

NANUK NEW WORLD FUND



Monthly Report - October 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 (%)	(1.2)	(1.5)	0.6	11.5	7.5	11.3
FTSE EOAS Return ² (%)	0.7	12.8	17.5	20.1	13.1	13.6
Value Added (%)	(1.8)	(14.3)	(16.9)	(8.6)	(5.5)	(2.3)
MSCI ACWI Return ³ (%)	(0.4)	(1.0)	2.9	9.2	8.7	8.4
Value Added (%)	(0.7)	(0.5)	(2.3)	2.3	(1.1)	3.0

Fund Commentary

The Fund was down 1.2% in October, underperforming traditional global equity indexes such as the MSCI All Country World Net Total Return Index by 0.7% and underperforming environmental equities, as represented by the FTSE Environmental Opportunities All Share Total Return Index, by 1.8%.

The Fund's performance was impacted by its overweight exposure to European equities, which underperformed during the month, and the responses of stocks to third quarter earnings

reports. The major positive contributors to performance included Austrian sustainable textile manufacturer Lenzing, a leader in high performance timber based fibres, which rose 27% after indicating a stronger than expected recovery in its business, US navigation technology leader Garmin, which continued its recent trend of strong and above expectations earnings growth, and automotive supplier Lear Corporation, which is a leader in vehicle electrical and wiring systems. Keysight Technologies, a leader in design and testing equipment for key components in wireless

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

networks and devices, was also a notable contributor.

The major detractors during the month included Intel, which reported a third quarter result below expectations, as well as several companies that continue to be impacted by COVID. These included information services leader RELX, which generates 15% of its revenue from an events business which has fallen into significant losses as COVID has stopped much of its activity; Alten SA, an engineering consultancy business that has struggled to transition to work from home during the outbreak; and Central Japan Rail, which has seen limited recovery to date in ridership on its rail networks.

The Fund's portfolio was largely unchanged during the month. The Fund's position in Microsoft was reduced following its strong share price performance, as were positions in diagnostic testing leader PerkinElmer, which has seen an earnings surge thanks to its COVID testing business, and oncology device and software leader Varian Medical Systems, which has accepted a takeover offer from Siemens Healthineers, also a holding of the Fund. The Fund's positions in Keysight and technology consulting and services leader Accenture were increased after recent underperformance.

Market Commentary

Global equities markets continued to decline in October as COVID cases rose sharply around the world and the US election loomed in early November. The MSCI All Country World Net Total Return Index fell 2.5% in US dollar terms. Regional market performances reflected the potential impact of COVID. In Europe, which has seen a particularly sharp rise in cases, the Stoxx 50 index fell 7.4%. The US' S&P 500 Index fell 2.8%. By contrast, in Asia, Japan's Nikkei 225 Index fell just 0.9% and Hong Kong's Hang Seng index rose by 2.8%.

Environmental equities, represented by the FTSE Environmental Opportunities All Share Total Return Index, outperformed traditional global equities benchmarks led by the strong performance of Japanese industrial machinery and robotics stocks and selected electric vehicle and renewable energy stocks in the US, where polling pointed to a potentially favourable Democratic sweep of both the Presidential and Senate elections. The underperformance of large capitalisation US technology companies

during the month also contributed to the relative performance.

Industry Commentary

Voting in the US election concluded on November 3rd and although President Trump continues to contest the legitimacy of the result most observers have declared Democrat Joe Biden as President-Elect. Biden has outlined a very ambitious environmental agenda that included a 2050 net zero emission target, 2035 100% renewable energy target and trillions of dollars of investment in sustainable technologies and infrastructure. His ability to deliver much of this is dependent on the support of Congress and in particular the Senate which seems most likely to remain controlled by Republicans who will not support his agenda. Republicans currently hold a 50-48 lead, with two seats in Georgia to be decided by run-off elections on January 5th. Republicans currently hold both seats and won more votes in the regular election for both seats (the run-off is due to candidates falling short of 50% of the vote), and so they will be favourites in January. A divided government is the likely outcome. In this scenario, passing significant legislation will be difficult. However, President-Elect Biden has indicated he will follow the example set by Presidents Obama and Trump and will use Executive Orders to do what he can without the support of Congress. Biden said he plans to rejoin the Paris Climate Agreement on his first day in office. He will also be able to undo some of Trump's deregulatory actions such as the recent weakening of automotive fuel efficiency standards.

The transition of the automotive industry towards electric vehicles continues to be highlighted by major announcements. In recent days, Volkswagen Group announced it will invest as much as \$86 billion in electric vehicles, hybrids and digital technology within the next 5 years to adapt to rapid changes in the industry. The company plans to invest \$41 billion in electric vehicles, \$13 billion on hybrid electric vehicles and \$32 billion on digital technology - a doubling of investment over the prior period. Volkswagen expects to release 70 fully electric vehicles by 2030, with around 20 already in production, and to produce 26 million EVs by that time. Also during the month, General Motors announced its 2023 EV lineup will include both a Cadillac and a Hummer and that an internal combustion engine vehicle manufacturing facility in Tennessee will be converted to electric vehicle production.

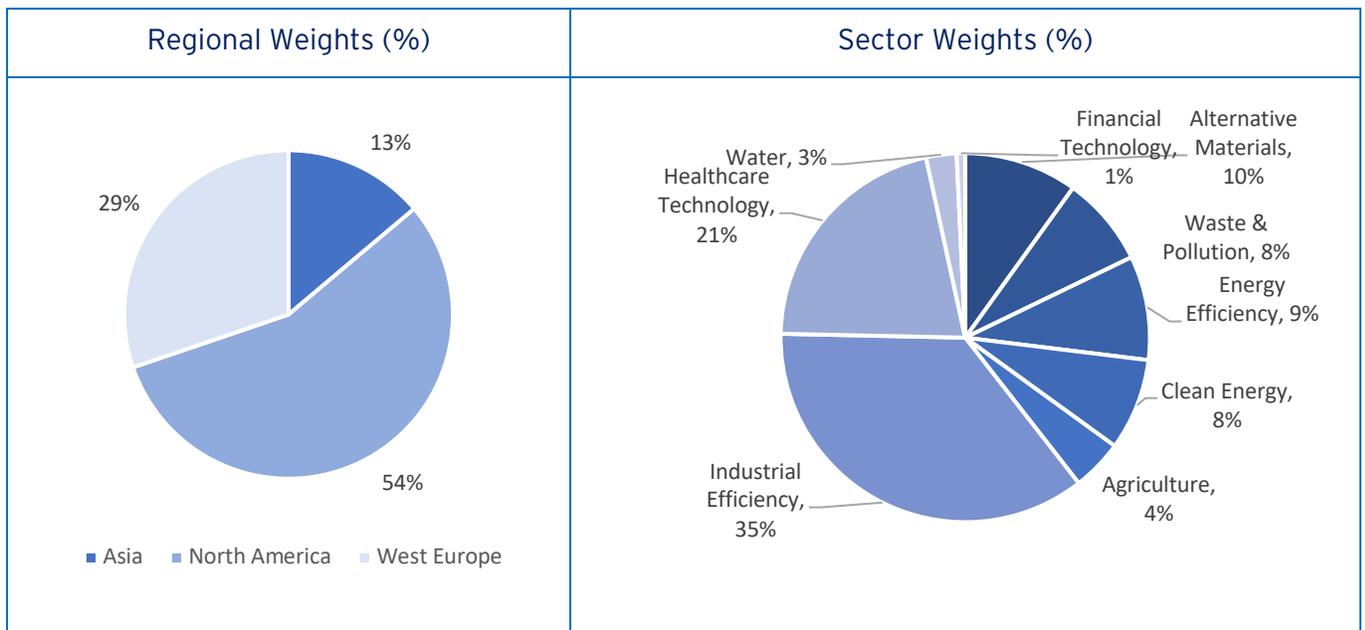
Chrysler-Fiat announced plans for a similar ICE to EV conversion in Canada in 2024.

The automotive sector also saw a month of partnerships as manufacturers continue to share the cost of mobility transition. Ford Motor announced it would purchase emissions credits from Volvo AB in Europe. The EU has set targets for vehicle emissions reduction with costly fines for non-compliance. Volvo has over-achieved its targets so has been able to sell some of its compliance headroom to Ford. Volkswagen and Toyota's truck subsidiaries also announced a joint effort to develop electric and fuel cell powertrains for commercial vehicles. Volvo Group, which is separate from Volvo AB and makes commercial vehicles, purchased 50% of Daimler's truck fuel cell subsidiary for €600m. French oil giant Total SE also invested in fuel cells for trucks, in US startup Hyzon. This is a more modest investment valuing Hyzon at \$200m.

In autonomous driving, Waymo, Google's autonomous driving venture, announced it was opening a fully driverless service to the public in

Phoenix. The service has been available to selected customers for over a year. Waymo also announced it was adding Daimler Truck to its growing list of manufacturing partners. Cruise, GM's autonomous driving unit, became the fifth US company to win a license to operate fully driverless vehicles on Californian roads.

In the renewable energy industry, solar was crowned as the "new King of the world's electricity markets" by the International Energy Agency (IEA) in its annual report, a remarkable development by an organisation established in 1974 to support supply of crude oil. In the wind sector, Vestas announced it would buy out Mitsubishi Heavy Industries from its 50% share in Vestas' offshore business. The move is unsurprising. Mitsubishi's role in the JV was providing project management experience and financial stability, but as Vestas has grown and matured, the value Mitsubishi provides is more limited.



Top 10 Holdings as at 31 Oct 2020

Security Name	Weight (%)	Country	Sector
Waste Management, Inc.	4.4	UNITED STATES	Waste & Pollution
Intel Corporation	4.4	UNITED STATES	Industrial Efficiency
Carlisle Companies Incorporated	4.1	UNITED STATES	Energy Efficiency
Keysight Technologies Inc	3.9	UNITED STATES	Industrial Efficiency
Air Liquide SA	3.7	FRANCE	Alternative Materials
Siemens Healthineers AG	3.5	GERMANY	Healthcare Technology
Wolters Kluwer NV	3.0	NETHERLANDS	Healthcare Technology
Microsoft Corporation	2.7	UNITED STATES	Industrial Efficiency
3M Company	2.6	UNITED STATES	Alternative Materials
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	2.3	UNITED STATES	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	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 Oct 2020)	AUD 288.4m		

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