

# NANUK NEW WORLD FUND



## Quarterly Report - September 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 Summary<sup>1</sup> (AUD)

	1 Month	YTD	1 Year	2 Years p.a.	3 Years p.a.	Since Inception p.a. <sup>1</sup>
Fund Return (%)	2.3	(0.4)	1.4	7.8	9.9	11.8
FTSE EOAS Return <sup>2</sup> (%)	2.5	12.1	18.3	15.5	15.2	13.7
Value Added (%)	(0.3)	(12.4)	(16.9)	(7.7)	(5.3)	(1.9)
MSCI ACWI Return <sup>3</sup> (%)	(0.1)	(0.6)	3.9	6.3	10.4	8.6
Value Added (%)	2.4	0.2	(2.5)	1.5	(0.5)	3.2

### Fund Commentary

The Fund returned 2.3% during September, outperforming traditional global equity indices such as the MSCI All Country World Net Total Return Index by 2.4% but slightly underperforming the Fund's environmental equity benchmark, the FTSE Environmental Opportunities All Share Total Return Index by 0.3%.

The outperformance of the Fund and its environmental benchmark compared to broader global indices was driven by the relative outperformance of industrial and manufacturing

sectors and the relative underperformance of financials, traditional energy and technology services, notably including the 'FAANGS'.

The major contributors to the Fund's performance were positions in diagnostic and analytical technology business PerkinElmer, French technology consulting and engineering business Alten and information services leader Wolters Kluwer. Other notably performers included speech recognition and AI leader Nuance Communications and US cardboard packaging company WestRock. The major

*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*

detractors during the month included the Fund's positions in Microsoft and Amazon which retraced some of their recent strong performance.

The Fund exited its position in robotic surgical system leader Intuitive Surgical, a position the Fund had held for three years and which had performed very strongly in recent months. The Fund added a new position in VMWare Inc, a US based provider of cloud computing software and services.

### **Market Commentary**

Global equity markets' surge since March took a breather during September amid rises in COVID cases in parts of Europe and the US and the approaching US Presidential Election. In US dollar terms, the MSCI All Country World Net Total Return Index, which had enjoyed a trough-to-peak rise of over 50% since mid-March, fell 3.4%. Regionally, the US' S&P 500 Index fell 3.9%, Europe's Stoxx 50 Index fell 2.4%, Hong Kong's Hang Seng Index fell 6.8% while Japan's Nikkei 225 Index stood out with a 0.2% rise. As mentioned above, environmental equities, as represented by the FTSE Environmental Opportunities All Share Total Return Index, outperformed broader equity indices, recording a fall of 0.8%.

This modest "risk off" pattern was reflected in other assets. For example, Brent crude prices fell 9.6%, Barclays' high yield corporate debt spread indicator widened by 45 basis points, and JP Morgan's emerging markets currency index fell by 1.7%. The Australian dollar depreciated by 2.9% against its US counterpart, thereby delivering the gains cited above.

### **Industry Commentary**

September saw several significant policy announcements globally. In a speech at the United Nations President Xi Jinping announced that China, the world's largest emitter of greenhouse gases, was committed to achieve 'carbon neutrality' before 2060. Achieving this ambitious target will require significant action this decade and the implications of this announcement are likely to be significant for the deployment of sustainable technology in China. This is likely to be reflected in the country's upcoming 14<sup>th</sup> 5 year economic plan.

European Commission President Ursula von der Leyen announced plans for the EU to adopt a target of a 55% reduction in emissions (relative to 1990) by 2030, replacing the current target of a 40% reduction. This new target reflects the

ECs strong commitment to its flagship Green Deal policy and similarly will dictate an acceleration of investment in a wide range of sustainable technology and an accelerated shift away from fossil fuels this decade. It was notable also that Poland, which is heavily reliant on coal generation and has been reluctant to support more aggressive European action on climate change, announced that the government, the miners' union and the state-owned coal miner PGG had agreed on a plan to phase out coal mining by 2049.

At a regional level, California Governor Gavin Newsom announced an ambitious plan to require all new cars sold to be emission free vehicles. Beyond targets, the US' Federal Energy Regulatory Commission (FERC) finalised a rule requiring transmission network operators to enable distributed energy sources such as rooftop solar and home batteries to sell into the wholesale power market.

Australia's government announced multiple resource related policies. In the short-term, the Boosting Australia's Fuel Security and Gas-Fired Recovery initiatives will aim to accelerate the economy's exit from the COVID-19 recession with investments in boosting petroleum storage capacity and improving the supply and lowering the price of natural gas. Longer term, energy minister Angus Taylor announced the government would prioritise five technologies: renewable hydrogen, electricity storage, low-carbon steel and aluminium production, carbon capture and storage and soil carbon. Notably the Australian government has continued to avoid adopting a longer-term emissions reduction target which has raised questions about the basis on which support for these particular technologies, and not others such as renewables, has been determined.

The hydrogen sector saw significant interest during the month. Australia announced a joint initiative with Germany to study the production and use of renewable hydrogen and France announced €7b of support through 2030. In the private sector, European aerospace giant Airbus announced plans for a hydrogen powered plane by 2035. The UK government also announced a more modest co-investment with private sector investment in the development of zero emissions fuels to help deliver net-zero emission aviation by 2050.

Vehicle electrification continues to see a frenetic pace of activity. Tesla held an investor "battery day" at which it announced plans for a 50% reduction in battery costs by 2025, a \$25,000 car, and a long-term production goal of

20m vehicles annually. Notably Tesla announced its intention to move upstream into lithium mining and processing to meet its projected needs going forward, potentially increasing the company's capital intensity. Its battery demand forecasts implied vehicle production of around 3 million cars in 2030, more than BMW Group today. There was no 'breakthrough' technology revealed and Tesla's shares fell 10% following the day, but soon recovered.

Volkswagen made the first deliveries of its long awaited ID.3 hatchback, the first of its new electric vehicles based on its dedicated modular EV platform, and announced its first globally available EV, the ID.4. The ID.4 is a "compact crossover" and with a target price of \$40,000 before incentives will initially target the low end of America's huge SUV market when sales begin early in 2021. VW's German peer Daimler entered negotiations with its unions in Germany to convert two diesel engine plants for electric powertrains, as well as announcing a \$2.2 total settlement over emission regulation violations in the US.

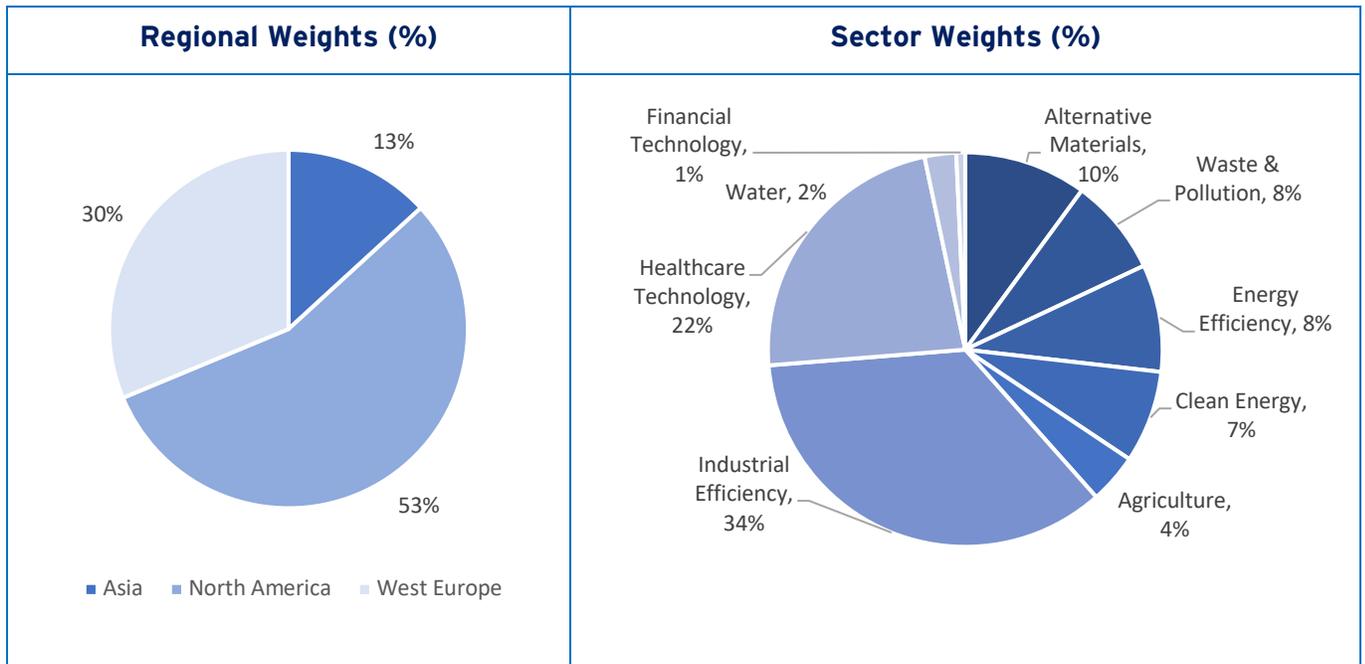
Recently listed EV and hydrogen vehicle start-up Nikola Inc's shares rose after rumours of a supply agreement with General Motors, before retreating after the deal was not signed and the company's chairman resigned amid accusations of fraud. Further down the supply chain, Uber, the world's #1 ride sharing operator, followed the example of its competitor Lyft with a commitment to net zero emissions by 2030 and an all-electric fleet by 2040, supported by program that will invest \$800m by 2025 aimed at incentivising drivers to use electric vehicles.

Autonomous driving technology also saw continued marks of progress. In general, autonomous driving technology has failed to live up to high expectations in the last couple of years. In 2018, for example, Morgan Stanley valued Waymo, Google's autonomous driving technology unit, at \$175b; Waymo's first external capital raise, earlier in 2020, valued it at "just" \$30b. Major manufacturers including Ford and General Motors have delayed timelines for introductions of their proposed autonomous vehicle services. In the meantime, Advanced Driver Assistance Systems (ADAS), which offer lower levels of autonomy but at dramatically lower cost, are both proliferating and becoming more advanced. The best known of these is likely Tesla's Autopilot, but many auto manufacturers have similar systems, often even with similar names, such as Ford's Co-Pilot or Nissan's ProPilot. The leading supplier of ADAS

technology is Mobileye, an Israeli-based subsidiary of Intel, one of the Fund's larger holdings. Mobileye supplies most major auto manufacturers except Tesla and Toyota. In September it announced its most capable system yet, highlighted by "navigation-based highway-to-highway, arterial, and up to urban hands-free driving". The technology will be available in cars from Geely, China's #1 private car manufacturer, from 2021.

The competitive landscape for fully autonomous systems is evolving. Mobileye is aiming to translate its lead in ADAS to a strong position in fully autonomous systems, and during September it signed an agreement with the UAE's Habtoor Group for its full AV, Mobility-as-a-Service offering starting in 2023. Another newer entrant is Zoox, which was recently acquired by Amazon. Zoox became just the fourth company in the US to be awarded a permit to operate driverless autonomous vehicles - i.e. without a "safety driver". The month also saw Nvidia, the leader in graphics processors (GPUs), acquire chip designer ARM Technologies for \$40b, with the automotive market cited as one of the key areas to be targeted through combining the two companies' capabilities.

The corporate sector continues to raise its focus on sustainability. September saw net zero emissions target announcements from retail giant Walmart, cement manufacturer Lafarge, as well as PWC and Morgan Stanley. The specifics reflects each company's business model. PWC, as a professional services provider with relatively low direct emissions, is targeting net zero emissions by 2030. Walmart's more energy intensive business targets net zero emissions by 2040. Morgan Stanley is a bank with low direct emissions but potentially large indirect emissions via its lending; it targets net zero financed emissions. Finally Lafarge's highly energy intensive cement business is only targeting its first net zero production facility by 2030, with completion of its "net zero journey" not before 2050. Of course, the most emission intensive firms are fossil fuel extractors themselves, and these too continue to pivot their strategies. PetroChina's plan for "near net zero" target by 2050 is perhaps less significant than the immediate investments it announced in a range of renewable energy sources as well as hydrogen. France's Total announced the conversion of an oil refinery into a bioplastics facility.



### Top 10 Holdings as at 30 Sep 2020

Security Name	Weight (%)	Country	Sector
Intel Corporation	4.8	UNITED STATES	Industrial Efficiency
Microsoft Corporation	4.6	UNITED STATES	Industrial Efficiency
Waste Management, Inc.	4.3	UNITED STATES	Waste & Pollution
Air Liquide SA	4.2	FRANCE	Alternative Materials
Wolters Kluwer NV	3.8	NETHERLANDS	Healthcare Technology
Carlisle Companies Incorporated	3.7	UNITED STATES	Energy Efficiency
Siemens Healthineers AG	3.4	GERMANY	Healthcare Technology
Keysight Technologies Inc	2.9	UNITED STATES	Industrial Efficiency
PerkinElmer, Inc.	2.6	UNITED STATES	Healthcare Technology
3M Company	2.6	UNITED STATES	Alternative Materials

## 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 (30 Sep 2020)	AUD 284.8m		

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