxury car maker, announced plans to launch an electric vehicle as soon as 2018, while BMW faced criticism from its own top labour representative, who is deputy chairman of its supervisory board, for not pushing aggressively enough into EVs.

One corporate event that led to a change in the Fund's investment positioning was an investor update by First Solar on November 16. Over its history, First Solar is by far the most profitable company in solar industry, and its technology, which is unique among major solar module manufacturers in using thin-film rather than crystalline silicon technology, offers the prospect of lower costs and superior efficiency and value. The company's shares have under-performed significantly this year as its solar project development business saw the end of a period of super profits from large subsidised solar projects in the US, while its solar panel manufacturing division was impacted by the industry's return to significant global over-capacity and falling prices. However, by mid-November it was arguable that company was trading at a discount to a liquidation value based on its significant cash balance and its investments in saleable solar projects – in sharp contrast to its peers, the company maintains a very conservative balance sheet. At its investor update, First Solar unveiled performance metrics for its next-generation product, which it will begin selling in 2018. Relative to its current product, which is competitive with existing silicon solar modules, the company expects to reduce production cost by 40% as well as improving the products value proposition, with significantly increased panel sizes and improved module efficiencies increasing the power output of its modules by 250%. Needless to say, these are huge improvements requiring significant investment in manufacturing equipment, and not without risk. However the company has an excellent track record of delivering on its medium-term targets: at its 2013 Investor Day it issued a series of target for 2015, and met them all. We therefore took the opportunity following the recent pullback in the share price to establish a significant long position in the company.

The Fund's major sector exposures include exposure to advanced and sustainable materials, such as composite materials like carbon fibre as well as sustainable materials like biochemical and bioplastics, building energy efficiency, industrial efficiency, automotive efficiency and vehicle electrification, and high speed rail.

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	(5.6)	4.0	0.9	0.0	(1.3)	4.5		9.3

[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

Investment Adviser	Administrator
Nanuk Asset Management Pty Ltd Level 8, Kyle House, 27-31 Macquarie Place Sydney NSW 2000, Australia Tel: +61 2 9258 1600 Fax: +61 2 9258 1699 Email: contact@nanukasset.com www.nanukasset.com	RBC Investor Services Trust – Registry Operations GPO Box 4471 Sydney NSW 2001 Tel: +61 2 8262 5000

Legal Notice