NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Monthly Report – August 2020

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 (%)	**1.1**	**(2.6)**	**0.9**	**5.0**	**11.0**	**11.5**
FTSE EOAS Return[2] (%)	6.2	9.3	19.2	13.8	16.1	13.4
Value Added (%)	(5.1)	(11.9)	(18.4)	(8.8)	(5.1)	(1.9)
MSCI ACWI Return[3] (%)	2.9	(0.4)	6.2	6.6	11.6	8.8
Value Added (%)	(1.8)	(2.1)	(5.3)	(1.6)	(0.6)	2.7

Fund Commentary

The Fund returned 1.1% in August, underperforming traditional global equities indices such as the MSCI All Country World Net Total Return Index by 1.8% and underperforming its environmental equities benchmark, the FTSE Environmental Opportunities All Share Total Return (EOAS) Index by 5.1%.

As discussed below, the strong performance of the EOAS Index was driven by a 74% rise in Tesla, which at month end represented nearly 9% of the 500 stock index.

Excluding the impact of Tesla, in which the Fund does not hold a position, the Fund's performance was driven by the underperformance of diagnostic and analytical technology and technology stocks. The largest contributor was Siemens Healthineers which fell 12% during the month having announced the proposed acquisition of radiotherapy technology leader Varian Medical Systems. The Fund also holds a smaller position in Varian and the contribution

Notes (1) Inception date 2 November 2015 (2) 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 from this position partially offset the underperformance of Siemens Healthineers, however, other diagnostic technology positions such as Philipps and Perkin Elmer also underperformed during the month.

The largest positive contributors to performance during the month were Varian, Microsoft and US industrial Carlisle Companies, a leader in commercial building insulation products. The best performing stocks held by the Fund also included online fulfilment technology leader Ocado Group as well as the Fund's holdings in packaging companies Westrock and SIG Combibloc and the Fund's holdings in Japanese high speed railway operators.

The Fund added new positions in industrial automation leader ABB and US organic grocery business Sprouts Farmers Markets as well adding to Intel, Keysight and UK listed publishing and information services business RELX Group after their respective recent underperformance. The Fund exited positions in Belgian transmission utility Elia Group, a strong performer over several years in the Fund, and technology consultancy Capgemini, which had performed very strongly in recent months.

Market Commentary

Global equity indices rose strongly in August, with the MSCI All Country World Net Total Return Index up 6.1% in US dollar terms, supported by the continued strong performance of US technology stocks including the FAANGs and the weakening of the USD dollar. US equities rose, with the S&P 500 Index up 7.0%, with the technology focused Nasdaq Composite Index up 9.6%. Elsewhere both European and Asian equity markets rose, with the Euro STOXX 50 Index up 3.1% and Germany's DAX Index up 5.1%, Hong Kong's Hang Seng Index up 2.4% and Japan's Nikkei 225 Index up 6.6%.

Environmental equities, as represented by the FTSE Environmental Opportunities All Share Total Return Index, outperformed traditional global benchmarks by around 3.3% which reflected the contribution from Tesla.

We commented in July on Tesla's market capitalization at the time exceeding the combined capitalization of all the major US and European auto manufacturers, since which it has risen a further 20% and during August briefly exceeded $400 billion. Tesla is a remarkable business that is uniquely and extraordinarily well positioned to capitalize on the global growth in electric vehicle sales that is being accelerated post COVID by increasing subsidy support, and is likely to grow strongly over a long period as electric vehicles progressively displace internal combustion engines.

From an investment perspective, or at least our investment perspective, the question is whether it can do so in a way that will grow its earnings in a manner that justifies the price at which we can buy the shares. Historically we have not believed that to be the case and that remains the case today, although the prospects for the business and its profitability have improved over time. In summary, our assessment has been that Tesla would inevitably face increasing competition from incumbent auto manufacturers investing tens of billions of dollars into the development of electric vehicles to serve the same markets, and that, whilst Tesla would be likely to maintain some technology and perhaps cost edge that over time, this would decline along with its market share, and the company would be unlikely, despite growing, to generate the extraordinary levels of profitability and return on capital implied by its share price. There are many factors that have contributed to the spectacular rise in Tesla's price this year, some of which are likely to be transient in nature, but one is certainly that Tesla is yet to see meaningful competition and has maintained, and in some markets increased, its substantial market share. Whilst governments seek to more aggressively grow these markets on a widespread basis as part of new economic stimulus packages and the availability of genuinely attractive alternatives from other auto manufacturers remains limited, Tesla is likely to continue to grow quickly and at abnormally high profitability. For us to justify buying the shares at today's prices, or even those of several months ago, would require that we expect this to continue for a decade or more, or that we ascribe significant value to other parts of Tesla's business. We expect serious competition to arrive sooner than that, evidenced by the likes of the recently released Polestar 2 and the imminent release of Volkswagen's ID.3.

Industry Commentary

The COVID-19 pandemic has seen attention shift away from environmental concerns this year, but anyone needing a reminder that they have not gone away might note the record global temperature of 54.4 degrees recorded during the month in the aptly named Furnace Creek in Death Valley. The month also saw heatwaves in Japan and Spain, wildfires in California and

Siberia and Artic sea ice shrinking to a record low for July.

Newly announced economic stimulus packages, perhaps not surprisingly, continue to be weighted heavily towards sustainable technologies and efforts to reduce energy consumption and fossil fuel usage. France announced its 100 billion Euro rescue package on September 3. The package, which is the largest announced by any European country and is to be partially funded by the EU, is to be deployed by 2020. Some 30 billion Euro is directed to towards 'ecological' measures, including multi-billion euro amounts for hydrogen production, building renovation, electric vehicle production and infrastructure, rail infrastructure, cycle highways and public transport. The support for hydrogen generation extended beyond the stimulus package with a pledge of 7.2 billion Euro to 2030.

Stimulus measures are already having some impact in the automotive industry with a sharp pickup in EV sales in Europe. Plug in electric vehicle registrations (including plug in hybrid vehicles) were up 131% over the prior year in July, accounting for 18% of total vehicle sales. Around half of this number were pure electric vehicles. The number of EV models on offer this year has risen to 38, 10 more than a year ago, and whilst Tesla has continued to dominate EV sales in the US, supply issues this year have seen its share of the European EV market fall sharply in recent months. The most popular EV by some margin was the Renault Zoe, a disproportionate beneficiary of large fixed subsidies due to its low price. Second place was filled by the Hyundai Kona, followed by the Volkswagen e-Golf. With Volkswagen's flagship ID3 deliveries imminent and attractive options coming from Mercedes and others, interest and volumes are likely to continue growing.

Tesla's loss of market share in Europe isn't reflective of its recent success in other markets where it has continued to maintain a dominant 75% plus market share in the US and has gained significant share in the large Chinese market with its locally produced Model 3. Tesla's recent performance and valuation have prompted a number of recent IPOs in the EV space, most recently Chinese luxury EV maker XPeng which listed in the US via a merger with a special purpose acquisition company ("SPAC"), in the process raising $1.5 billion. The company, which delivered around 3,000 vehicles in the second quarter of this year, is now valued at around $13 billion. With the huge divergence in valuations between start up EV hopefuls and traditional auto manufacturers there has been speculation that traditional auto manufacturers may separately list their electric vehicle businesses – a prospect that GM indicated during the month remains a possible outcome.

GM provided an update on its new global EV platform, its Ultium battery system and its next-generation EVs for China which will account for more than 40% of new models in the next 5 years. GM also announced in recent days that it will invest $2 billion in EV and hydrogen fueled truck start up Nikola, and will help Nikola to engineer and produce its vehicles including its soon to be revealed Badger pick-up truck.

In other EV related news, Swedish lithium battery cell maker Northvolt, which was founded by former Tesla executives, secured a $525m loan guarantee from the German government to support the development of a second battery plant in Germany to provide cells to Volkswagen. It has already secured funding to build its first 40GWh factory in Sweden.

The announcements of massive capacity expansions amongst China's solar manufacturers continued during the month with leading solar cell and module manufacturer JA Solar announcing additions to its wafer, cell and module manufacturing capacities of up to 4GW and peer Trina Solar announcing 10GW of additional cell manufacturing capacity, part of a plan to double its capacity next year.

August saw the commissioning of what will briefly be the largest active battery energy storage system in the world. The LS Power owned system in San Diego county is rated at 230MW, substantially larger than the Hornsdale Power Reserve in South Australia at 150MW, and is speculated to have a capacity of between 1 and 1.5 GWh (four to six hours of capacity). The project, which is to be expanded to 250MW, was developed by NEC using LG Chem batteries and SMA inverters. It is unlikely to hold the mantle for long with a number of much larger projects under development, including a 1,500MW / 6,000 MWh project in California that received permitting approval during the month. The ongoing rapid adoption of battery energy storage received further support from the California Public Utilities Commission which signed off on previously announced utility contracts for nearly 1.2 gigawatts of battery storage capacity that is expected to be in service by August of next year. California also approved the largest investment in electric-car charging stations by a U.S. utility with Southern California Edison given the go ahead to spend $436 million to install about 38,000 charging ports throughout its service territory.

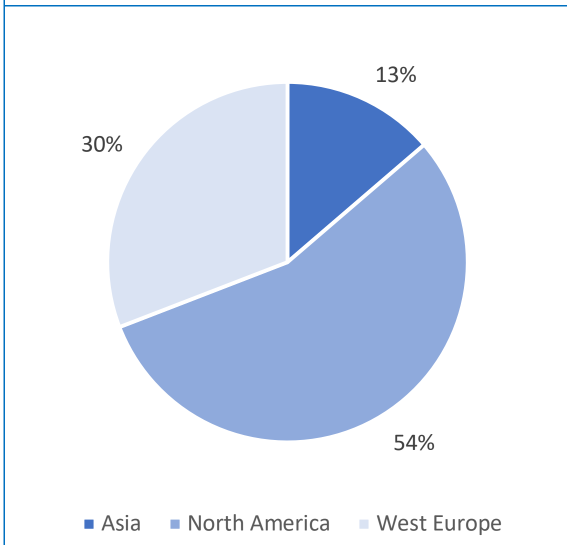
The US also saw the announcement of three new gas power plants in New York, Virginia and Ohio, that will trial the use of hydrogen. The plants, which total more than 3GW of generating capacity, will initially run on natural gas but will shift progressively to hydrogen as production and storage capacity is built out over time. The plants are to be provided by Mitsubishi Power who is also developing a hydrogen storage and generation project in Utah announced earlier this year and who has developed a standard hydrogen power plant design to be used in these projects. Hydrogen production is a focus on stimulus funding in Europe where offshore wind turbine leader Siemens Gamesa Renewable Energy announced a pilot project in Denmark to trial technology for producing hydrogen from its wind turbines.

In Australia, the Federal government granted approval to commence the main works on the Snowy 2.0 project to expand the Snowy Hydro system to incorporate 2,000MW of additional capacity and up to 350,000MWh of large scale energy storage. The government is providing A$1.4 billion of funding for the project with the remainder to be provided by scheme owner Snowy Hydro Limited. The project is expected to begin operation in 2025.

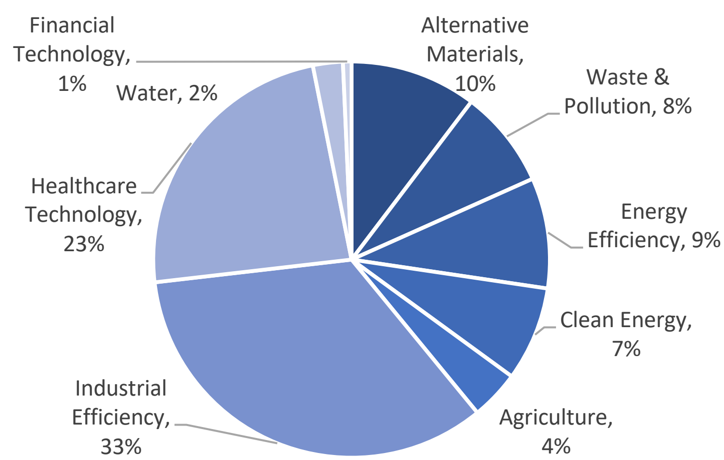
Schneider Electric, a company in which the Fund is invested, launched a partnership with external investors focused on microgrids for small and medium-sized U.S. businesses. The partnership will use investor-backed financing to let smaller US companies install so-called "energy-as-a-service" pre-engineered clean microgrids without paying for all the costs associated with installing and maintaining the systems up front. The partnership will own and operate the micro-grids, typically 1 to 5 MW in size, and sell excess power into the grid. Larger corporates such as Amazon and Google have embraced power purchase agreements with renewable energy asset owners to procure clean energy, but to date there has not been a viable solution for smaller businesses that wish to be carbon free. The group hopes to develop a minimum of $1 billion in clean renewable energy assets under long-term contracts.

On the corporate front, Ikea become the latest prominent global business to commit to becoming 'climate positive'. The groups investment arm, Ingka, has committed to investing 600 million Euro towards helping the group reduce more greenhouse gas emissions that the IKEA supply chain emits, by 2030.

Regional Weights (%)



Sector Weights (%)



Top 10 Holdings as at 31 Aug 2020

Security Name	Weight (%)	Country	Sector
Microsoft Corporation	4.6	UNITED STATES	Industrial Efficiency
Waste Management, Inc.	4.4	UNITED STATES	Waste & Pollution
Air Liquide SA	4.3	FRANCE	Alternative Materials
Intel Corporation	3.9	UNITED STATES	Industrial Efficiency
Carlisle Companies Incorporated	3.8	UNITED STATES	Energy Efficiency
Wolters Kluwer NV	3.8	NETHERLANDS	Healthcare Technology
Siemens Healthineers AG	3.3	GERMANY	Healthcare Technology
Keysight Technologies Inc	2.8	UNITED STATES	Industrial Efficiency
PerkinElmer, Inc.	2.8	UNITED STATES	Healthcare Technology
3M Company	2.7	UNITED STATES	Alternative Materials

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Daily
Domicile	Australia	Minimum Subscription	AUD 50,000
Responsible Entity	Equity Trustees 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 2020)*	AUD 267.4m		

Contact Details

Investment Manager	Administrator
Nanuk Asset Management Pty Ltd Level 23, Australia Square, 264 George Street Sydney NSW 2000, Australia Tel: +61 2 9258 1600 Fax: +61 2 9258 1699 Email: contact@nanukasset.com www.nanukasset.com	RBC Investor Services Trust – Registry Operations GPO Box 4471 Sydney NSW 2001 Tel: +61 2 8262 5000

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