# Nanuk New World Fund

*A long only global equities fund generating returns from investments in a universe of listed equities exposed to the broad themes of environmental sustainability and resource efficiency*

## February 2022 Monthly Fund Update

### Performance Summary

The Fund was down 4.0% in February, outperforming traditional global equities indices, such as the MSCI All Country World Net Total Return Index, by 1.5% and outperforming the Fund's environmental equities Reference Index, the FTSE Environmental Opportunities All Share Total Return Index, by 2.1%.

The Fund's return was driven by the widespread declines in global equities during the month and the concurrent strengthening of the Australian dollar. The Fund's outperformance was attributable to stock-specific returns, mostly related to earnings announcements during the month as highlighted below. The Fund's overweight exposure to sectors such as Technology Services and Producer Manufacturing and underweight exposure to Energy (i.e. oil & gas) presented a modest headwind during the month, but this was more than overcome by stock specific contributions.

The Fund's geographic exposures had limited impact on performance. The Fund has no direct exposure to Russian or Eastern European equities, and only minor exposures to companies with operations in or revenue exposure to Russia and Ukraine. The most significantly exposed holding is UK-listed multinational paper and packaging company Mondi, which has operations in Russia that account for the production related to 12% of the company's revenue and primarily serve the local market, as well as a paper bag plant in Ukraine where production has been suspended. The position is 0.4% of the Fund. Aside from Mondi, the Fund's indirect exposure is limited to a small number of multi-national businesses such as Siemens and Air Liquide, for which Russia represents less than 2% of revenue. Siemens has suspended its operations in Russia.

| | 1 Month | YTD | 1 Year | 2 Years p.a. | 3 Years p.a. | 5 Years p.a. | SI p.a.[1] |
|---|---|---|---|---|---|---|---|
| **Fund Return (%)** | **(4.0)** | **(7.8)** | **18.9** | **12.6** | **14.6** | **15.1** | **13.5** |
| Global Equities[2] (%) | (5.4) | (7.2) | 15.0 | 11.7 | 12.7 | 12.7 | 10.4 |
| Value Added (%) | 1.5 | (0.6) | 3.9 | 0.9 | 2.0 | 2.4 | 3.2 |
| Environmental Equities[3] (%) | (6.0) | (10.7) | 15.0 | 20.1 | 20.1 | 17.6 | 15.2 |
| Value Added (%) | 2.1 | 2.9 | 3.9 | (7.5) | (5.4) | (2.5) | (1.6) |

*Notes (1) Inception date 2 November 2015 (2) Global Equities return is the MSCI All Countries World Index Total Return Net Index in Australian dollars (3) Environmental Equities refers to the FTSE Environmental Opportunities All Share Total Return Index which is identified as the reference index for the Fund, providing a reasonable, yet approximate, reference index for the Fund's area of focus. Past performance is not indicative of future performance.*

### Key Contributors to Fund Performance

**Alteryx, Inc.** (+9%) sells enterprise analytics software. Alteryx provided a 2022 outlook materially above market expectations, with revenue 15% above the consensus forecast. Profitability was lower than expected as management increased expenditure to drive future revenue growth.

**Carlisle Companies Incorporated** (+6%) sells energy efficient building materials products and solutions. Its Q4 2021 result and 2022 guidance were well above expectations. The company's growth initiatives appearing to be working well. These includes diversifying from rooftop insulation to indoor insulation and sealants, and from the US to Europe.

**Pearson PLC** (+5%) offers digital education products. As discussed in our October 2021 letter, it is working to pivot to digital from a declining legacy print business. After two difficult quarters, evidence of better execution in Q4 2021 was well received by the market.

**Graphic Packaging Holding Company** (+9%) sells paper-based packaging for consumer products. The company's 21Q4 result was above expectations and it also increased its 2025 earnings per share target by 50%, backed by growing demand for paper-based products to replace plastic.

**Taiwan Semiconductor Manufacturing Company (TSMC)** (-13%) sold off following Russia's invasion of Ukraine, as investors appeared to focus on the risk to TSMC should China invade Taiwan.

## New Investments

**Kion Group AG** offers industrial trucks (such as forklifts) and supply chain systems which combine multiple pieces of automation equipment. Its industrial trucks are 87% electrically powered, over 20% ahead of the industry average. Its automation business has grown at a 15% annually as automation systems rise in competitiveness relative to manual operations. The quality of Kion's operations is obscured by a complex reporting structure, but we expect its automation business to drive stronger performance than the share price reflects.

**KLA Corporation** offers process control and yield management solutions for semiconductor manufacturing. Its equipment and solutions support megatrends such as artificial intelligence, electric vehicles and the internet of things (IoT). A recent share price correction offered an attractive entry point.

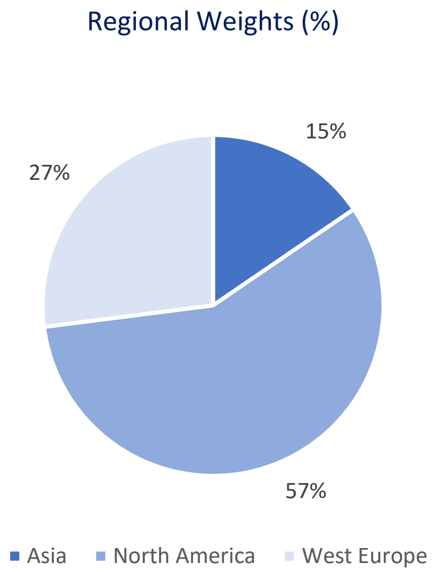
## Exited Positions and Other Portfolio Changes

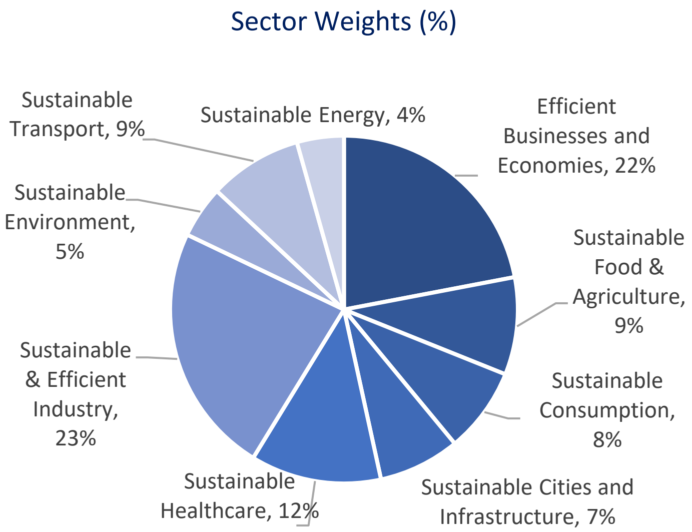
The Fund exited positions in US waste management leader **Waste Management** and cloud computing and virtualisation software company **VMWare** in favour of investments assessed as offering more attractive return potential. The Fund increased its position in leading medical device and diagnostic equipment leader **Medtronic** in expectation that its growth will accelerate as COVID's impact on the healthcare system abates.

## Top 10 Holdings

| Security Name | Weight (%) | Country | Sector |
|---|---|---|---|
| Cognizant Technology Solutions Corporation Class A | 4.5 | UNITED STATES | Efficient Businesses and Economies |
| Hain Celestial Group, Inc. | 4.5 | UNITED STATES | Sustainable Food & Agriculture |
| Alteryx, Inc. Class A | 3.8 | UNITED STATES | Efficient Businesses and Economies |
| Siemens Healthineers AG | 3.5 | GERMANY | Sustainable Healthcare |
| Carlisle Companies Incorporated | 3.4 | UNITED STATES | Sustainable Cities and Infrastructure |
| Microsoft Corporation | 3.2 | UNITED STATES | Efficient Businesses and Economies |
| WestRock Company | 3.2 | UNITED STATES | Sustainable Consumption |
| Pearson PLC | 2.8 | UNITED KINGDOM | Efficient Businesses and Economies |
| International Flavors & Fragrances Inc. | 2.8 | UNITED STATES | Sustainable Food & Agriculture |
| Medtronic Plc | 2.6 | UNITED STATES | Sustainable Healthcare |

## Portfolio Positioning



## Market Commentary

February saw an escalation of the major concerns impacting markets in January, namely inflationary pressure and a full-scale Russian invasion of Ukraine. The latter materialised on February 24. As of March 2, over 10,000 people are estimated to have been killed, and over 600,000 displaced as refugees. A tough international sanctions program including severe restrictions on many Russian banks led Russia's Central Bank to double its benchmark interest rate to 20% and the Russian Ruble to depreciate by 30% relative to the US dollar. Russian energy exports have continued so far, but energy markets have begun to price in the risk that this will change, with crude oil prices rising roughly $10/barrel to their highest level since 2014 and natural gas prices soaring.

Global equities, as represented by the MSCI All Country World Net Total Return Index, fell by 2.5% in US dollar terms, led by a 6.1% decline in Europe's EURO Stoxx 50 Index. Other markets also fell, with the US' S&P 500 Index down 3.1%, Japan's Nikkei 225 Index down 1.8% and Hong Kong's Hang Seng Index down 4.6%.

Environmental equities underperformed broader global equities indices, with the FTSE Environmental Opportunities All Share Total Return Index down 3.4%. The underperformance could be largely attributed to Tesla (down 7%) and TSMC (down 9%), which together account for almost 17% of the index. Renewable energy stocks, which had underperformed significantly since the beginning of the year, rallied sharply after hostilities commenced as European leaders expressed resolve to reduce dependence on Russian oil and gas exports. However, renewable energy may not be the sole beneficiary with Europe also looking further abroad for energy supply and Germany indicating it may reconsider the planned closures of nuclear generation.

## Notable Industry Developments

- Oil major Chevron agreed to buy biodiesel refiner Renewable Energy Group Inc for $3 billion, as part of a strategy to become a leading supplier of renewable fuels

- Cummins, the world's largest manufacturer of diesel engines, agreed to buy Meritor Inc for $3.7 billion to expand its capabilities in electric powertrains

- Airbus signed an agreement with CFM, the world's #1 manufacturer of commercial jet engines, to develop hydrogen power propulsion. CFM is itself a 50:50 joint venture between General Electric and Safran, which is based in France. Rolls-Royce, another jet engine manufacturer, said it expects electric light aircraft within 3-5 years

- Several listed electric vehicle start-ups reported setbacks during their Q4 earnings releases. Lucid Group cut its 2022 production goals and deferred a model introduction from 2023 to 2024 due to supply chain constraints. Workhorse Group said it would retire its flagship product, saying it was economically unviable. Lordstown Motors said progress on its partnership with manufacturing giant Foxconn was "disappointing".

- Paris plans to ban non-essential car travel from its centre from 2024. The plan is forecast to cut in half the approximately 400,000 daily car journeys currently made through its centre

- President Biden continued to advocate for climate policy. His State of the Union address proposed investments and tax credits for energy efficiency and vehicle electrification, as well as doubling clean energy production. He also published Executive Action on Clean Industry, which provided a modest $8 billion in funding for hydrogen, as well as a range of research and industry coordination efforts. There has not been clear progress on enacting climate legislation, however.

- The UN's Intergovernmental Panel on Climate Change (IPCC) released its latest, 3,700 page, report - *Climate Change 2022: Impacts, Adaptation and Vulnerability*. The report provides a sobering outlook of devastating impact in coming decades and warns in no uncertain terms that "climate change threatens human and planetary health, and the window for us to limit its destruction is rapidly closing."

*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 themes of environmental sustainability and resource efficiency. 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.*

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|---|---|---|---|
| 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 | Citi | Notice period | 1 Day |
| Inception | 2 November 2015 | Buy-Sell spread | 0.25% |
| Total management costs | 1.2% | AUM *(28 Feb 2022)* | AUD 621.5m |
| Platform Access | AMP North, BT (Wrap, Panorama, Asgard), CFS FirstWrap, Hub24, IOOF OnePath, Pursuit & Rhythm Macquarie Wrap, Mason Stevens, Netwealth, OneVue, Powerwrap, Praemium, WealthO2, Xplore Wealth and ASX mFunds (NUK01) | | |


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