NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Monthly Report – August 2019

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	YTD	1 Year	2 Years p.a.	3 Years p.a.	Since Inception p.a.[1]
Fund Return (%)	**1.6**	**26.6**	**9.2**	**16.4**	**16.9**	**14.5**
Benchmark Return[2] (%)	(0.1)	20.8	8.6	14.5	14.1	11.9
Value Added (%)	1.7	5.8	0.6	1.9	2.8	2.5
MSCI ACWI Return[3] (%)	(0.1)	18.9	7.0	14.4	13.2	9.5
Value Added (%)	1.7	7.7	2.2	2.0	3.7	5.0

Fund commentary

The Fund was up 1.6% in August, outperforming its environmental benchmark index by 1.7% and outperforming the MSCI All Country World Total Return Index by 1.7%.

The performance was aided by the diversification within the Fund, with defensive stocks in sectors including healthcare, rail, waste management and utilities offsetting declines in cyclical sectors such as auto, electronic equipment and industrial machinery. As an example, one of the better performers during the month was Belgian listed company Elia System Operator, which runs the power grids in Belgium and the former East Germany. It is a highly defensive company with regulated returns that has benefited from falling interest rates and stands to benefit further from its addition to the broad European Stoxx 600 benchmark.

Another contributor to outperformance came from the Fund's largest position, SolarEdge, a world leader in smart energy, whose products include power optimisers, PV inverters and a web platform for module – level monitoring and fault detection.

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

Market commentary

Global equities fell in August amid continued weak economic data. The MSCI Country All World Total Return Index fell 2.4%, with declines in all major regional indices. The USA's S&P 500 Index fell 1.8%, Japan's Nikkei 225 Index fell 3.8%, Europe's Stoxx 50 Index fell 1.2% and Hong Kong's Hang Seng Index declined by 7.4%. Negative catalysts during the month included further tariffs from both the US and China as their trade conflict continued, escalating civil unrest and violence in Hong Kong and a rising likelihood of a no deal Brexit. The month finished with manufacturing PMIs in the US, China, Europe and Japan all signalling contraction and bond yields plumbing ever further record lows, with German 10-year bunds now yielding negative 0.7%.

Environmental equities performed roughly in line with the market, with the Fund's benchmark, the FTSE Russell Environmental Opportunities All Share Total Return Index, falling by 2.3% in US dollar terms and by 0.1% in Australian dollar terms as the Australian dollar continued to weaken against the US dollar.

Industry commentary

Capital costs constitute a significant component of the total cost of renewable energy generation and record low interest rates continue to improve their competitiveness and support growth. August saw a landmark development, with Spain's government having to restructure its electricity market to prevent a boom in development of unsubsidised solar projects. Solar energy is so competitive in Spain on a merchant basis that applications for development of new solar projects represent in total more than five times peak power demand. The government response has been to impose a fee for grid connection but this is testament to the competitiveness of the technology.

Notwithstanding the improving competitiveness of solar generation and ongoing growth, we saw yet another solar company facing financial difficulties. GCL Poly, the world's largest manufacturer of polysilicon, the raw material used as the substrate for most solar cells, filed a "going concern" notice with regulators in Hong Kong, where its shares are listed, including waivers for having breached debt covenants. Bloomberg reports that GCL Poly has shuttered much of its older capacity, in higher cost regions of China, as the energy intensive polysilicon industry shifts to west China which offers highly competitive power prices.

Energy storage is also seeing strong momentum, including within "dispatchable renewables" and "virtual power plants". Dispatchable renewables add battery storage to intermittent renewable generation, usually solar, to allow the power to be dispatched as the grid requires it. An example of this during the month was in Hawaii, where utility Hawaii Electric tendered for 900 MW of dispatchable renewable energy to replace two fossil fuel plants which are to be retired in the next 5 years. A virtual power plant aggregates distributed energy sources, replacing traditional peaking power plants that would ramp at times of high electricity demand. These sources can be small generators, batteries that release energy stored in periods of lower demand, or "demand response" resources able to reduce lower priority power usage, such as pool heating. Australia's AGL is rolling out a virtual power plant focused on batteries following a successful trial in Adelaide. It is offering customers A$45 per quarter to participate in its virtual power plant, on top of a A$100 sign up bonus, and even a A$1,000 payment for installing a battery for customers in relevant locations.

The mobility sector's growth – and growing pains – continued. The UK draft regulation requires private parking spots in homes and offices to include electric vehicle charging stations, citing a greater than 50% cost reduction in installing charging infrastructure during building construction, compared to a retrofit. Addison Lee, a London based competitor to Uber and Lyft, saw a sale process abandoned by owner Carlyle Group in a month of double digit share price declines for both Uber and Lyft, caused in part by Uber reporting a $5b quarterly loss and Lyft facing multiple lawsuits over sexual assaults in its vehicles. August also saw yet another automotive partnership, this time between Japan's Toyota and Suzuki, focused on joint development of autonomous driving technology.

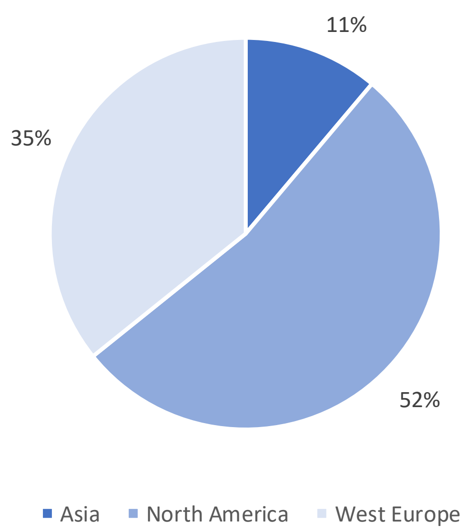
Legacy energy companies continued to shift their portfolios away from fossil fuels and towards new energy technologies. Shell added to its diversification into electricity with a $400m bid for Australia's ERM Power, a commercial & industrial power retailer. BHP also hired bankers to execute its planned divestment from thermal coal. This includes mines in Australian and a stake in Colombia's Cerrejon, whose CEO, Guillermo Fonseco, said during the month that he saw "the market disappearing" for the fuel.

Sustainability policy also had an unusually prominent month in the news.

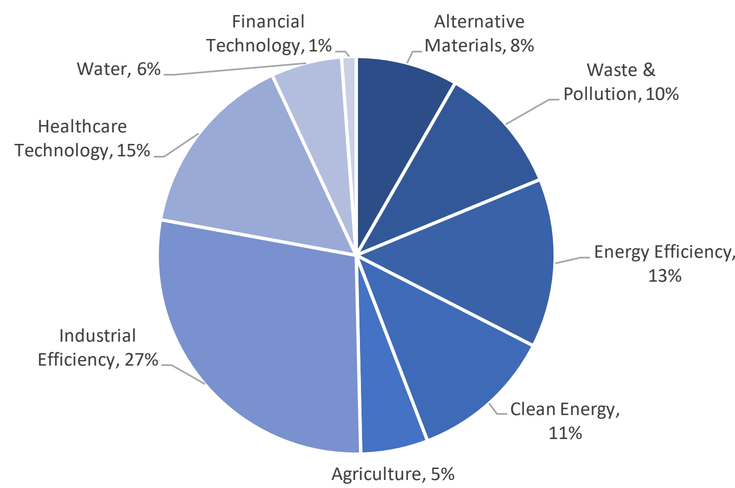
Widespread fires in the Amazon saw European leaders threaten to block a free trade deal with Brazil and other Latin American countries, with Brazilian President Jair Bolsonaro eventually buckling under the pressure. Likewise, in Indonesia, the government vowed to take action against palm oil producers after the EU imposed tariffs against biofuel from the country believed to be causing deforestation. In the US the Trump administration proposed arguably its most controversial environmental policy yet, eliminating caps on methane emissions from natural gas production. Notably the proposal was opposed by energy giants including Exxon, Shell and BP, but welcomed by smaller producers who may lack the resources to eliminate methane emissions.

Methane, as a heat trapping gas, contributes to global warming over 25 times more than carbon dioxide does, a fact which led 140 asset managers representing over $5 trillion in assets to write to energy companies asking them to continue to minimise methane emissions.

Regional Weights (%)



Sector Weights (%)



Top 10 Holdings as at 31 August 2019

Security Name	Weight (%)	Country	Sector
Carlisle Companies Incorporated	4.4	UNITED STATES	Energy Efficiency
SolarEdge Technologies, Inc.	4.3	UNITED STATES	Clean Energy
Lear Corporation	3.8	UNITED STATES	Energy Efficiency
Koninklijke Philips N.V.	3.6	NETHERLANDS	Healthcare Technology
Waste Management, Inc.	3.5	UNITED STATES	Waste & Pollution
RELX PLC	3.5	UNITED KINGDOM	Healthcare Technology
Microsoft Corporation	2.9	UNITED STATES	Industrial Efficiency
Air Liquide SA	2.8	FRANCE	Alternative Materials
Wolters Kluwer NV	2.7	NETHERLANDS	Healthcare Technology
West Japan Railway Company	2.6	JAPAN	Industrial Efficiency

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Daily
Domicile	Australia	Minimum Subscription	AUD 50,000
Responsible Entity	EQT Responsible Entity Services 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 Aug 2019)I*	AUD 191m		

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