Nanuk New World Fund

Monthly Report –August 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 (%)	1.2	(2.5)	12.0	18.1	12.4
Benchmark Return[2] (%)	1.3	(3.6)	8.2	13.4	9.2
Value Added (%)	(0.2)	1.1	3.8	4.7	3.2
MSCI ACWI Return[3] (%)	1.0	(2.7)	5.6	11.0	4.4
Value Added (%)	0.1	0.3	6.5	7.1	8.0

Macro and industry commentary

August saw sustainability in the news for unwelcome reasons - a series of natural disasters. Hurricane Harvey broke rainfall records, flooding much of Texas, killing dozens and generating economic damage preliminarily estimated at above $100 billion. The death-toll from flooding in the Bay of Bengal exceeds 1,000, while at the time of writing wildfires rage in California and Hurricane Irma is battering Florida after sweeping across the Caribbean. It is the first time on record that two category four hurricanes have reached the US mainland in the same year.

Despite all of this, the Trump administration has maintained its promotion of coal and nuclear and disdain for climate change science. Records emerged showing that officials at the Department of Agriculture have been advised to avoid using the phrase 'climate change' and a series of related terms. President Trump appointed a climate change denier to head NASA, and a new acting head for the Federal Energy Regulatory Commission, or FERC, who emphasised the importance of coal. It is notable that FERC has so many empty nominations that since February it has been unable to make decisions. Trump also signed an executive order that eliminated the federal flood risk management standard, just before Hurricane Harvey hit Texas, with even some Republican members of Congress criticising the risk of construction in flood-prone areas. Meanwhile the coal industry stepped up its efforts at claiming state aid. West Virginia Governor Jim Justice applied for $4.5 billion a year of aid for Appalachian coal, while Murray Energy CEO Robert Murray proposed using a statute designed to respond to natural disasters to ban shutting

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 coal plants, for a two year period. In something of a twist, the Department of Energy finally released its grid reliability report. Seen as an effort to create a pretext for subsidies for coal and nuclear, not least given bodies such as FERC pointed out they are already mandated to maintain grid reliability, the report was then delayed for months amid leaks that it had not provided the desired findings. Shortly following a Sierra Club lawsuit demanding the report's findings, the report was published, duly absent of evidence for subsidies of nuclear or coal.

The nuclear industry's woes continued. Georgia's Vogtle plant announced a further $2b cost increase and plans to apply for further government support. In Florida, Duke Energy announced it will end its Levy nuclear project and instead invest up to $6 billion in Solar, storage, EV charging and grid modernisation.

In electric vehicle news, we saw moves from the some of the world's largest miners to supply key metals used in batteries and electric drivetrains. BHP Billiton announced an expansion of its Nickel West operation and plans to raise the share of its nickel sales to the battery market from 10 to 90% over 5 years. Rio Tinto announced plans for an expedited development pipeline of its lithium project in Jadar, Serbia, with a potential first production date of 2023. The London Metal Exchange, a leading market for base metals such as copper, aluminium and nickel, announced plans for a lithium contract to support the rising trade in that material. Glencore, for its part, now presents vehicle electrification as the sole industry specific driver of demand for its business.

Toyota Motor Corp, for many years the global leader in hybrid vehicles but a laggard in the recent industry shift towards full electric vehicle drivetrains, announced a strategic partnership with rival Mazda Motor Corp that included taking a 5 percent stake in the company. The arrangement covers the development of a sizeable US based manufacturing plant and the joint development of electric vehicle, in-car information technology and autonomous driving technology. Korea's Hyundai Kia group also announced plans for 8 fully electric models by 2020, up from 2 planned for that date in 2014.

The wind industry saw a number of notable developments. Danish company Dong Energy, the world's leading developer of offshore wind projects and a holding of the Fund, announced it may have to restructure its capital allocation plan because the cost of offshore wind has fallen far quicker than expected. By contrast wind turbine manufacturers Nordex and Siemens Gamesa Renewable announced plans for 500 and 600 job cuts respectively, as the transition from fixed subsidies to auction based tendering processes in markets such as Germany and India creates near term uncertainty and increased pressure of wind turbine pricing. There is no doubt that continued improvements in wind turbine technology make wind energy increasingly viable without subsidies, but the accompanying pressure on wind turbine pricing, exacerbated by competitive reverse auction processes, present a significant challenge for manufacturers.

China also announced an increase in targets for solar development to 2020, with a significant increase in quotas for commercial and utility scale projects increasing the implied 2020 installation target from 105GW to 165GW. The previous target was always likely to be exceeded, but the increase is nonetheless significant, particular given that distribution generation projects, which represent a significant proportion of new solar installations, are not included within these quotas. China is on track to install well over 30 gigawatts of solar generating capacity this year, and the new targets imply that this run rate is likely to continue beyond 2017. To put that into context, the total generating capacity in Australia's national electricity market is less than 45 gigawatts, with peak demand around 35 gigawatts.

Market commentary

Global equity markets enjoyed a relatively sedate month, despite the aforementioned natural disaster and rising tensions between the US and North Korea. The MSCI All Country World Total Return Index was up 0.4% (in US dollar terms), with relatively stable performance across regions. The US' S&P 500 Index was up 0.1%, Hong Kong's Hang Seng Index was up 2.4%, while Europe's Stoxx 50 and Japan's Nikkei 225 were down 0.8 and 1.4% respectively. The Euro's surge continued, if at a slower rate, as it climbed to $1.19. Environmental equities slightly out-performed traditional global equity benchmarks, with the Fund's benchmark, the FTSE Environmental Opportunities Total Return Index, up 0.7% in US dollar terms. In Australian dollar terms the benchmark rose 1.3%, reflect the slight weakening of the Australian dollar over the month.

Fund commentary

The Fund was up 1.2% for the month, underperforming its benchmark index slightly (0.2%). For context the Fund has returned 9.4% year to date in 2017, which compares favourably against its FTSE Environmental benchmark (up 8.5%) and the broader MSCI ACWI (up 5.1%). There were number of positive contributors to returns, offset by a single significant loss on the Fund's relative small position in UK listed communications module supplier Telit Communications. The company reported a poor first half earnings result as a result of sales delays related to product certification and increased investments in new product development, followed by the suspension and resignation of the CEO amid allegations of criminal activities during the 1990s. The stock was down 41%, costing the fund 0.9%. Corporate governance is important and is a focus within our investment process, underpinned by expansion and strengthening of our quantitative and qualitative analytical frameworks. While there was no knowledge about the founding CEO's potentially illegal activities, the structure and level of his compensation did raise questions about the strength of the company's corporate governance. The firm action of Telit's board in response to the issues has supported a partial recovery from the initial fall in the share price, after which the portfolio's position was partially reduced. Whilst the outcome is a disappointing one the diversified nature of the Fund and relatively small position sizing limited the impact on Fund returns. There were a number of positive contributors to returns offsetting this loss, with the largest contributor being Kingspan Group, a leading manufacturer of building insulation products that extended its streak of strong results and rising earnings estimates. The Fund's long held positions in Norwegian salmon producers also contributed positively.

At the end of August 2017 the Fund's major sector exposures remain in areas including aquaculture, automotive efficiency and vehicle electrification, 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	5.3	(1.9)	(1.7)	1.2	-	-	-	-	9.3

[2]Returns are calculated net of all fees and expenses and on the basis of a shareholding since inception (2 November 2015).

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Weekly
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Weekly
Administrator & Custodian	RBC Investor Services Trust	Notice period	2 Days
Inception	2 November 2015	Buy-Sell spread	0.25%
Management Fee	0.8%	Total management costs	1.2%

Contact Details

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