Nanuk Global Alpha Fund

Monthly Report – November 2017

The Nanuk Global Alpha Fund is an absolute return global equity fund. It invests in listed companies involved in clean energy, energy efficiency, agriculture, water, waste management, recycling, pollution control and advanced materials: industries undergoing significant changes as the world tries to reconcile economic growth with longer term sustainability. It aims to reduce volatility of returns and risk of capital loss through appropriate hedging and risk management strategies.

Performance Summary[1] (USD)

	1 Month	3 Month	YTD	1 Year	2 Years (annualised)	3 Years (annualised)	5 Years (annualised)	S.I. (annualised)
Return (%)	**(0.1)**	**(1.5)**	**2.1**	**2.7**	**(1.0)**	**2.3**	**5.1**	**2.8**
Volatility[2] (%)	-	-	-	5.2	5.7	5.5	8.3	8.2
Sharpe Ratio[3]	-	-	-	0.4	(0.2)	0.4	0.6	0.3

Macro and industry commentary

The significant changes underway in the global automotive and energy industries were again highlighted by a raft of meaningful announcements during November.

In the automotive industry Volkswagen led the news, announcing its 5-year investment plan under which €34b (~US$40b) will be dedicated to the mobility revolution, which includes electric vehicles (EV's), autonomous driving, shared driving and digitalization. Some notable early examples of this will came from VW's premium brands, Audi and Porsche. Anticipation is growing for the release of the 2018 Audi A8, the first production car to offer level 3 autonomous driving. While Audi itself stresses the functionality will be restricted to highway driving, speeds of <60km/h and that the driver needs to be alert in case those factors change or there is a problem, it is a landmark change in that the driver's hands do not need to be on the wheel. By contrast, Tesla's Autopilot feature requires hands to be on the wheel and shuts down if it judges that its alerts telling the driver to put their hands on the wheels are not being heeded. Porsche meanwhile announced initial sales of its hybrid Panamera coupe had far exceeded expectations. The company had expected 10-15% of customers to select the hybrid option, but to date the number is about 60%. The Fund is exposed through a diverse range of companies that supply materials and components associated with these trends and which are expected to benefit from electrification, advanced safety and autonomous technology and connectivity and digitalisation - ranging from lithium battery separator materials to electric powertrains and autonomous driving systems.

While electric passenger vehicles have dominated the headlines, there has been significant progress in electrification of buses and, more recently, trucks. Tesla held yet another product unveiling this month, launching a Class 8 heavy duty truck (in addition to an updated 'roadster' sports car). Tesla promised spectacular economic and technical specifications; for example the Class 8 truck will offer lifetime recharging at 7c/kWh, which is below the commercial price of electricity in most locations. The announcement, which was well heralded, comes at a time when Tesla is struggling to ramp production of its Model 3 sedan. The company is coming under increasing criticism from frustrated consumers who would prefer Tesla concentrates on meeting

[1]Returns are calculated net of all fees and expenses and on the basis of a shareholding since inception (1 June 2011).
[2]Realised annualised volatility based on monthly returns.
[3]Sharpe ratio measured against US T-bills

the promises they've already made rather than issuing new ones. Nevertheless Tesla is to be credited with continuing to push the potential of EV technology, although it will face significant competition in the electric truck market. Leading industry players such as Daimler and Cummins have already announced electric trucks of their own, and China's BYD is making Class 5, 6 and 8 trucks. This month BYD delivered its first Class 8 refuse truck to the city of Palo Alto in California, where it has a manufacturing and assembly plant, and announced plans to open a similar plant in Ontario, Canada where it sees strongly growing demand for electric trucks.

The other area where electric vehicles are making an impact is transit buses. China in particular has moved quickly to adopt new energy buses. During the month it was announced that the Chinese city of Shenzhen is on track to become the first major city to electrify 100% of its bus fleet (by the end of 2017). This achievement is made all the more impressive by the fact that the city's fleet is enormous, around 14,500 buses, which is almost three times the size of New York's fleet. Notably, Los Angeles Metro, one of the largest transit agencies in America, has pledged to convert its entire 2,200 bus fleet to fully zero-emission by 2030. The Fund has exposure to increasing adoption of new energy (low or zero emission) buses though its investment in Canadian company New Flyer Industries – a leading manufacturer of transit buses in the North American market – which stands to benefit as the value of its products increase over time with increasing electrification, connectivity and active safety features.

The increasing competitiveness of clean energy technologies and their dominance in markets for new generating capacity were highlighted again in November. Competitive auction processes, which are replacing traditionally fixed subsidies around the world, continue to deliver lower and lower renewable energy prices. Notably in many cases renewables compete in these auctions directly, and unsubsidised, against conventional technologies such as gas and coal. Germany held its third wind auction during the month, with the price of winning bids (around US4.5c/kWh) falling ~10% since the August round, and by more than 30% from the first auction held in May this year. Meanwhile India's Solar auction program saw notably low prices. The auction mechanisms aren't trivial to execute; in many cases the auctions are heavily oversubscribed. But Japan held a Solar auction during the month which cleared less than 30% of the volume targeted, apparently due to concerns about the availability of grid connections. But regulators get relatively good feedback at each auction round, helping them fix any problems in their market design.

Supporting the rise in renewable energy competitiveness, US manufacturer First Solar unveiled its first Series 6 PV module. As discussed in our February letter, this product offers 40% lower cost compared to existing technology. Nine months on and the company remains committed to that scale of improvement as the product reaches final stages of development. The Fund exited its position in First Solar earlier in the year after the significance of this development was initially recognised (and priced) by the market. First Solar's share price has continued to rally recently as it will be the major beneficiary of any US import duties imposed on solar panels following the ongoing section 201 trade case. Ultimately it will be at President Trump's discretion what, if any, sanctions are imposed – and there remains considerable uncertainty for much of the industry until that is resolved.

A number of events also highlighted the rapid rate of adoption of renewable energy, solar in particular. German automotive company BMW announced that from 2020 it will buy only clean energy to power its business. Microsoft, the world's largest software business, announced its commitment to reduce its carbon dioxide emissions by 75% between 2013 and 2030. Aluminium producer Norsk Hydro contracted to purchase the majority of the output from what will be Europe's largest onshore wind farm in Sweden, a deal that will be the largest ever corporate deal for procurement of wind or solar generation. In China we have seen a remarkable year for solar installations which have continued at a record rate in the second half of the year despite cuts to the subsidies for larger projects. Strong growth in demand from smaller scale 'distributed generation' will see China install more than 50 gigawatts (GW) of solar capacity this year – more than the rest of the world combined. To put that in perspective, that is similar to Australia's entire electricity generating capacity.

Meanwhile the International Energy Agency raised its long-term projection for Solar demand through 2040 by almost half and is now forecasting that renewables will represent more than 2/3 of new capacity additions over that period. Previous IEA projections have significantly underestimated the rate of the renewables transition. This latest forecast is still conservative relative to those of Bloomberg New Energy Finance and our own expectations. Announcements such as that by French utility Electricite de France (EDF) this month - that it will lead a 25 billion Euro investment to develop 30 Gigawatts of solar capacity in France from 2020 to 2035 - give reason to be optimistic.

On the policy front, the renewable energy sector was one of many buffeted by ongoing efforts to cut and reform US corporate taxes. It initially appeared that a provision designed to prevent offshoring profits might unintentionally undermine the value of renewable tax credits, the main subsidy mechanism supporting wind and solar development in the US. Industry lobbyists reacted with their traditional hyperbole, though more sober analysis indicates that the wind sector would be adversely affected with the solar sector less so. In any event, the bill appears likely to be significantly revised, as a number of unintended impacts have been acknowledged by congressional leaders.

Nanuk recently hosted a series of seminars entitled "The Sustainability Revolution: Past the Point of No Return", in which we explained why the success of sustainable technologies such as solar and electric vehicles, although still at early stages of adoption, is ensured by continued exponential cost reductions and increasing investment. An abridged version of the seminar can be viewed at via this link: *https://www.nanukasset.com/thought-leadership-videos/the-sustainability-revolution*

Market commentary

Global equities had yet another strong month, with the MSCI All Country World index rising 1.8%. In the US, the S&P 500 index rose 2.8% as Republicans appeared to close on a major corporate tax cut. In Asia, Japan's Nikkei 225 index rose 3.2%, similar to Hong Kong's Hang Seng index, while Europe's Stoxx 50 index was the laggard, falling 2.8%. Environmental equities performed broadly in line with traditional global benchmarks, with the FTSE Environmental Opportunities All Share Index rising 1.5% in the month.

Fund commentary

The fund was essentially flat in the month (-0.1%), with slight under-performance in the long book offset by positive contributions in the short book. The short book was buoyed by contributions from a number of positions in technology companies, many of which have rerated this year and now trade at historically high valuation multiples. We are increasingly seeing companies using aggressively adjusted financial metrics, such as touting free cash flow achieved by paying large stock-based compensation and/or drawing customer prepayments. We are even seeing executive compensation based on these alternative metrics – "new model annualised recurring revenue" is probably the most exotic of these metrics we have encountered. Short positions in several companies of this nature contribution positively to Fund performance during the month.

Performance in the long book was mixed, with some notable gains and losses. The largest positive contribution came from the Fund's recently-established position in Ocado plc, a British online grocer. We have been investigating this market since the Amazon Whole Foods deal mentioned in our June newsletter, which we felt indicated it was ripe for transition. Ocado has a unique model, delivering groceries directly to customers' homes from large, automated warehouses, with individual warehouses capable of supporting over $1b in sales. It has been growing at over ~15% p.a. in the UK, but the real prize for it has long been to grow internationally – where the global grocery market is worth over $5t, ~25x the UK's market size. Ocado's strategy beyond Britain is to form partnership with existing grocers, whereby Ocado provides its technology for a fee. Ocado signed such a deal with Morrisons, the UK's #4 grocer, in 2013 and have just signed a deal with Groupe Casino, a French grocer with $40b in sales, which lead the stock to appreciate strongly.

Detractors from Fund performance included JM, New Flyer Industries and Toray Industries. Swedish homebuilder JM underperformed as the Swedish financial regulator finalised a tightening of mortgage lending. We regard this as being priced-in, seeing fundamentals in the Swedish housing market remaining relatively strong and rapid population growth driving strong demand for homes. New Flyer Industries under-performed following its Q3 results announcement, although it recovered all of that loss in early December. Finally, Toray Industries under-performed after it disclosed a data falsification issue within its cables business, a small division that provides steel cables to tyre manufacturers. The issue, which in Toray's case involved falsification of a small number of internal quality inspection results, has involved a number of Japanese companies, with Nissan, Subaru, Kobe Steel and Mitsubishi Materials all affected. Toray's problem, whilst very disappointing, appears to be relatively contained – the company had identified the issue itself over a year ago. The number of customers affected was small, and there was no indication of issues outside of this relatively small business segment elsewhere in the group.

At the end of November the Fund's five largest long positions included a US waste management business, a Canadian bus manufacturer, a US auto parts manufacturer, a Japanese chemicals manufacturer and a British on-line grocery distributor. The five largest short positions included a US environmental services business, a US forest products companies, a Japanese electric component manufacturer, a US food and animal healthcare company, and a US specialty chemicals manufacturer. The Fund remained close to market neutral.

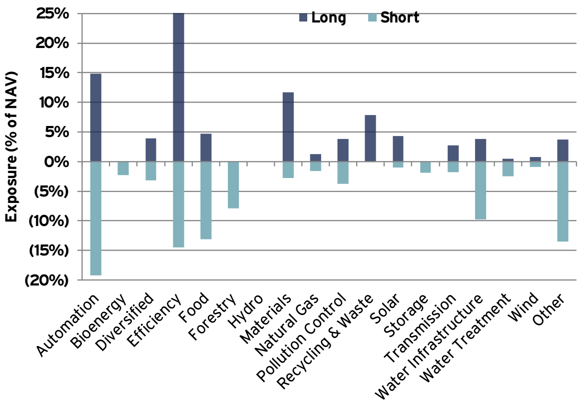
Summary Portfolio Statistics[4]

Long exposure	101%	Number of long positions	71
Short exposure	(99%)	Number of short positions	75
Gross exposure	200%	Top 5 long positions	25%
Net exposure	2%	Top 5 short positions[5]	(18%)

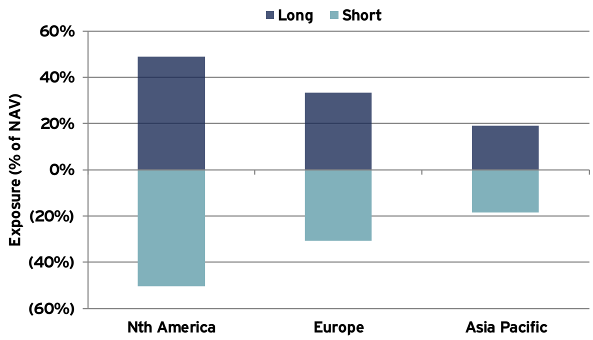
[4]Shown as at 30 November 2017. All exposures are expressed as a percentage of net asset value.
[5]Excludes positions in futures.

Portfolio Breakdown[5]

Exposure by Sector



Exposures by Region of Domicile



Historic Returns[6] (USD)

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-	-	-	-	-	(1.13)	0.32	(0.85)	(3.80)	3.06	(3.37)	(3.37)	(8.98)
2012	1.66	2.87	1.25	(1.94)	(3.17)	(1.78)	(0.45)	0.79	1.05	3.03	(0.80)	2.31	4.70
2013	7.72	(6.32)	(0.09)	3.01	4.94	(1.20)	(3.10)	1.06	5.11	4.34	5.35	2.37	24.70
2014	2.69	(1.45)	(0.73)	(2.93)	0.50	1.16	(1.26)	0.52	(1.69)	(2.79)	(0.26)	0.42	(5.84)
2015	0.18	0.41	3.26	1.03	0.22	0.75	1.63	0.96	2.13	(2.42)	0.45	3.25	12.38
2016	(1.2)	(1.0)	0.8	(2.5)	1.4	(3.3)	0.4	(1.1)	(0.6)	0.4	(1.0)	0.6	(7.0)
2017	(2.3)	(0.0)	1.9	0.8	3.5	0.6	(0.9)	0.2	(1.7)	0.2	(0.1)		2.1

Fund Details

Fund Name	Nanuk Global Alpha Fund	Currency	USD
Type	Long-short global equity	Subscriptions	Monthly
Domicile	Cayman Islands	Minimum Subscription	USD1,000,000
Investment Manager	Nanuk Asset Management (Cayman) Limited	Redemptions	Monthly
Investment Adviser	Nanuk Asset Management Pty Limited	Notice period	One month
Administrator	Custom House Fund Services (Australia) P/L	Management Fee	1.5%
Inception	1 June 2011	Performance Fee	15%

[6]Returns are calculated net of all fees and expenses and on the basis of a shareholding since inception (1 June 2011).

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