Nanuk New World Fund

Quarterly Report – June 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 (%)	(5.6)	3.7	-	0.0
Benchmark Return[2] (%)	(3.8)	4.9	-	(3.0)
Value Added (%)	**(1.8)**	**(1.2)**	**-**	**3.0**
MSCI ACWI Return[3] (%)	(3.3)	4.3	-	(5.9)
Value Added (%)	**(2.3)**	**(0.6)**	**-**	**5.9**

Commentary

Global equities were, in aggregate, surprisingly stable in June amid macroeconomic volatility with the MSCI All Country World Index down 0.8% despite the UK voting to leave the European Union ("Brexit") on June 23. Among the unmoved markets were the US, with the S&P 500 index rising 0.1%, and Hong Kong, with the Hang Seng falling 0.1%. The Euro Stoxx 50 index fell 6.5%, with Brexit creating fears of instability elsewhere in the EU and concerns about the stability of Europe's banking sector. The month saw major volatility in FX markets, with Britain's Sterling down 8.6%, and the Japanese Yen up by 6.8%, against the US dollar. These moves impacted stock market returns – the UK FTSE 100 index was actually up 4.4% over the month and Japan's Nikkei 225 fell 9.6% reflecting the significant impact of exchange rates on corporate profitability in those countries. The FTSE Environmental Opportunities All Share Total Return index underperformed, falling by 1.4% in USD terms and by 3.9% in Australian dollar terms as a result of the Australian dollar strengthening during the month.

The Fund's return was similarly impacted by the strengthening of the Australian dollar and the Fund was down 5.6% for the month, underperforming its benchmark index by 1.8%. The largest contributor to the underperformance was the Fund's exposure to automotive component suppliers which fell sharply after the Brexit vote. This sector has already been impacted by concerns about a slowdown in the US passenger vehicle market, where demand is above trend and usage of subprime financing is (again) under scrutiny. The significant falls in share prices since earlier last year (in some cases more than 50%) created what we believe are attractive

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 buying opportunities and the Fund has increased its long exposure this year to several of these companies that we believe stand to benefit from the accelerating adoption of fuel efficiency and emission control technologies, drivetrain electrification and autonomous driving technology. It is disappointing to have lost money on these positions in the short term. However, forming views about stocks that screen as cheap (or expensive) but whose earnings are above (or below) "normal" levels is a core part of what we do, and we have been able to profit from these situations over time. As always, we seek to avoid over-reacting to short-term performance but, equally, it is always prudent to critically re-examine investment theses when systemic shocks occur, which we are currently doing.

The vehicle electrification and automation juggernaut rolled on in June. Volkswagen announced its 2025 strategy as "the biggest change process in the company's history", with the top two items being a plan for 2-3 million electric vehicles (EVs) sales per year across 30 models and adding "battery technology, digitalization and autonomous driving" as core competencies. Poland announced targets for production of a million EVs annually by 2025. Norway's government was reported to be considering a proposal to ban fossil fuel vehicles entirely by 2025.

Sadly, the month saw a different milestone, with the first fatal accident of a Tesla Model S using its "autopilot" function. As Tesla's press release (https://www.teslamotors.com/blog/tragic-loss) about the event reflects, its autopilot is well short of full automation and the step change in safety it promises; but nevertheless its performance to date indicates significant improvements towards that goal.

Industrial automation was another theme in our universe that showed momentum in June. We have recently added three leading manufacturers of forklift trucks into our universe: Germany's Kion and Jungnheinrich, and Hyster Yale, based in the US. In emerging markets, forklift trucks are themselves an emerging technology for industrial efficiency. In addition to this, and small but growing exposures to other relevant themes including vehicle electrification and automation, the two German companies are making major moves into what German's Fraunhofer Institute calls "Intralogistics 4.0" (http://www.ipa.fraunhofer.de/en/intralogistics.html) – automating material handling within the supply chain. Demand for this function is experiencing structural growth from e-commerce – Amazon entered the space in 2012 with the acquisition of a robotic fulfilment provider called Kiva Systems (now Amazon Robotics).

Kion made a major move into the space in June with a $3.25b acquisition of Dematic, which offers conveyors, sorting and picking systems. Honeywell, a diversified industrial company in our universe, made a $1.5b acquisition of Intelligrated, which also provides warehouse automation.

It was also a busy month within the clean energy space. Siemens and Gamesa announced the merger of their wind turbine businesses, confirming the details of a plan which was leaked in January. The combined entity will rival Vestas as the world's largest wind turbine business. Vestas itself launched a PR campaign (https://www.vestas.com/~/media/vestas/about/power to your pocket/final_01-06-16.jpg) in the UK where it explicitly challenged fossil fuel generation on cost, as well as emissions. General Electric announced a "mid double-digit million-euro" deal for a stake in Sonnen, a Germany company making batteries for home energy storage; this follows Total's acquisition of Saft Groupe, another European battery manufacturer. Tesla grabbed the headlines too, launching an all-stock offer to acquire SolarCity, at a 21-30% premium. The deal has received a mixed reception, with questions over synergies, the addition of more debt to Tesla's balance sheet, and corporate governance. The deal is subject to a Tesla shareholder vote which Elon Musk has recused himself from. At the time of writing, SolarCity's shares are ~10% below the bottom of Tesla's offering range, reflecting the very real risk that Tesla's shareholders will not support it. Still in the US residential solar leasing space we saw Sungevity announce that it would list via a reverse merger into Easterly Acquisition Co, a private equity-backed listed acquisition vehicle. Sungevity is a long-time competitor to SolarCity, SunRun and Vivint; but unlike those businesses, it relies on third parties to finance the leases it offers, providing for a much simpler balance sheet. The company is roughly 3% of the size of SolarCity at this point but has laid out its plans to more than quadruple in size between 2015 and 2018.

Emissions pledges and targets continue to come thick and fast from governments around the world. At their summit in Ottawa, the US, Canada and Mexico announced a target of 50% renewable power by 2025, up from 37% today. Norway pledged to be carbon neutral by 2030, albeit with a reliance on "carbon offsets" in other countries. Sweden announced a framework for 100% renewable energy by 2040. The Australian state of Victoria announced a proposal for 40% renewable energy by 2025 and a target of zero net emissions by 2050, which follows similar targets set by the state of South Australia.

June also saw Bloomberg New Energy Finance publish its annual "New Energy Outlook" (http://www.bloomberg.com/company/new-energy-outlook/). This is an excellent survey of current policies and trends, a link to which can be found in our recently published Digest along with other thought provoking content.

The Fund's positions in companies benefitting from vehicle electrification and autonomy remain one of the larger sector exposures. Other major sector exposures currently include building energy efficiency, high speed rail and machine to machine communication.

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)							1.0

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%

[2]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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