

NANUK NEW WORLD FUND



Quarterly Report - September 2019

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 (%)	1.7	28.8	14.6	14.4	17.6	14.6
Benchmark Return ² (%)	3.3	24.8	12.9	13.7	15.8	12.6
Value Added (%)	(1.6)	4.0	1.8	0.7	1.8	2.0
MSCI ACWI Return ³ (%)	2.0	21.3	8.8	13.8	14.4	9.8
Value Added (%)	(0.3)	7.5	5.9	0.6	3.2	4.8

Fund commentary

The Fund was up 1.7% in September, underperforming its environmental benchmark index by 1.6% and underperforming the MSCI All Country World Total Return Index by 0.3%. The Fund marginally outperformed both indices over the quarter.

September saw a reversal of recent sector performance, with cyclicals industries generally outperforming more defensive sectors. The main detractors from the Fund's monthly performance were in defensive sectors such as waste management, healthcare technology, data services and food.

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

The largest positive contribution came from the Fund's position in organic foods business Hain Celestial Group, which announced the sale of its rice products division as part of its ongoing restructuring program focused on rationalising its product portfolio around its more profitable lines.

The most notable change in the portfolio was a new investment in SunRun. SunRun is the leading residential solar installer in the US and is a company in which the Fund has previously invested with a favourable outcome. The company both installs and finances solar systems for homeowners. The economics of solar systems and the profitability of its business are very sensitive to changes interest rates, and we expect the collapse in medium and long-term interests in recent months will manifest in improvements in its growth and cashflows during 19Q4 and early 2020, and potentially the initiation of a capital return program.

Market commentary

Global equity markets rose modestly in September despite continued weak economic data. The MSCI All Country World Total Return Index rose 2.1%, with rises across most major indices. The US' S&P 500 Index was up 1.7%, Europe's Stoxx 50 Index was up 4.2%, Hong Kong's Hang Seng Index was up 1.4% and Japan's Nikkei 225 Index outperformed, rising by 5.1%. Manufacturing Purchasing Manager Indices (PMIs) in the US, China, the EU and Japan all remained in contractionary territory for a second month. This saw a policy response, with both the US and European central banks cut benchmark interest rates during September. Sustainability exposed equities out-performed with the Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return Index, rising 3.5% in US dollar terms and 3.3% in Australian dollar terms.

Industry commentary

The rapid pivot of the automotive industry towards electrified drivetrains was highlighted by news that Daimler, parent company of Mercedes Benz, plans to cease development of internal combustion engines after the current product cycle, in order to focus resources on the transition to electric vehicles. The cost and challenges of this transition also continue to encourage new ventures and partnerships, with Toyota increasing its stake in Subaru as the two brands collaborate on developing new automotive technologies. Prominent electric vehicle start up NIO reported weak results and said it will make 2,000 job cuts by month end as it draws down on limited cash reserves. Its shares have sunk over 80% since its IPO in 2018.

There were significant announcements for offshore wind. Britain released plans for its first offshore wind auction in a decade, with a staggering 7-8.5GW of capacity expected to be put out to tender. This contrasted with news of a \$3.5 billion cost over-run at the Hinkley Point C nuclear power plant currently under development. In France, utility EDF secured financing for what would be the country's first offshore wind project. China also completed its first offshore wind auction, for a 200MW project near Shanghai. In the US, Dominion Energy, the primary power provider in Virginia, announced plans to invest in \$8 billion in offshore wind – just a day after losing a court case that will now allow businesses to buy renewable energy directly from independent power providers. These developments in offshore wind reflect continued declines in cost as the industry matures and offshore wind turbines continue to grow in scale. GE announced its new 12MW Halide-X offshore wind turbine will be used in the Dogger Bank project in the UK which has won contracts to provide electricity at around GBP40/kWh, nearly two thirds lower than the cost

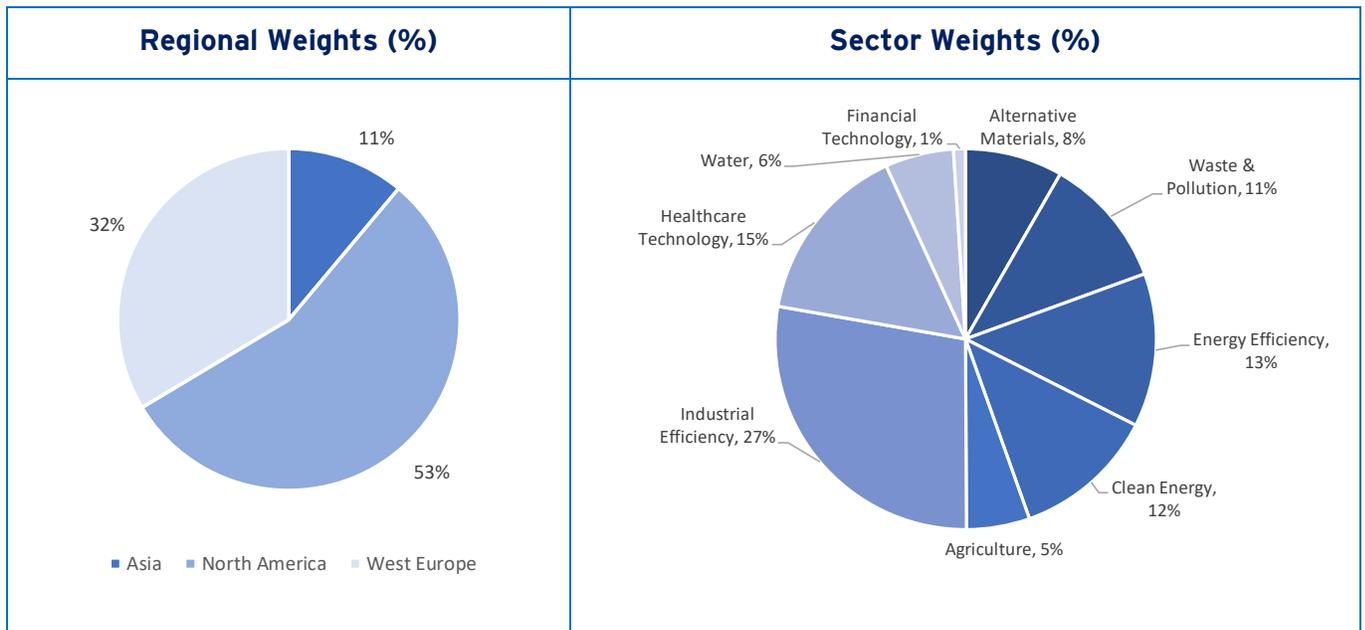
of power to be produced by the Hickley Point reactor once it is completed in 2025. The Halide-X turbines will be more than 220m high and have blades over 100m long.

Global sustainable development was in focus during the month as the UN hosted its Climate Action Summit in New York. The key headline from the event was the announcement of commitments to achieving net zero carbon emissions by 2050 from 77 countries. Notably France joined the UK in voting into law a net-zero 2050 target and Ursula von der Leyen, the incoming European Commission President, has declared climate policy her #1 priority. Similar commitments are being made by corporations with the likes of Nestle making public commitments to achieve similar targets.

An emerging challenge to this sustainability movement is increasing opposition from labour unions. Increased labour productivity is a key driver of sustainable technologies' rising competitiveness, a factor that certain unions are wary of. As the United Auto Workers went on strike at General Motors' US plants, electric powertrains, which are forecast to reduce labour hours by 30-40%, were highlighted as a major medium-term issue by labour and manufacturer representatives as well as third party researchers. September also saw Los Angeles signed a record-low solar power supply agreement after more than a month's delay due to union opposition – as the project supported fewer jobs than the natural gas plants it replaced.

In the corporate world, Amazon partnered with NGO Global Optimism to announce a Climate Pledge under which it has committed to carbon neutrality by 2040. In addition Amazon will invest \$100m on reforestation and has ordered 100,000 electric drivetrain commercial vehicles from Rivian, a start-up it part owns, although the company has yet to produce a vehicle and deliveries won't begin till

2021. Meanwhile fellow technology giant Google announced the purchase of generation from 1.6GW of solar and wind projects, the largest corporate clean power deal ever. Google has met 100% of its energy needs with purchase of renewable energy over the last two years and this deal will enable it to continue doing so as its energy needs increase in coming years.



Top 10 Holdings as at 30 September 2019

Security Name	Weight (%)	Country	Sector
Carlisle Companies Incorporated	4.3	UNITED STATES	Energy Efficiency
SolarEdge Technologies, Inc.	4.2	UNITED STATES	Clean Energy
Koninklijke Philips N.V.	3.3	NETHERLANDS	Healthcare Technology
RELX PLC	3.2	UNITED KINGDOM	Healthcare Technology
Waste Management, Inc.	3.2	UNITED STATES	Waste & Pollution
Lear Corporation	3.2	UNITED STATES	Energy Efficiency
Waste Connections, Inc.	3.0	CANADA	Waste & Pollution
Microsoft Corporation	3.0	UNITED STATES	Industrial Efficiency
Air Liquide SA	2.7	FRANCE	Alternative Materials
Wolters Kluwer NV	2.6	NETHERLANDS	Healthcare Technology

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Daily
Domicile	Australia	Minimum Subscription	AUD 50,000
Responsible Entity	EQT Responsible Entity Services 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 (30 Sep 2019)	AUD 201.6m		

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