NANUK ASSET MANAGEMENT

Nanuk New World Fund

Monthly Report – April 2017

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	6 Months	1 Year	Since Inception[1] p.a.
Fund Return (%)	**5.4**	**9.6**	**16.5**	**22.1**	**13.3**
Benchmark Return[2] (%)	5.0	9.5	16.7	21.7	11.4
Value Added (%)	0.4	0.1	(0.1)	0.4	2.0
MSCI ACWI Return[3] (%)	3.6	7.3	13.7	17.5	5.5
Value Added (%)	1.8	2.3	2.8	4.6	7.8

Macro and industry commentary

The huge reduction in the cost of renewable generation that we have seen in the past couple of years took another leap forward in April with a remarkable result in offshore wind auctions in Germany. The reverse auctions, in which participants bid for subsidies and the lowest bids win, have proven to be a highly effective means of reducing subsidies around the world and have seen solar projects contracting to supply electricity at less than US3c/kWh, well below the cost of any conventional alternative. Winning bidders in these auctions gain not only subsidy support but critically access to the transmission grid. Auctions in 2016 saw prices fall by more than half to a record low of E49.90/MWh, bringing offshore wind power prices in Europe in line with conventional fossil fuel generation. This latest auction however saw the majority of the winning bids, which totalled 1.5GW of generating capacity, at zero. In other words, these projects are expected to be commercially viable selling their power at market prices and without direct subsidies. The winners do gain access to the grid and the zero price will enable them to dispatch power without cost at times when market prices are negative, but nonetheless it's a remarkable step forward. With current German wholesale power prices around E30/MWh well below the cost of current offshore wind projects the developers are banking on significant reductions in cost being achieved before these projects are developed and commissioned around 2025.

Part of this reduction will come from significant increases in the size of offshore wind turbines, which will enable more power to be generated from fewer turbines, requiring less offshore

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 foundations and significantly lower operating and maintenance expenses. The largest offshore wind turbines today are around 8MW in capacity and have blades over 80m long. The next generation being developed by companies like Siemens (a company owned by the Fund) and Vestas could be twice this capacity sitting on towers around 300m tall (the height of the Eiffel Tower in Paris). The Fund has some exposure to the offshore wind sector through a long position in recently listed Danish utility Dong Energy, which is the global leader in offshore wind development and has an increasingly important competitive advantage through its scale and operational synergies. It was one of the winning bidders in the auction mentioned above.

Another area gaining recent attention, and to which the fund has some exposure, is material handling and supply chain automation. Demand for electric forklifts and warehouse automation technology is growing strongly as a result of the growth in on-line retailing as well as the recent improvement in industrial activity around the world, and these businesses are still benefitting from a recovery in demand associated with replacement cycles and low investment following the financial crisis. The Fund has a small position in German business Kion Group, which recently acquired US supply chain logistics and automation business Dematic. Kion is a leading global player in forklifts and is expected to benefit not only from industry trends and the recent acquisition, but from the release of new products and the results of a restructuring program in recent years.

Within this space Amazon announced a major investment in fuel cell forklift trucks. It placed orders for up to $600m with New York based manufacturer Plug Power, and will also take a significant equity position in Plug, via warrants that will accrue as its orders are delivered. Forklift trucks have proved a beachhead for fuel cell vehicles as, in part of environmental reasons, this segment is already dominated by EVs, powered by lead-acid batteries. Fuel-cells trucks offer productivity savings as they refuel in minutes, unlike lead-acid batteries that take hours to charge, meaning warehouses today often use a double digit percentage of their space on charging rooms in which batteries sit charging.

On the automotive front, French oil supermajor Total released the most aggressive forecast of electric vehicle (EV) penetration from a leading oil company, estimating EVs will make up 15-30% of global car sales by 2030. Bloomberg New Energy Finance also released a report estimating that by 2025-30, EVs will be competitive with internal combustion engine (ICE) vehicles on upfront cost, unsubsidised, and before accounting for lower fuel and maintenance expenses. The Fund has a number of positions in companies that stand to benefit from the significant shift towards electric drivetrains, from companies producing lithium battery chemicals and materials like Asahi Kasei (which make separator materials) and Kanto Denka Kogyo (which is a leading producer of lithium electrolyte chemicals), to tier one automotive component suppliers like Valeo and Delphi Automotive. Delphi announced plans this month to split into two companies, one containing its conventional powertrain businesses and the other its operations in electrical architecture, electronics, and safety. Delphi has long been touted as the leading "car of the future" automotive supplier. The outlook for its powertrain business is relatively complex, as it currently focuses on internal combustion and particularly diesel, and will have to manage a transition to EVs as well as near-term regulatory challenges following the diesel emissions scandal at Volkswagen. This will leave its remaining businesses as very clearly exposed to emerging automotive trends of electrification, automation and connectivity. The market welcomed the news, with the stock up 11% on its announcement, albeit alongside a strong 17Q1 report.

Tesla continued its stream of news, with Elon Musk setting out a timeline of new releases to follow the long awaited Model 3 in July. He suggested we can expect the announcement of an electric (and likely semi-autonomous driving) 'semi' truck as soon as September, with a 'pick-up' to follow within 18-24 months. The company also plans to bring back a convertible version of the Roadster, Tesla's first car based on the Lotus Elise.

Waymo, Google's autonomous driving company, announced an important milestone, whereby members of the public can use its service for the first time. The firm will hold a large trial in Phoenix, Arizona, chosen for its driving conditions, with relatively wide roads and benign weather. Hundreds of families will be able to sign up to use a fleet of 600 self-driving minivans. A test driver will be in the vehicles at all times.

The solar industry continued its tortuous path in pursuit of shareholder value creation. Suniva, a US manufacturer in bankruptcy, filed a petition for a more aggressive form of trade protection than the tariffs already in place, which could involve tariffs on all imported panels into the US and even minimum prices. While this may benefit US manufacturers such as First Solar and Sunpower, recent experience in the solar industry has shown there is also a risk that profits created by tariffs are competed away with new capacity that ultimately exacerbates global over-capacity. The apparent downsizing of SolarCity as it integrates into Tesla also continued, with the announcement Tesla will cease door to door sales, focusing on online and retail marketing. The Fund has a position in SolarCity's competitor SunRun, which appears to be gaining market share at SolarCity's expense. The retreat from the YieldCo mania of 2015-16 also continued, with First Solar announcing it is reviewing its position in 8Point3 Energy, the YieldCo it jointly sponsors with SunPower.

An important policy development in the month was the budget deal agreed by the US congress, which was quite different to President Trump's proposal. The EPA's budget was cut but by only 1%: Elsewhere ARPA-E, the Department of Energy's advanced research program, saw its budget increased, opposite to President Trump's proposed 50% reduction. The Trump administration continued to generate headlines favourable to fossil fuels: Energy Secretary Rick Perry has ordered a study of the US grid and the impacts of renewables on baseload power sources such as coal and gas: it appears designed to build a case for coal and against renewable. However, as the budget deal shows, headlines and policy outcomes have proved weakly correlated in the Trump administration thus far.

Market commentary

Global equity markets continued to rise in April, with the MSCI All Country World Total Return Index up 1.4%, supported by generally strong earnings results in the US and political developments in Europe. The key event was the first round of France's Presidential elections on Sunday April 23; the MSCI ACWI rose 1.5% the following day. The French elections were seen as set to deliver a centrist President: the two candidates who progressed to the final round were Front National's Marine Le Pen and centrist Emmanuel Macron, the latter winning the final run-off in early May. Europe's Stoxx 50 was up 1.7% in April, on top of a 5.5% rise in March, with European equities also benefitting from an appreciation of 2% of the Euro against the US dollar. This benign election outcome, as well as that seen in the Netherlands, has coincided with positive economic data. Europe's PMI is firmly in expansionary territory, reaching levels not seen since 2010-11 when the continent was recovering from the GFC. Another notable development saw British Prime Minister Theresa May calling a surprise General Election for June 8. May's Conservative Party is expected to expand its majority from the 51% of Parliamentary seats it currently holds. The British Sterling appreciated by 2% on the announcement, interpreted as reflecting expectations that a larger majority will make May less vulnerable to the far right of her party and thus adopt a more conciliatory position in the ongoing Brexit negotiations. Beyond Europe, the US' S&P 500 was up 0.9%, Japan's Nikkei 225 was up 1.5% and Hong Kong's Hang Seng Index rose 2.1%.

Environmental equities continued their roaring start to the year, with the FTSE Environmental Opportunities Total Return Index out-performing once again, rising 2.9% in US dollar terms.   In Australian dollar terms the index was up 5.0%, reflecting the weakening of the Australian dollar during the month.

Fund commentary

The Fund was up 5.4% for the month, outperforming its benchmark index by 0.4% and the MSCI ACWI by 1.8%.

The Fund's investments in salmon farming stocks performed strongly after underperforming earlier in the year, and the Fund benefited from recent increases in the size of these positions. The Fund also benefited from exposure to improving European growth discussed above. Indutrade and TKH Group, which both provide a variety of equipment and solutions to industry and buildings, both rose strongly after reporting double digit growth in their 17Q1 reports, and industrial bellwether Siemens rose 4.4%. The biggest detractor was Bemis Co., a manufacturer of plastic packaging, with packaged food a key end market - demand for which has stagnated as consumers transition to the fresh food market that has underpinned demand for Sprouts Farmers Market, discussed in January and March's reports. Bemis has done an impressive job raising margins in this environment but its latest report showed weak growth and prospective near-term margin pressure.

At the end of April 2017 the Fund's major sector exposures remain in areas including aquaculture, advanced and sustainable materials, waste management, building energy efficiency, high speed rail, and electronic technologies related to the internet of things.

Historic Returns[2] (AUD)

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	-	-	-	-	-	-	-	-	-	-	(0.7)	(0.3)	(1.0)
2016	(4.5)	(0.0)	2.0	2.5	7.2	(5.2)	3.6	0.9	0.0	(1.3)	4.5	4.8	14.5
2017	(2.9)	0.5	3.6	5.4	-	-	-	-	-	-	-	-	6.4

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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