Nanuk New World Fund

Monthly Report –February 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 (%)	**3.0**	**2.9**	**16.7**	**30.7**	**23.6**	**17.1**
Benchmark Return[2] (%)	(1.3)	(1.5)	12.9	22.2	19.5	12.9
Value Added (%)	**4.3**	**4.4**	**3.8**	**8.6**	**4.1**	**4.3**
MSCI ACWI Return[3] (%)	(0.5)	0.2	11.0	17.2	15.3	8.2
Value Added (%)	**3.5**	**2.7**	**5.7**	**13.5**	**8.4**	**8.9**

Macro and industry commentary

The Sustainability Revolution continued to unfold in February with the solar sector in particular seeing a number of notable developments.

Saudi Arabia awarded the first contract under its plan to develop nearly 10 gigawatts (GW) of renewable energy by 2023 – around 20% of its total generating capacity. The potential for solar energy in Saudi Arabia (and indeed other countries in the Middle East) has long been clear, with the country having excellent solar irradiation and still reliant on oil powered generation for over half its electricity, but there has been limited progress on project development. This project, at 300MW, is of significant size but is more significant as a sign of real progress in what is likely to be a very large market in coming years.

In China Longi Green Energy, the leading manufacturer of monocrystalline polysilicon wafers (the substrates on which high efficiency solar cells are made), announced plans for 30GW of capacity expansions by 2030. This is equivalent to ~30% of current global demand. The increasing competitiveness of distributed solar generation was also highlighted in the US, where large electricity customers are going to court to defend their right to switch from utility power to self -owned solar generation, even at the cost of "penalty fees" exceeding $150m. The case is in Nevada and with multiple Las Vegas entertainment operators seeking to move away from local

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 utility NV Energy does not bode well for the long-term future of the current utility business model.

There were also significant developments for "smart grid" technologies. South Australia's government announced a plan to develop the world's largest virtual power plant. The A$800m scheme involves installing as much as 250MW of rooftop solar and battery systems across up to 50,000 households. The systems will be installed free of charge. Participants in the scheme have been promised a 30% saving on current retail electricity rates and the operator of the scheme, a yet to be selected energy retailer, will use the generation and storage to provide network support and frequency control for the grid. Tesla has been chosen as a partner for the initial trial of the scheme which is to be rolled out on public housing. The Fund holds an investment in SunRun, a competitor to Tesla's US solar business (formerly SolarCity) and a leader in the development and operation of similar "third party owned" solar and storage systems. South Australia's rise as a leader in the deployment of battery energy storage was also demonstrated by German manufacturer Sonnen's announcement that it would build a manufacturing plant in the state. In the US, the Federal Energy Regulatory Commission (FERC) ordered electricity market operators to adapt their market structures to pay energy storage providers. This is a critical step to preparing the US's grid for higher penetration from intermittent renewable generation, as well as variable loads from electric vehicles. Industry analyst Greentech Media labelled the decision a "historic moment", with others drawing analogies to changes to telecommunication regulation in the 1970s to enable participation by the predecessors of the internet.

Developments in autonomous and electric vehicles continued to make headlines. Daimler, the global #1 truck manufacturer, announced it will begin trials of an electric truck with a view to hit mass production by 2021. Concerns about sufficient availability of lithium for electric vehicle batteries were eased as two of the largest lithium miners, Albermale Corporation and SQM, accelerated production plans. Albemarle will triple its capital expenditure in 2018, from $300m to $900m, and SQM resolved longstanding issues with the Chilean government that will allow significant expansion of its production. Meanwhile Uber released a study forecasting that autonomous driving would increase trucking jobs in the next decade, with the impact on long-haul driving easily offset by surging demand for local, "final mile" jobs that autonomous vehicles will struggle to penetrate within that timeframe. While the study should be viewed as part of Uber's reputation rehabilitation project following its numerous governance scandals in 2016-17, it is an important reminder that automation creates new jobs as well as replacing old ones.

In policy news, Singapore announced the introduction of a carbon tax starting in 2019. Initially set at S$5/ton, or ~$3.75, the tax is expected to rise to S$10-15/t by 2030. Germany's new coalition, which emerged after more than four months' negotiation, agreed to pursue "termination of coal power, including setting a phase out date" and the introduction of a carbon tax during its four year term.

The topic of stranded assets has come into renewed prominence in recent months in the form of General Electric's Power division. The Power division makes gas and steam turbines for conventional gas and thermal (coal, nuclear) generation, and has struggled as investment has shifted rapid towards renewable technology around the world. GE's own leadership stated that it hasn't "changed fast enough", as coal generation has become increasingly obsolete and even natural gas generation has come under assault from the combination of renewables and storage. The company announced plans for 12,000 job cuts in the division, or ~18% of the workforce. GE is a true power industry pioneer, as well as a global top-4 wind turbine manufacturer, so the fact that even it has struggled to evolve shows how truly challenging incumbents can find changing their business model.

Market commentary

Global equities had a reality check in February, with markets falling and volatility rising. The MSCI All Country Total Return Index was down 4.2% in USD terms, while the VIX index, a measure of expected market volatility more than doubled during the month from the record lows around 10% in late 2017 and early January. Equity market declines were relatively consistent across regions. The US' S&P 500 index fell 3.9%, Europe's Stoxx 50 index was down 4.7%, Japan's Nikkei 225 index was down 4.5%, and Hong Kong's Hang Seng index down 6.2%. Environmental equities under-performed, with the Fund's benchmark, the FTSE Environmental Opportunities Index Total Return Index, down 5.0% in US dollar terms (down 1.3% in Australian dollar terms). Index declines were less in Australian dollar terms as a result of the Australian dollar weakening against the US dollar during the month.

Fund commentary

The New World Fund was up 3.0% (in Australian dollar terms) during February, outperforming its benchmark index by 4.3%. The positive return was driven by a combination of relatively consistent out-performance across the portfolio and several notable contributions discussed below. The Fund's disciplined, valuation-based approach has resulted in limited exposure to areas like Japanese robotics that have delivered strong returns in recent months but underperformed as markets corrected during the month.

The top contributor to returns was SolarEdge, a leading solar inverter manufacturer which has been discussed at length in recent seminars and webcasts. The position is now up over 200% since it was initiated in May 2016. Going into its Q4 result, the stock was trading on a p/e of 12x, based on consensus estimates and excluding the company's significant net cash balance. The result was much better than the market had expected, reflecting continued market share gains in international and commercial and industrial scale solar markets. The Fund's position in Sunrun, mentioned above, also contributed positively to returns.

ams AG, a leading manufacturer of sensors discussed in our December report, rose by 30% during the month. Recent share price underperformance appeared to reflect investor fears of further cutbacks to iPhone X production (for which ams supplies the 3D sensing modules) and a supposed inability to diversify beyond Apple. The stock was trading on a p/e of ~13x 2019 earnings in an industry growing ~30% per year. After a major positive profit warning late in January quelled fears of a revenue shortfall, ams eased the diversification concerns at its full Q4 result, unveiling major customer wins with both non-Apple smartphone vendors and beyond smartphones, including a $600m contract for autonomous driving sensors.

The Fund's investments in salmon farming companies Marine Harvest and Leroy Seafood also contributed strongly to the Fund's monthly return. A combination of respectable operational performance and a recovery in the salmon price delivered strong performance after a significant correction in share prices in recent months.

The last notable contributor was Vestas, a new position in the Fund entered during the month. Vestas is the world's leading manufacturer of wind turbines, in terms of volumes, revenues and profitability. Vestas' share price had fallen significantly in 2017 due to fears of a fall in margins as the wind industry adjusts to more competitive tendering processes for new projects and declining subsidy support. Pressure on wind project developer's returns led to increasing pressure on wind turbine pricing and resulted in repeated profit warnings across the industry last year, Vestas' shares had fallen by more than 40% and were being priced on an ex cash p/e of ~11x. Indications are that margin pressure has crested, with wind generation auctions in both Germany and India during the month delivering higher prices than expected, and the company reported exceptionally strong cash flows. The company generated free cashflow of more than 10% of its market capitalisation in Q4 alone, leading to an expanded share buy-back programme.

The key detractor from returns during the month was Valeo, the French auto parts supplier, which fell ~18% after issuing 2018 guidance below expectations on both revenues and margins. We view these issues as transitory. Valeo has strongly out-grown peers since the global financial crisis and its order flow in 2017 was its best ever, with a book to bill ratio of 1.9x (including its share of its new eMobility JV with Siemens). Orders don't translate to revenue entirely consistently, and the 2018 guidance reflected the impact of longer lead-time orders as areas such as powertrain electrification rise in importance. As these orders hit revenue line, we forecast growth will re-accelerate and margins will reach record levels.

At the end of February 2018 the Fund's largest sector exposures were in composite materials, waste management, high speed rail, automotive electrification and autonomy, building energy efficiency 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.

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	5.3	5.4	2.2	(2.2)	21.2
2018	2.1	3.0											5.1

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%

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

Contact Details

Investment Manager	Administrator
Nanuk Asset Management Pty Ltd	RBC Investor Services Trust – Registry Operations
Level 8, Kyle House, 27-31 Macquarie Place	GPO Box 4471
Sydney NSW 2000, Australia	Sydney NSW 2001
Tel: +61 2 9258 1600	Tel: +61 2 8262 5000
Fax: +61 2 9258 1699	
Email: contact@nanukasset.com	
www.nanukasset.com	

Legal Notice

Nanuk Asset Management Pty Ltd is an AFS Licensee, (AFS License number 432119). Whilst the information contained in this report has been prepared with all reasonable care, Nanuk Asset Management Pty Ltd (Nanuk) accepts no responsibility or liability for any errors, omissions or misstatements however caused. The information is not a personal advice. This document has been prepared without taking into account of your objectives, financial situation or needs. The fact that shares in a particular company may have been mentioned should not be interpreted as a recommendation to buy, sell or hold that stock. This is general securities information and is not intended to be a securities recommendation. Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Potential investors should seek independent advice as to the suitability of the Fund to their investment needs. The information in this document is intended only for the person or entity to which it has been provided and may contain confidential and/or privileged material. In accepting receipt of the information you agree that you and/or your affiliates, partners, directors, officers and employees, as applicable, will keep all information strictly confidential. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information is prohibited.