Nanuk New World Fund

APIR SLT2171AU

Monthly Report – April 2018

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	2 Years p.a.	Since Inception[1] p.a.
Fund Return (%)	**0.1**	**4.3**	**6.4**	**21.3**	**21.7**	**16.5**
Benchmark Return[2] (%)	0.6	(1.1)	1.3	13.0	17.3	12.0
Value Added (%)	**(0.6)**	**5.4**	**5.1**	**8.3**	**4.5**	**4.4**
MSCI ACWI Return[3] (%)	2.6	1.5	5.2	13.1	15.3	8.5
Value Added (%)	**(2.5)**	**2.8**	**1.2**	**8.2**	**6.4**	**8.0**

Industry commentary

The increasing commitment of corporations to addressing global sustainability was highlighted during April. Apple announced that its global facilities are now powered with 100 percent clean energy, and that 23 of its suppliers have committed to achieving the same goal. HSBC, a leading British bank, announced it would cease financing coal and oil sands, and sixteen other leading banks from across Europe, the Americas and indeed Australia (ANZ and NAB) published a report in conjunction with the United Nations on improving the consideration of sustainability in banks' financing decisions. BHP Billiton formally quit membership of the World Coal Alliance due to the lobby group's stance on climate change, and French oil giant Total continued the trend of Oil & Gas companies evolving their business models with a $1.7b acquisition of Direct Energie, a French energy retailer.

The International Maritime Organisation approved a commitment to cut emissions from the global shipping industry by at least 50% by 2050. The deal was approved by the majority of the 173 nations who voted, but nine countries including the US, Canada, Russia, India and Brazil objected. The adoption of autonomous technologies in the shipping industry was foreshadowed in a report published by Rolls Royce, a British engine manufacturer, that forecasts extensive deployment of autonomy in ships, with partial deployment in larger ships such as cruise ships or LNG tankers and full autonomy possible for smaller craft such as tugs.

Despite some recent and very public setbacks in passenger vehicles, autonomous driving technology continues gain traction in other areas. Pentagon

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
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officials testified to the US Congress on the use of AVs in military logistics tasks. This application offers lower regulatory barriers as military deployment will not face the same technical and regulatory challenges as public vehicles. Whilst Nanuk does not invest in businesses focussed on manufacturing weapons and military equipment, development in this area is only likely to accelerate adoption in public applications. Tesla was in the news again, this time because of a dispute with the US Transportation Safety Board which commenced an investigation into the fatal crash of a Tesla using Autopilot mode in March.

The automotive industry's rapid shift toward electric vehicles featured at the Beijing Auto Show in April. Most of the major Western and Japanese auto manufacturers displayed new EVs which were developed specifically for China, where strong government policy is expected to lead to EVs representing more than a third of new vehicle sales by 2025. However domestic Chinese companies are already dominating the local market and, with a big contribution from well-funded EV startups; more than 70% of the 174 EV models on display were home grown.

In the US, we saw continued efforts from the Trump administration to support fossil fuels albeit with no concrete outcome to date. Most notable is a review of the planned increase in the Corporate Average Fuel Economy (CAFE) standards on US light vehicles due from 2022-25. It's unclear whether the Federal Authorities can execute this: California currently has a legal right to set its own standards, and the auto industry is clear that it does not want two sets of rules for the nation.

In the solar sector, Chinese Solar materials giant GCL Poly announced plans for a 20GW expansion of its solar ingot capacity (polysilicon ingots are cut into wafers, on which solar cells are constructed), equivalent to about a fifth of global demand. The world's largest coal producer, Coal India, announced plans to develop 20GW of solar generation over the next decade, with another 5GW to be developed by smaller Indian coal miners. At the same time, Yingli Green Energy, in 2013 and 2014 the world's largest solar panel manufacturer, finally acknowledged doubt about its ability to continue as an ongoing concern as a result of its significant debt and take-or-pay contracts with material suppliers. It follows in the path of Suntech, another Chinese company that held the distinction of world's largest panel manufacturer before also succumbing to excessive debt. It highlights the challenge faced by manufacturers in this highly commoditised industry in which volumes have grown extraordinarily quickly but where prices have fallen nearly as fast, and the reason the Fund has primarily focused on investing in other parts of the solar value chain where economic value is being captured.

In the wind industry Germany saw a second set of zero subsidy offshore wind projects succeed at auction, and China announced a new mechanism through which smaller distribution grid connected (DGC) wind projects can receive subsidies and more importantly guaranteed timely payment of them. Based on the success of similar DGC solar development in China it is likely that this promotes additional development. The Fund holds shares in Vestas, the global leader in wind turbines, and has exposure to the growth in offshore wind through investments in Danish offshore wind developer Orsted and Italian submarine cable leader Prysmian.

There were some interesting developments in European electricity markets during the month. The price of emissions permits has tripled in the last year as reforms have been introduced to reduce the oversupply of permits. As a result, utilities are starting to switch from lower efficiency coal plants to natural gas generators which were built with the expectation of higher carbon pricing. With the EU ETS permits trading at around E13 there is still a long way to go before the scheme will be effective in eliminating coal power, but the reforms should significantly restrict the supply of new permits next year, and there is already growing support for the introduction of separate greenhouse gas emission limits to ensure compliance with national commitments. In the UK, however, where subsidy support has encouraged significant renewable energy development, the country ran for 55 hours without any coal fired generation. Elsewhere in Europe, Denmark announced it will invest $2 billion in proposals designed to help it achieve its goal of fossil free energy supply by 2050, and in southern Europe a number of subsidized large-scale solar projects have commenced development.

On the policy front, energy was back on the front pages in Australia as the government sought to finalise its National Energy Guarantee policy. The policy, which imposes both a reliability obligation and an emission reductions requirement on energy retailers and some large electricity users, has been heralded as an elegant mechanism to achieve what are often seen to be conflicting requirements at a minimum cost. It is not clear however that the policy will obtain the necessary support as the governments modest emissions targets fall well short of expectations of the opposition and minority parties. The Fund does not own any Australian companies.

Market commentary

Global equities edged up in April following a decline in first quarter, with the MSCI All Country Total Return Index rising 1.0% in US dollar terms. There was divergent performance across leading global indices: the US' S&P 500 index rose 0.3%, while Europe's Stoxx 50 (+5.2%) and Japan's Nikkei 225 (+ 4.7%) were aided by depreciation of the Euro (2%) and the Yen (2.9%) against the US dollar. Hong Kong's Hang Seng index lifted 2.4%. Environmental equities under-performed traditional global equity benchmarks during the month, as industrials and manufacturing business that comprise a large part of environmental indices underperformed and as traditional energy stocks - which are underrepresented in environmental indexes - outperformed as the oil price rose. The Fund's benchmark, the FTSE Environmental Opportunities Total Return index fell 1.0% in US dollar terms. The Australian dollar weakened against the US dollar during the month.

Fund commentary

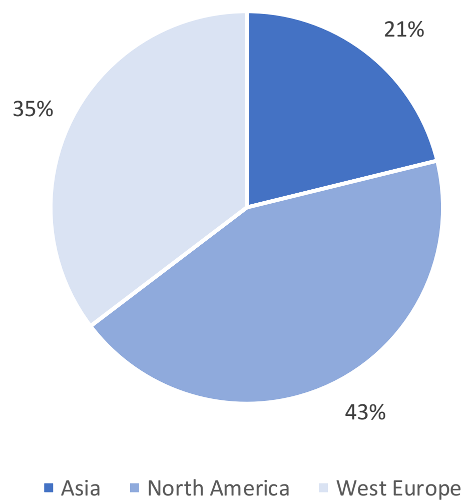
After posting strong returns in the March quarter, the Fund rose by a modest 0.1% in Australian dollar terms during April, underperforming its benchmark index by 0.6%.

The largest detractors from performance were 3D sensor manufacturer ams, which we have discussed in previous reports, and Teradyne, a market leader in semiconductor test equipment and collaborative robots. In both cases the companies have experienced short term weakness in demand related to seasonality in the smartphone cycle, which has been exacerbated this year by weaker than expected demand for Apple's iPhoneX. Apple is ams's largest customer, and the company has guided for a significant fall in expected revenue in Q2'18 because of a seasonal slowdown and supply chain destocking. While smart phone sales vary considerably from quarter to quarter they remain relatively stable on a year to year basis and a recovery in revenue growth later in the year is anticipated as new models with ams's components are released. In addition, ams is growing into entirely new markets and early positive indications are evident - for example, its automotive LIDAR orders grew from $600m to $1.1b during the first quarter of 2018. Our interest in ams is for its longer-term growth potential as 3D sensing technologies gain wider adoption. Teradyne, likewise, is a company expected to supersede historical cyclical challenges with structural growth. Its market-leading collaborative robot ("cobot") business is growing revenues at >50% p.a., and during the quarter it acquired an autonomous cobot company growing at >100% p.a., off a low base.

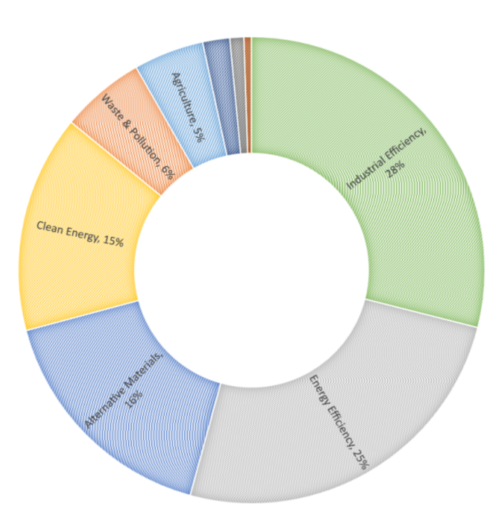
The most notable positive contribution came from the Fund's investments in Norwegian salmon farming businesses - Marine Harvest and Leroy Seafood Group. Salmon stocks began the year pricing a significant deterioration in profitability and have recovered sharply on the back of rising salmon prices.

At the end of April 2018 the Fund's largest sector exposures are in composite materials, sustainable materials, waste management, high speed rail, automotive electrification and autonomy, building energy efficiency, the industrial internet of things and industrial automation. The Fund remains well diversified from both a sector and geographic perspective, and we believe is well positioned to continue to benefit from investments in the secular themes of environmental sustainability and resource efficiency in a socially responsible and ethical manner.

Regional Weights (%)



Sector Weights (%)



Top 10 Holdings as at 30 Apr 2018

Security Name	Weight (%)	Country	Sector
Toray Industries, Inc.	4.8	JAPAN	Alternative Materials
Lenzing AG	4.7	AUSTRIA	Alternative Materials
Valeo SA	4.4	FRANCE	Energy Efficiency
Lear Corporation	3.6	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.6	UNITED STATES	Waste & Pollution
3M Company	3.2	UNITED STATES	Alternative Materials
Coherent, Inc.	2.6	UNITED STATES	Industrial Efficiency
Vestas Wind Systems A/S	2.6	DENMARK	Clean Energy
Zoetis, Inc. Class A	2.5	UNITED STATES	Agriculture
Carlisle Companies Incorporated	2.4	UNITED STATES	Energy Efficiency

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Daily
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty 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 Apr 2018)*	AUD 57m		

Contact Details

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