NANUK ASSET MANAGEMENT

Nanuk New World Fund

Quarterly Report – September 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 (%)	0.0	4.9	-	5.0
Benchmark Return[2] (%)	(1.1)	4.6	-	2.5
Value Added (%)	**1.1**	**0.3**	**-**	**2.5**
MSCI ACWI Return[3] (%)	(1.3)	2.3	-	(3.7)
Value Added (%)	**1.3**	**2.6**	**-**	**8.7**

Commentary

September provided a second quiet month in a row for global equities, with the MSCI All Country World Index up 0.4%. Major equity markets across the world had unremarkable months. The US S&P 500 was down 0.1%, while Europe's Euro Stoxx 50 fell 0.7%. In Asia, Japan's Nikkei 225 fell 2.6% while Hong Kong's Hang Seng index was up 1.4%. The FTSE Environmental Opportunities All Share Total Return index performed in line, rising by 0.7% in US dollar terms, but fell by 1.1% in Australian dollar terms due to the strengthening of the Australian dollar during the month.

The Fund was flat for the month, outperforming the benchmark index by 1.1%. Two of the Fund's longer held sector exposures, Norwegian salmon farming and Japanese high speed railway operators, performed well. The salmon stocks were supported by a stabilisation in salmon prices, which had corrected slightly from their record highs in July and August. The Japanese rail stocks have underperformed this year despite the relatively defensive nature of their businesses and the benefit of record low interest rates in Japan.

General Electric made a big splash in the additive manufacturing sector by announcing a bid to acquire two of the leading industrial metal '3-D printing' businesses. GE is seeking to acquire Sweden's Arcam AB, a leader in electron beam technology for manufacturing titanium parts, and Germany's SLM Solutions Group AG, a leader in multi-beam laser technology applicable to a broader range of metals, for a combined $1.4b, at a premium of ~40%. The businesses will become part of GE's aviation division, with plans to contribute to other GE businesses as well. GE

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 held an investor event to discuss its outlook on the sector (link http://www.ge.com/investor-relations/ir-events/ge-investor-webcast-2016), filled with eye popping data, including 20% growth forecasts, multi-billion dollar cost reduction targets and replacing components with 300 parts to a product with just one.

General Motors had a big unveil of its own, as it released details of its new full-electric Bolt model ahead of production start scheduled for October. Most noted was its driving range, estimated by the EPA at 238 miles (383 km). This is more than the 208 miles (335 km) of the entry level Tesla Model S or the 215 miles (346 km) currently planned for the Tesla Model 3, and is almost 5 times the 50 miles (80 km) GM's current hybrid offering, the Volt, offers in pure electric mode. Reviews of the car have been positive, albeit without hitting the euphoria enjoyed by Tesla releases. Crucially, after a $7,500 federal tax credit, the Bolt will be offered at just under $30,000 – half the price of the entry level Model S. Electric vehicles continued to take centre stage at the Paris Auto Show at the end of the month, with the rapid push by the major automotive OEMs into EVs become increasingly tangible for consumers. Mercedes unveiled the first of its new 'EQ' range of fully electric vehicles, a midsize SUV expected to be available in 2019. According to Daimler's CEO this is the beginning of an "electric product offensive" that will see electric vehicles represent 20% of Mercedes sales by 2025. Volkswagen also unveiled its I.D. concept vehicle, a fully electric, Golf sized car with a range of 400-600km. It is expected to be available by 2020 with a price equivalent to an equivalent diesel Golf. The rapid improvements in battery technology underpinning these plans were highlighted by Renault, who released an upgraded version of its European top selling EV, the Zoe. Its new driving range of 300-400km is nearly double the current version, and is being achieved with a battery pack of the same size and nearly at the same cost. The upgraded version will be available this year.

The other major corporate news of the month was the finalisation of the IPO of Innogy, from German utility giant RWE. RWE and its peer E.ON have faced an existential crisis following the post-Fukushima decision by the German government to shut down all nuclear generation, and the dramatic fall in the profitability of conventional coal and gas generation in Europe associated with the growth in renewable generation. Innogy contains the renewable, grid and retail divisions of RWE, which will retain its energy generation and trading activities. The stock began to trade on October 7. With a capitalisation of €20b, this is Germany's largest IPO since 2000, albeit at this stage RWE retains 75% of Innogy.

During September we attended North America's leading solar conference, Solar Power International. This year's conference was notable for the dichotomy between the challenges being faced by many of the major industry players and the apparent buoyancy of the residential and commercial solar industry in the US. It was also notable for the absence of equity market investors who appear to have abandoned the sector following the collapse of SunEdison, questions surrounding the viability of SolarCity and the significant underperformance of solar company equities this year. The Guggenheim Solar ETF is down 34% year to date and many of its larger constituents much further.

Solar equipment manufacturers are facing very challenging market conditions with solar module prices falling dramatically in recent weeks. At the conference we heard of pricing around $0.38c/W for tier one solar modules in the US, down from above $0.60/W at the beginning of the year. The collapse in pricing reflects the start up of new manufacturing capacity this year coinciding with a very sharp fall in demand in China following the reduction of solar tariffs on July 1st. The falls haven't been restricted to solar modules, with inverter prices also falling as Chinese manufacturers enter the US and other western markets with very competitively priced products. Enphase Energy, only two years ago the leading inverter supplier to the US residential sector, executed what looked to be an emergency equity raise during the month, at a ~25% discount. Utility scale solar project developers are facing similarly challenging market conditions with project returns falling significantly on lower demand from utilities and more competition to secure power purchase agreements for new projects. In part this is due to a rush of projects built in 2015 and 2016 ahead of the anticipated, but now delayed, end of the investment tax credit available to these projects. Among residential developers, SolarCity's challenges dominated attention, with the Tesla acquisition offer firmly perceived as a bailout.

Nevertheless, as always these challenges present opportunities. The continued improvement in the competitiveness of solar power, and the proliferation of new battery storage enabled solutions, is providing a relatively optimistic outlook for ongoing growth in the industry. This is particularly true for residential and commercial developers who are benefitting from the collapse in equipment prices.

In recent days there have been some significant global policy developments. The United Nation's Paris Accord, agreed in December last year, came into effect when the European Union joined China and the US in ratifying the agreement. Separately, the airline industry, not covered under the Paris Accord, agreed to a cap on global emissions from international flights. The agreement will require airlines to purchase carbon credits to offset increasing emissions, and will come into effect in 2021.

In policy news, the UK confirmed it will go ahead with its Hinkley Point C megaproject, which was confirmed previously but placed under review by the new government, with the latest estimate of the cost to consumers at $27 billion. China's National Development and Reform Commission, the state macroeconomic management agency, announced a proposal for significant reduction in solar tariffs, of ~25% for utility scale projects and ~40% for distributed generation. While this remains a proposal, the scale of the cut was a surprise to the industry, already suffering under excess capacity. In the US, the solar industry won an important victory, as Nevada reversed its decision from last December, removing additional tariffs for customers that had already installed solar systems. Most states explicitly "grandfather" solar installations to provide clarity over rate structures, typically for 20 years, but Nevada had not. The fact that Nevada regulators' decision to change rates on existing systems led to a political outcry of such ferocity that the incumbent utility asked that a decision that favoured it be reversed suggests Solar systems rate structures are indeed very secure.

At the end of August, 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, 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[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				6.0

[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

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