

## Nanuk New World Fund

### Monthly Report - October 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<sup>1</sup> (AUD)

	1 Month	3 Months	1 Year	Since Inception <sup>1</sup>
Fund Return (%)	(1.3)	(0.5)	-	3.6
Benchmark Return <sup>2</sup> (%)	(1.6)	(0.5)	-	0.8
<b>Value Added (%)</b>	<b>0.3</b>	<b>0.0</b>	-	<b>2.8</b>
MSCI ACWI Return <sup>3</sup> (%)	(1.1)	(0.9)	-	(4.7)
<b>Value Added (%)</b>	<b>(0.2)</b>	<b>0.4</b>	-	<b>8.3</b>

#### Commentary

The beginning of November marked the first full year of operation of the Nanuk New World Fund. In its first twelve months the Fund has delivered a net return of 3.6%, outperforming its benchmark index by 2.8% and broader global equities by 8.3%. The positive return has been achieved despite a strengthening in the Australian dollar over the year. In US dollar terms the Fund was up 10.3%. The major contributions to the Fund's returns have come from investments in salmon farming, renewable energy owning utilities and developers, solar equipment and leasing, energy storage and electric vehicles. The outperformance of the Fund's areas of focus against broader global equities in part reflects the underperformance during the period of financial and healthcare sectors to which we have little exposure, and the relative strong performance of industrials during the period. Interestingly it does not reflect consistent outperformance of environmental technologies and we have seen a wide divergence of returns within our area of focus, with, for example, wind energy stocks performing strongly over the year, but solar energy stocks significantly underperforming. These movements will present new opportunities and likely result in shifts in the's areas of exposure as we move forward.

Global equity markets were mostly weaker in October, with the MSCI All Country World Index down 1.8%. The US S&P 500 index was down 1.9%, and while other major indices fared better, this was in many cases offset by depreciating currencies. Europe's Stoxx 50 index rose 1.8% but fell 0.6% in US dollar terms; Japan's Nikkei 225 index rose 5.9% but only 2.3% in dollar terms. Hong Kong's Hang Seng index fell 1.6%. "Brexit", Britain's proposed departure from the

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

European Union, remained a source of macroeconomic volatility. The pound sterling was down 5.6% in the month against the US dollar, as the ruling Conservative Party annual conference appeared to signal Britain is likely to head towards “Hard Brexit”, which would mean exiting the European Common Market. The Fund’s benchmark, the FTSE Environmental Opportunities All Share (EOAS) Total Return index slightly under-performed, falling 2.2% in USD dollar terms. In Australian dollar terms the index fell 1.6%.

The Fund was down 1.3% for the month of October, outperforming its benchmark index by 0.3%. The macroeconomic environment provided a headwind to several industrial businesses owned by the Fund, with bellwethers 3M and Honeywell both delivering profits warnings, and Indutrade, a much smaller European multi-industrial also reporting a weak quarter. The Fund’s positions in automotive efficiency related companies also under-performed on expectations of slower growth in automotive sales, particularly in the US where the sales may have reached a cyclical peak. This underperformance was offset by good returns in a variety of small positions, primarily in Japan

In corporate news, GE’s acquisition offers in the industrial 3D printing sector, announced last month, remained prominent. It abandoned its takeover of German metal 3D printing company SLM Solutions after an activist hedge fund acquired a blocking stake in the company. The takeover of Swedish company Arcam AB appears set to go ahead, after the acquisition price was raised by 5%, and GE’s commitment to acquiring a suite of leading metal printing technology was reinforced by its subsequent announcement that it would acquire another 3D printing company, Concept Laser, a privately held competitor to SLM.

Tesla maintained its stream of headlines. On October 26 it reported its second ever quarterly profit in 16Q3, albeit in an otherwise unremarkable result. On October 28 it held an event, literally on a Hollywood set, to unveil a new solar roofing product. Tesla will offer hardened glass ‘solar tiles’ in a range of styles that are almost indistinguishable from conventional alternatives like terra cotta and slate tiles. Few details were provided on pricing and cost, and the product is not yet available. Tesla is far from the first company to offer “building integrated PV”, but it appears its plan is to replicate the success of its Model S, offering a high-end product that is able to command a premium price. Tesla also announced the Powerwall 2, the second iteration of its home energy storage product. This will have double the capacity, 14kWh rather than 7kWh, but its installed price has been reduced to \$6,500 vs \$7,000 for the previous generation. It is not clear to what extent this represents a decline in the production cost of the Powerwall rather than increasing competition and a greater willingness to sell a product at a loss to stimulate demand. Increasing competition from Asian battery manufacturers is likely to see continued pressure on pricing, as evidenced by Korean lithium battery giant LG Chem’s announcement that it will enter the US residential storage market through a partnership with SunRun.

Tesla also announced during the month that all new Tesla vehicles, including the upcoming lower priced Model 3, will now be produced with the hardware needed for full self-driving capability. That includes eight surround cameras providing 360 degree visibility at up to 250 metres range and twelve ultrasonic sensors for detection of hard and soft objects at closer distances, as well as a forward facing radar operating at wavelengths that Tesla claims will enable it to see through heavy rain, fog, dust and ‘even the car ahead!’ The new sensors will be complemented by a new onboard computer system with more than 40 times the power of the previous version. The capabilities of this system, which Tesla claims will be far beyond human senses and substantially safer than a human driver, will not be activated until the system has been calibrated through ‘millions of miles’ of real world driving. Safety features and autonomous capability will be enabled through ‘over the air’ software updates once they are validated.

Google parent company Alphabet announced its self-driving-car project is set to become a standalone business within the Alphabet umbrella, with legal work already underway. Astro Teller, CEO of Alphabet’s “moonshot factory”, said that the company would incrementally release self-driving cars in coming years as they gain capability.

On the policy front, the major news of the month was that the Paris Agreement hit the thresholds required to enter into force, namely 55 countries accounting for 55% of global greenhouse gas emissions. This follows the US and China’s ratification in Septmeber, who alone account for 38% of emissions, and was therefore not unexpected. In the UK, London’s new mayor Sadiq Khan described its “toxic air” as a “health emergency” the kills thousands of people each year, as he unveiled a series of proposals to reduce pollution including higher congestion charges for polluting vehicles. China has already taken significant measure to address similar but more severe issues, including capping the numbers of cars allowed in major cities and restricting vehicle use to selected days. More recently, China’s Industry Ministry was also reported to have released a draft that would require larger auto producers and importers to ensure that at least 8 percent of sales are new energy vehicles by 2018, increasing to 12 percent by 2020.

At the end of October, the Fund’s largest industry exposures remained to suppliers to the automotive sector exposed to the rapidly evolving trends towards vehicle electrification and autonomous driving and the continued shift towards improving fuel efficiency. The Fund also has significant exposure to high speed rail operators in Japan, carbon fibre and composite materials, building efficiency technologies and services and component suppliers benefitting from increasing use of data collection, wireless networking and data analytics in industrial applications (a trend commonly referred to as the industrial internet of things).

## Historic Returns<sup>2</sup> (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)			4.6

## 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%

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

## 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: <a href="mailto:contact@nanukasset.com">contact@nanukasset.com</a> <a href="http://www.nanukasset.com">www.nanukasset.com</a>	RBC Investor Services Trust - Registry Operations GPO Box 4471 Sydney NSW 2001 Tel: +61 2 8262 5000

## Legal Notice

*Nanuk Asset Management Pty Ltd is an AFS Licensee, (AFS License number 432119). Whilst the information contained in this report has been prepared with all reasonable care, Nanuk Asset Management Pty Ltd (Nanuk) accepts no responsibility or liability for any errors, omissions or misstatements however caused. The information is not a personal advice. This document has been prepared without taking into account of your objectives, financial situation or needs. The fact that shares in a particular company may have been mentioned should not be interpreted as a recommendation to buy, sell or hold that stock. This is general securities information and is not intended to be a securities recommendation. Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Potential investors should seek independent advice as to the suitability of the Fund to their investment needs. The information in this document is intended only for the person or entity to which it has been provided and may contain confidential and/or privileged material. In accepting receipt of the information you agree that you and/or your affiliates, partners, directors, officers and employees, as applicable, will keep all information strictly confidential. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information is prohibited.*