

# Nanuk New World Fund

## Quarterly Report - December 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	6 Months	1 Year	Since Inception <sup>1</sup>
Fund Return (%)	4.8	8.0	12.9	14.5	11.4
Benchmark Return <sup>2</sup> (%)	4.1	5.7	10.6	12.2	7.1
<b>Value Added (%)</b>	0.7	2.3	2.3	2.3	4.3
MSCI ACWI Return <sup>3</sup> (%)	4.2	6.9	9.6	8.4	2.7
<b>Value Added (%)</b>	0.6	1.1	3.3	6.1	8.7

### Commentary

December delivered a bullish end to the year for global equities. The MSCI All Country World Index rose 2%, with markets up in most regions, finishing the year up 5.6%. Europe's Stoxx 50 index led the way, rising 7.8% in December, amid speculation of further monetary easing from the European Central Bank. The US S&P 500 index continued its post-Trump election run, rising a further 1.8% during the month. Japan's Nikkei 225 was up 4.4%, as the ¥ weakened a further 2.5%. By contrast Chinese equity markets declined, with Hong Kong's Hang Seng index down 3.5% and the Shanghai-Shenzen composite index down 6.4%. The Fund's benchmark index, the FTSE Environmental Opportunities Total Return Index rose 2.2% (in US dollar terms) in December, performing in line with the broader market. The Australian dollar fell 2.4% during the month as the US dollar continued to strengthen against most major currencies.

The New World Fund was up 4.8% for the month (in Australian dollar terms), outperforming its benchmark index by 0.7%. There were no outstanding single contributors, though US thin film solar manufacturer First Solar, discussed in last month's newsletter, was the largest contributor. The Fund finished the calendar 2016 year up 14.5%, outperforming its benchmark by 2.3% and broader global equities (as represented by the MSCI All Country World Total Return Index) by 6.1%. The top contributors to the annual return came from a range of different industries, and included Tenneco - a US automotive component supplier focused on emission control systems, Leroy Seafood Group and Salmar - both Norwegian salmon farming businesses, Nichias Corporation - a Japanese company making thermal insulation products, TransAlta Renewables -

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

a Canadian wind farm owner, New Flyer Industries - a Canadian clean energy and zero emissions bus manufacturer and Sunrun - a US residential solar leasing company.

It has been a year of fascinating developments and surprises, and the reverberations associated with the election of Donald Trump as the next US President will continue for some time, particular as it relates to US climate change and energy policy. Rick Perry, who previously wished to eliminate the Department of Energy, was nominated to lead that very same Department. It is far from clear, however, that the new US administration will be able to turn the outgoing tide for conventional energy in the US: State level emissions reduction and renewable energy targets continue to be the major drivers of change, and a number of States continue to tighten their regulations. And it's not just in the US. India's Central Electricity Authority published a draft national electricity plan that states no coal plans are required beyond 2022, in contrast to the previous plan that expected coal to dominate through "2031-2 and possibly beyond". The Indian government also announced a \$1.8b investment in transmission capacity for solar parks.

2016 was a year that saw some dramatic falls in the cost of new energy technologies. Solar module prices fell by around 35%. Expectations that 2017 may see a continuation of the average 20% per annum fall in solar module prices seen since 2010. Complemented by similar falls in 'balance of system' costs, these reductions are reflected very directly in the cost of solar energy from new projects and we have seen projects contracting for the supply of solar power at less than 3c/kWh this year, bringing it well below the cost of conventional fossil fuel generation. Offshore wind power was another technology that took a huge leap forward in cost competitiveness during 2016. Recent offshore wind projects in Europe have been tendered at around EUR60/MWh (<7c/kWh). The reductions are driven by a combination of factors - with the introduction of new and larger offshore turbines (now 8-10MW turbines with blades over 80m long) being a major factor.

The continued falls in the cost of renewable energy have driven changes to government policies and subsidies. In December China's National Development and Reform Commission announced a cut in solar tariffs of around 20%. It is likely to see a repeat of 2016's market dynamics with the cut taking effect mid-year leading to a rush to complete projects in June, followed by a fall-off in demand in the second half of 2017. In the US, Arizona followed Nevada and California in reducing the generosity of its net metering policy.

There were some notable corporate announcements at the end of the year. Amazon unveiled its convenience concept store [Amazon Go](#): a no-check outs, walk in, walk out, customer shopping experience enabled by machine vision technology (similar to that for autonomous driving) which senses which items customers pick up. While one convenience store is clearly a toe in the water from Amazon, it underscores a broader theme, that machine vision is likely to have applications well beyond autonomous driving. Amazon founder Jeff Bezos was also one of a group of philanthropists alongside Bill Gates that committed a \$1b "Breakthrough Energy" fund, aiming to develop breakthroughs over a 20-year time horizon.

In automotive news, Fiat Chrysler, which had been one of the few auto manufacturers yet to invest in EVs, announced on December plans for two EVs, a mass market Chrysler, and a high-end Maserati. Interestingly reductions in emissions from the electricity sector mean that vehicle emissions will become the largest source of greenhouse gas emissions in the US, surpassing power plant emissions for the first time since 1979. Given the relative importance of vehicle emissions to meeting climate commitments the EPA is rushing to approve new and tighter regulations that will require fleet wide average mileage to improve from its current 34 mile per gallons to 54.5 by 2025 before Trump's inauguration on January 20<sup>th</sup>.

At the end of December 2016 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, waste management, and high speed rail. The Fund's exposures to automotive efficiency technologies and to Norwegian salmon farming companies have been reduced in recent months in response to share price performance and concerns about industry cyclicality.

### 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)	4.5	4.8	14.5

### 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).

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