NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Monthly Report – January 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 (%)	**5.2**	**5.2**	**31.5**	**14.1**	**18.4**	**15.3**
Benchmark Return[2] (%)	4.4	4.4	32.8	14.3	17.8	14.2
Value Added (%)	0.8	0.8	(1.3)	(0.2)	0.6	1.1
MSCI ACWI Return[3] (%)	3.8	3.8	26.4	14.0	15.8	11.2
Value Added (%)	1.4	1.4	5.1	0.2	2.7	4.1

Fund Commentary

The Fund returned 5.2% in January, outperforming its environmental equity benchmark index by 0.8% and the MSCI All Country World Net Total Return Index by 1.4%.

The largest contributor to monthly performance was US solar residential leasing company SunRun. Solar inverter manufacturer SolarEdge also contributed positively and the Fund exited this position after its significant share price rise over the last 12 months. The Fund's outperformance was also supported by the strong performance of more defensive stocks within the portfolio, in particular US waste management companies Waste Management and Republic Services Group and US water utility Aqua America, as well as positions in information technology and information services companies.

Global equity indices fell during January and the strong total return was largely attributable to the significant weakening of the Australian dollar.

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

Two new companies were added to the Fund during the month. SIG Combibloc Group is a Swiss company that is the global number two in aseptic packaging. (The number one is private company Tetra Pak.) Aseptic packaging offers lower environmental impact, is fully recyclable and contributes to reduced food wastage through long shelf life and the company stands to benefit from the global movement away from plastic packaging and single use plastic products. SIG Combibloc has an attractive "razor-razor blade" business model in which they sell and maintain equipment as well as selling consumable packaging materials. Nuance Communications is a leader in automated speech recognition, natural language understanding, biometric speaker authentication, and conversational artificial intelligence with a focus on Healthcare applications. The company's profitability and financial position had deteriorated following a series of acquisition and the company is now undergoing a turnaround under a new management team appointed in 2018.

Market Commentary

Global equities ended January slightly down but it was a month of two halves. Equity markets rose during the first half of the month, consistent with expectations of improving global growth and anticipated fiscal stimulus in Europe, the US and China this year, but fell sharply as information emerged from China of initial mortalities and the rapid spread of novel coronavirus and governments began taking actions that are likely to impact economic activity.

The MSCI All Country World Net Total Return Index was down 1.1% (in US dollar terms). Asian equities led the declines with Hong Kong's Hang Seng Index down 6.7% and Japan's Nikkei 225 Index down 1.9%. Chinese equity markets were closed at the end of the month but fell sharply when markets reopened in early February. European equities also fared poorly with the Stoxx50 Index down 2.8%. The US S&P500 Index fared better, falling 0.2%. Government bond rates rallied, with the yield on US 10 year treasuries falling to 1.5%, and commodities also fell with WTI crude down 15% and economically sensitive metals such as copper and nickel falling. The Australian dollar was notably weak, falling 5% against the US dollar.

Environmental equities outperformed traditional global equity indices, with the Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return (EOAS) Index, down 0.6% in US dollar terms but up by 4.4% in Australian dollar terms. The outperformance of the EOAS index can be attributed to the remarkable rise in the share price of Tesla, which rose 56% in January (and subsequently as much as 112% from the start of the year) in a dramatic rally driven by short covering amid better than expected Q4 deliveries and the commencement of production in China. Consistent with broader markets, technology services businesses and more defensive components of the index such as utilities and waste management outperformed while companies leveraged to industrial production generally underperformed.

At this point it remains difficult to assess the potential impact of the Wuhan novel coronavirus on markets and the Fund. The Fund has limited direct exposure to China domiciled companies (~0.5% of the portfolio in one Hong Kong listed company) and the weighted aggregate of company exposure to China (as a percentage of revenue) across the portfolio is small (~5.5%), slightly more than half that of the Fund's benchmark and traditional global equity indices. The indirect consequences of the outbreak are likely to be far reaching with some impact on global economic growth and industrial production almost certain, although industries such as tourism likely to be more seriously affected in the short term.

Industry Commentary

Policy developments in the new year continued to echo the remarkable step change in global climate change ambitions seen in 2019.

The European Union unveiled the framework of its Sustainable Europe Investment Plan which is intended to mobilise at least 1 trillion euro in sustainable investment over the next decade in line with the European "Green Deal" outlined in December. Legislation bringing into law the targets to reduce carbon emissions by more than 50% by 2030 and achieve carbon neutrality by 2050 is expected to be adopted in March. The Investment Plan includes a Just Transition mechanism of up to 100 billion euros that would assist coal dependent countries such as Poland to make the significant changes needed. In a more specific measure, the EU has indicated requirements for data-centres, which today account for around 2% of global electricity consumption, to be carbon neutral by 2030.

There were several significant announcements in Germany where the government approved an 86 billion euro investment program for the German rail network Deutsche Bahn. Modernising the rail network is seen as critical to significantly increasing long distance rail patronage and reducing overall transport emissions. Germany, which has struggled to meet its own emission reduction targets, also adopted its coal exit law which will see the country end coal fired power generation by 2038 at the latest. Germany also outlined plans to support the development of up to 5GW of renewable hydrogen production for use in industry, a huge increase to current global capacity which will be an important policy step to allow this technology to mature and reduce costs.

In the UK, Prime Minister Boris Johnson announced that Britain will ban the sale of new petrol, diesel and hybrid cars from 2035, five years sooner than previously planned.

In the US, the Democrats unveiled legislation in the House of Representatives that targets the US to achieve net zero emissions by 2050. The legislation, which will require 100% clean energy and mandate emissions reductions in the transport, building and industrial sectors, is not expected to garner support in the Republican controlled Senate and White House. Meanwhile however New York State has taken more tangible steps to improve energy efficiency with an additional $1.9 billion of funding (on top of $4.9 billion already allocated) for energy efficiency measures including heat pumps. The measures are aligned with New York's target to achieve net zero emissions by 2050.

Five countries including the UK and France have now adopted net zero carbon emission targets into law with another dozen with targets outlined in policy documents or proposed legislation. The Energy & Climate Intelligence Unit Net Zero tracker (https://eciu.net/netzerotracker) has over 100 countries listed as having targets under discussion, notably not including Australia.

Individual companies also continued to announce ambitious voluntary targets. Microsoft (in which the Fund holds a position) vowed to make its operations 'carbon negative' by 2030 and to go beyond achieving net zero emissions by removing carbon from the atmosphere equivalent to its total emissions since the company was founded in 1975. The company has committed to using 100% renewable energy by 2025 and plans to significantly improve energy efficiency at its operations but the new plan will likely also require new technology such as direct air capture of carbon dioxide. UAE national airline Etihad announced its commitment to halving its carbon emissions by 2035 and achieving zero net carbon emissions by 2050. The reductions are expected to be achieved, in part, through carbon offsets.

UK retailer Sainsbury announced its commitment to investing GBP1 billion over 20 years to achieve net zero emissions by 2040 as well as reducing food waste, plastic packaging and water usage and increasing recycling, biodiversity and healthy and sustainable eating. Also in the consumer goods space, Nestle SA announced it will invest up to CHF2 billion to lead the shift from virgin plastics to food-grade recycled plastics and to accelerate development of innovative sustainable packaging solutions. The Fund has made several recent investments in companies that stand to benefit from the accelerating shift away from plastic packaging and towards recyclable alternatives. In addition to SIG Combibloc, discussed above, the Fund has positions in US based paper packaging leader WestRock Company and Finnish capital equipment company Valmet, which is a leader in equipment for the paper and packaging industry.

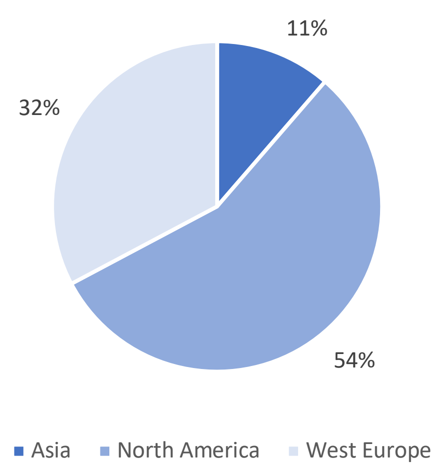
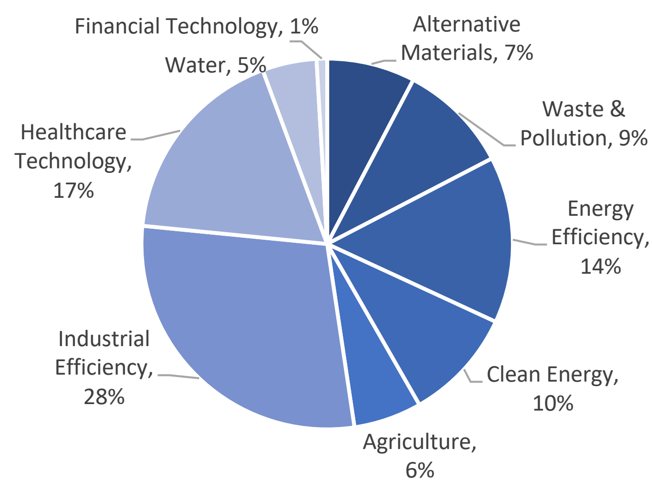
Vestas, the world's leading manufacturer of wind turbine generators, announced it will invest in about 5,000 electric or zero-emission vehicles as part of the company's target to achieve carbon neutrality by 2030 without the use of offsetting credits. The company has also announced a 'zero-waste' ambition and has pledged to eliminate all waste in the production of its products by 2040. Details of the plan, which will deal with end-of-life treatment of its products as well as manufacturing, are to be published in the next two years. The Fund exited its position in Vestas last year after a period of strong performance.

There have also been several interesting highlights of progress on autonomous driving technology at the beginning of 2019. Waymo, the autonomous driving subsidiary of Google parent company Alphabet, announced its vehicles had travelled more than 20 million miles on public roads since 2009. Notably the first 10 million took 10 years and the last just over one year. The US National Highway Traffic Safety Administration announced (in early February) that it had granted permission for self driving robot company Nuro to deploy its driverless grocery delivery vehicles on public roads, making

Nuro's autonomous vehicles the first to be exempted from conventional car safety standards. The approval is likely to pave the way for others. GM announced that its Super Cruise semi-autonomous driver assist system was to be upgraded to feature lane changing capabilities similar to Tesla's Autopilot. The system is to be deployed across 22 models by 2023.

Whilst Tesla stole the headlines in the electric vehicle space, Ford subsidiary Lincoln confirmed it is developing a fully electric SUV in partnership with Rivian. Ford invested $500 million in Rivian last year that has been followed by significant investments from the likes of Amazon. Rivian plans to begin production of its own electric SUV and pick up truck this year.

Finally in Australia, AGL announced it was supporting the development of a 100MW / 150MWh battery energy storage system at Wandoan in Queensland. The system, of similar size to the Tesla provided Hornsdale Power Reserve in South Australia, will improve the reliability of the grid and support the integration of renewable energy. The Hornsdale project itself is currently being expanded by 50MW and will be used as the first large scale demonstration of a battery energy storage system providing 'interia services' to the grid – a feature of conventional 'spinning' generation that helps to maintain stable frequency when electricity supply and demand fluctuate and often cited as one of the impediments to high levels of renewable energy penetration.

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 31 January 2020

Security Name	Weight (%)	Country	Sector
Carlisle Companies Incorporated	4.0	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.2	UNITED STATES	Waste & Pollution
RELX PLC	3.2	UNITED KINGDOM	Healthcare Technology
Microsoft Corporation	3.1	UNITED STATES	Industrial Efficiency
Sunrun Inc.	3.1	UNITED STATES	Clean Energy
Air Liquide SA	3.0	FRANCE	Alternative Materials
Republic Services, Inc.	2.8	UNITED STATES	Waste & Pollution
Lear Corporation	2.6	UNITED STATES	Energy Efficiency
Varian Medical Systems, Inc.	2.4	UNITED STATES	Healthcare Technology
West Japan Railway Company	2.4	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 Jan 2020)*	AUD 250.3m		

Contact Details

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