Nanuk New World Fund

Monthly Report -January 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 (%)	**2.1**	**2.0**	**14.6**	**27.5**	**21.8**	**16.3**
Benchmark Return[2] (%)	2.2	2.4	15.8	25.1	20.3	14.0
Value Added (%)	(0.1)	(0.4)	(1.3)	2.4	1.5	2.3
MSCI ACWI Return[3] (%)	2.0	3.6	12.7	19.5	14.6	8.7
Value Added (%)	0.1	(1.6)	1.9	8.0	7.2	7.5

Macro and industry commentary

Key themes associated with environmental sustainability saw continued progress in the new year.

The **mobility revolution** continued apace. Toyota Motors announced that the target it set in 2015 to sell 1.5 million hybrid and fuel-cell vehicles within 5 years had been reached in just 2 years. General Motors announced plans to road-test a car with no steering wheels or brakes by 2019. Revealingly, one of its challenges is that the relevant US regulator, the National Highway Transportation Safety Authority, is currently operating without an administrator; the last administrator left and joined an autonomous driving start-up! Waymo, Google's autonomous driving unit, announced next steps for its roll-out: it will purchase "thousands" of vehicles this year, up from 500 in 2017 and 100 in 2016, and begin commercial service following operation of its free test service for select customers that began last April. Ford Motor announced it would double its investment in electric vehicles to $11b by 2022, while Nissan unveiled a 1 trillion Yen (US$9b) program with the same deadline.

Another positive development for vehicle electrification was the resolution of a royalty dispute between SQM, a leading lithium miner, and Corfo, Chile's national development agency. This will enable SQM to proceed with development of its large lithium reserves in South America and help to meet the significant growth in **lithium supply** required to support the rapid growth in electric

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 vehicle sales forecast in coming years. In the UK, grid operator National Grid plc announced plans to have a public "ultra-rapid supercharger" within 50 miles of 96% of the UK's driving population by 2021. A continued trend of a different sort was Tesla's ability to polarise opinions. The company delayed its target for scaling Model 3 production a third time, this time to June 2018. Tesla's autonomy capability was ranked last of 19 companies by research house Navigant; the company is currently in mediation over a class-action lawsuit by customers claiming it promised autonomous driving features that do not exist. Nevertheless Tesla's shares rose around 14% during the month.

In renewable energy, the US solar tariff investigation that has dominated headlines since April 2017 came to a relatively positive conclusion for the industry. President Trump approved tariffs on most imported solar modules, in line with recommendations from the International Trade Commission made in October 2017. Tariffs will begin at 30% in 2018, but will step down by 5% a year to 15% by 2021 when the program will be reviewed. Suniva, the plaintiff that filed the trade case that began the investigation, had initially applied for a fixed minimum price equivalent to a tariff of well over 100%, so 30% falling to 15% is a relatively favourable outcome. The US solar industry may now enjoy a rare period of policy certainty, with both trade and tax policy set through to at least 2021. Leading Chinese manufacturer Jinko Solar followed the tariff announcement with plans to build a solar module factory based in the US, though details remain scant. For Sunrun, a Fund investment which develops residential solar systems, the tariffs will represent less than 5% of total system costs and are not expected to have a significant impact on the business. For SolarEdge, another Fund investment, the tariffs are not expected to impede the growth in residential and smaller scale commercial solar systems that represent a large proportion of the company's end markets.

Jim Robo, CEO of NextEra Energy, a leading US utility and one of the worlds largest owners of renewable energy assets (also a Fund investment) stated recently that he expects new **renewable capacity** will be cheaper than running existing coal or nuclear plants on an unsubsidised basis by the early 2020s. NextEra estimated coal and nuclear generation costs at ~3.5-5c/KWh, with solar at 3-4c/Kwh and wind as little as 2-2.5c/kWh! Independent research bodies such as Bloomberg New Energy Finance have previously forecast this tipping point, but it is especially notable coming from a publicly listed company which remains a major nuclear operator and had owned significant coal capacity albeit now largely retired. Elsewhere in the US, NY governor Andrew Cuomo pledged to support the development of 1.5GW of energy storage by 2025, exceeding California's 1.3GW (although nearer-term) target. The development of energy storage resources is part of a broader plan to meet a commitment to 50% renewable energy by 2030.

Outside of the US, Denmark announced that wind generation provided 43.4% of the country's electricity in 2017, a new record. China reported that the curtailment rate (the proportion of potential generation that could not be exported to the electricity grid needing to be "curtailed") was down by 30% for wind generation and over 40% for solar in 2017, achieved despite the significant deployment of solar capacity during the year. This is evidence of the success of China's investment in its grid to export renewable power from generation locations to demand centres, as is improved planning around where renewable capacity is built and the recently introduced 'market mechanisms' allowing direct sale of electricity to users. Australia saw investment in renewable energy rise by more than 150% in 2017 (to US$9 billion), placing the country 7th on a global basis. Australia's rapid rise in investment was driven by strong growth in **rooftop solar**, with more than 1 gigawatt of solar generation installed, and a rush to develop utility scale projects to meet the impending mandated Large Scale Renewable Energy Target.

Renewable packaging also saw positive developments. This appears to be at least in part due to a program by the BBC's flagship Blue Planet program on plastic pollution, first broadcast in November 2017. Early this year UK Prime Minister Theresa May unveiled plans to tackle plastic pollution. While these were largely dismissed as a political stunt, actions by corporations may be more significant: McDonald's unveiled plans to manufacture 100% of its packaging requirement from sustainable materials by 2025 (50% currently) and for 100% of its restaurants to recycle the packaging they use (10% currently). Coca Cola announced plans to recycle "the equivalent" of all its packaging, manufacturing 50% recycled content by 2030. Clearly brands are responding; Coke's CEO James Quincey wrote a blog post that appears to be influenced by the Blue Planet episode.

News around **sustainability** featured in the asset management industry too, with year-end reports showing continued spectacular growth in Green Bonds. The Climate Bonds initiative announced issuance that was up 78% YoY ($155.5b) and it forecasted $250-300b of issuance in 2018. Green Bonds are used for initiatives including renewable energy, low-carbon buildings, and energy efficiency investments.

Market commentary

Global equities made a strong start to 2018. The MSCI All Country World Total Return index rose 5.6%, although this was in part due to sharp depreciation of the US dollar against other major currencies during January and in Australian dollar terms the index rose 2.0%. Against this background, the US' S&P 500 index performed strongly (+5.6%), Europe's Stoxx 50 index rose 3%, and Japan's Nikkei 225 index was up 1.5%. Hong Kong's Hang Seng index, last year's best major regional performer, had another stellar month, rising 9.9% in local currency terms. Environmental equities out-performed traditional global equity benchmarks marginally, with the Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return Index, rising 5.8% in US dollar terms (2.2% in Australian dollar terms).

Fund commentary

The New World Fund performed in line with broader markets, rising by 2.1% in Australian dollar terms. The top contributor was UK based online supermarket company Ocado, which performed strongly after signing a major technology supply deal with Canada's #2 grocer. The Fund's position in the stock was significantly reduced following this latest move; the stock had close to doubled since the Fund first acquired the position in November 2017.

Positions in the **automotive sector** as well as European industrials also performed well in a month in which discussion around strong global growth featured heavily. Here too the Fund's exposures were reduced during the month as valuations became less attractive. The biggest drag on Fund performance came from component suppliers with exposure to the smartphone cycle, which under-performed as Chinese smartphone demand remained weak and Apple's calendar Q1 forecast came in below expectations.

At the end of January 2018 the Fund's largest sector exposures are 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												2.1

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%

Contact Details

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