Nanuk New World Fund

APIR SLT2171AU

Monthly Report – August 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 (%)	**1.7**	**4.5**	**6.3**	**24.0**	**21.0**	**16.4**
Benchmark Return[2] (%)	2.7	6.1	6.9	20.7	17.0	13.1
Value Added (%)	(1.0)	(1.6)	(0.7)	3.3	4.0	3.2
MSCI ACWI Return[3] (%)	3.6	8.0	10.1	22.2	16.4	10.4
Value Added (%)	(1.9)	(3.5)	(3.8)	1.8	4.6	6.0

Macro and industry commentary

The nascent electric vehicle industry dominated headlines once again in August. Global electric vehicle sales rose by 77% year on year during the second quarter, powered by surging sales in China which now accounts for more than 50% of global demand. However, the headlines were stolen by Elon Musk's claim via twitter that Tesla may be taken private. To date all this has tangibly produced is another investigation of Tesla by regulators, this time at the U.S. Securities Exchange Commission. Another prominent EV start-up, China-based NIO, moved to finalise its IPO in the US, with first pricing expected in mid-September and a market valuation currently estimated around $7 billion. NIO, which has only sold several hundred vehicles to date, has an enviable list of prominent shareholders including Tencent and Baidu.

The broader impact of growth in electric vehicles was highlighted in BHP Billiton's announcement of plans to boost cobalt production from its Nickel West operation in Western Australia, as well as accelerating plans to raise nickel sulphate production for the EV market. The operation, which had previously been identified as "non-core", is aiming to sell 90% of its production to the battery sector by the end of next year. At the same time the challenges of battery production were highlighted by Nissan's announcement of the divestment of its AESC battery business to Chinese company Envision Group. AESC, a JV with NEC, initially produced batteries for Nissan's Leaf EV and was at one point the second largest EV battery supplier globally. The auto manufacturer has sought to source batteries externally.

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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The solar sector saw clear evidence of the tough environment faced by many manufacturers following China's significant reduction in subsidies announced on June 1st 2018. Chinese company GCL-Poly, a leading manufacturer of polysilicon as well as polysilicon wafers (from which solar cells are made), saw a $1.9 billion asset sale negotiation collapse early in the month. It restated debt reduction as its top priority at its earnings towards month end. Sunpower, which is based in the US but majority-owned by French oil giant Total, announced a second asset sale in just three months. Following the sale of its inverter assets to Enphase in June, it announced it will dispose of most of its utility scale project pipeline, 4.7GW in total, to an infrastructure group. Meanwhile, leading Chinese solar module manufacturer Canadian Solar (don't be confused by the name), announced it would reduce its capacity expansion plan, deferring the development of 800MW of cell capacity.

Manufacturers are responding to the challenges brought by falling prices across the solar value chain in recent months. India announced the imposition of import tariffs on solar modules during the month. The industry has experienced similar cycles before, the most recent in 2012 following a widespread reduction of subsidies in Europe; at that time Europe was the key global market - in the way that China is now. The industry emerged from that cycle with more disciplined capacity additions accompanied by accelerated demand incentivised by lower pricing. This lead to a decent recovery for the leading manufacturers.

The wind sector saw a similar trend - falling subsidies and plunging prices - last year and this has been followed by surging demand. Manufacturers are currently reporting record orders and price stabilisation so far in 2018. Related to this, Bloomberg New Energy Finance raised its mid-term global wind turbine demand estimate by 40%. The Fund holds a position in Vestas, the world's leading wind turbine manufacturer, which is discussed further below.

Government policy initiatives were mixed during the month. In the US the Trump administration witnessed further judicial setbacks on its efforts to roll back environmental regulation, losing court cases which extended rules on chemical safety and clean water. It is clear, however, that the current administration will continue to support fossil fuels and less regulation of pollution. Notably the administration announced its intention to 'freeze' the Corporate Average Fuel Economy (CAFE) standards at 2020 levels, holding average fuel economy requirements for new vehicles at 37 miles per gallon. The standard, implemented in 2012, steps up to 55 miles per gallon by 2025. The EPA also proposed the dismantling of the regulation of emissions of coal fired generation under President Obama's Clean Power Plan, to be replaced with a poorly-defined state-based program targeting increased efficiency for coal fired generation. On a more positive note, the EU elected to remove its tariffs on Chinese solar module imports which had been in place in the past 5 years.

Market commentary

Global equities had another positive month during August, with the MSCI All Country World Total Return Index rising by 0.8%. On a regional basis, August saw a continuation of the trends of recent months – continued strong growth in the US and deceleration in Europe and China. The US has had a supportive macroeconomic backdrop in 2018, most notably as a result of the large tax cuts delivered in late 2017 but also from government spending increases. With the gain from the tax cut unlikely to be repeated, the budget deficit not likely to be sustainable longer-term and interest rates likely to trend upwards in response to inflationary pressures, the US macro backdrop appears less supportive going forward.

US trade barriers have had an immediate impact on non-US producers, as widely discussed in recent quarterly company reporting. Europe also endured home-grown shocks. Italy's sovereign debt challenges continue, with the yield on its €2 trillion of sovereign debt rising by over 100 basis points year to date. A currency crisis in Turkey, which has been building all year, peaked in August with Turkish President Recep Erdogan declaring 'economic war' as the Lira collapsed by ~40% in a few days. In addition to these macroeconomic factors, strong earnings growth during the second quarter supported a 3% rise in the US S&P 500 index in the month to new record highs, while Europe's Stoxx 50 index fell 3.8%.

The growth of China's economy has also been slowing for much of the year, with the People's Bank of China cutting the bank reserve ratio in April and again in June to stimulate growth. Nevertheless, multiple indicators ranging from repo rates to auto sales weakened notably in August. China's Shanghai Shenzhen 300 Index fell 5.2% in the month, while Hong Kong's Hang Seng Index fell 2.4%. Japan's Nikkei 225 had a less dramatic month by contrast, rising 1.4%.

The Fund's FTSE-Russell Environmental Opportunity All Share Total Return index (EOAS) benchmark underperformed broader global indices during August, falling by 0.9% in US dollar terms but rising by 2.7% in Australian dollar terms due to the weaker Australian dollar.

The FTSE EOAS Index has significant and broad-based exposure to the manufacturing sector, which performed strongly in 2017 as industrial growth accelerated. Underperformance of some expensive components of the index that had performed well last year as well as concerns about slowing industrial growth have contributed to underperformance of the manufacturing sector during 2018. This is also reflected by Manufacturing Purchasing Managers' Indices, which have fallen this year outside of the US, most significantly in Europe where the PMI has fallen from 60.6 to 54.6 (50 indicates zero growth). The FTSE EOAS's geographic exposures, being underweight US and overweight in Europe and Japan, were another source of underperformance versus traditional indices such as the MSCI All Country World Index.

Fund commentary

The Fund posted a 1.7% return in August, underperforming its benchmark index by 1.0%. Year to date, the Fund has returned 11.8%, 3.8% higher than benchmark and in line with broader global equity benchmarks.

The performance of the Fund in the past 3 months has been impacted by the underperformance of manufacturing and export-oriented sectors, which constitute a significant proportion of the Fund's investment universe and which have been impacted by concerns about slowing industrial growth and trade barriers.

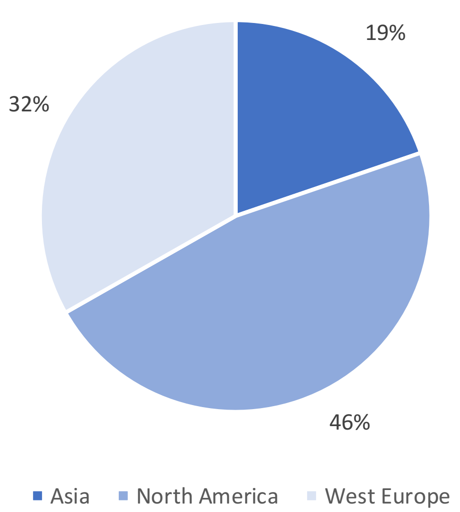
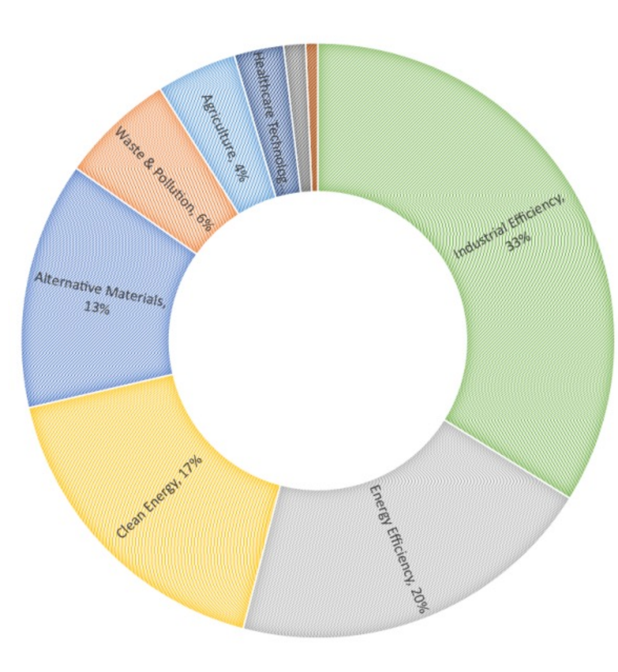
Additionally, the outperformance of US equities versus European and Asian markets has impacted recent performance owing to the regional positioning. The Fund has been underweight US equities and overweight Japanese and European equities for an extended period based on the relative attractiveness of equity valuations in the latter regions. In recent months the divergence in valuations has become more extreme, with many higher growth stocks in the US market becoming increasingly unjustifiably expensive. The Fund's investment approach – focused on identifying good quality, growing businesses at prices that provide attractive return potential based on valuation – has resulted in limited exposure to higher growth, higher multiple stocks, with the outcome that the Fund has not benefitted significantly from the recent outperformance of stocks of this nature. Whilst cyclical factors may continue to weigh on lower growth stocks, the divergence in valuation between growth and value is not likely to be sustainable longer term.

In August the Fund's exposure to leading automotive component suppliers (notably Valeo, Continental and Lear) was the major detractor from returns. Exposure to the semiconductor capital goods sector also contributed to the underperformance, as parts of the semiconductor industry experience slowing growth after record sales in 2017.

The Fund's exposure to cyclical end-markets, while reduced over time, still remains material given the significant medium to longer term trends within these industries and the relative attractiveness of selected stocks in these areas. Many companies that will benefit from global technology megatrends such as vehicle electrification and the internet of things offer above-average medium and longer-term earnings growth at single or low double-digit price-earnings multiples. In fact, the recent underperformance of segments of the Fund's investment universe to which the Fund has had limited exposure, such as solar panel manufacturing, is presenting new investment opportunities.

At the end of August 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, industrial automation and battery manufacturing.

The Fund remains well diversified at the sectoral level and is positioned to continue to benefit from investments associated with the secular themes of environmental sustainability and resource efficiency.

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 31 August 2018

Security Name	Weight (%)	Country	Sector
Valeo SA	4.9	FRANCE	Energy Efficiency
Lenzing AG	4.7	AUSTRIA	Alternative Materials
Carlisle Companies Incorporated	3.8	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.5	UNITED STATES	Waste & Pollution
Accenture Plc Class A	3.4	UNITED STATES	Industrial Efficiency
Vestas Wind Systems A/S	3.3	DENMARK	Clean Energy
3M Company	2.8	UNITED STATES	Alternative Materials
Toray Industries, Inc.	2.8	JAPAN	Alternative Materials
Lear Corporation	2.7	UNITED STATES	Energy Efficiency
Applied Materials, Inc.	2.5	UNITED STATES	Industrial 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 *(31 August 2018)*	AUD 111m		

Contact Details

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