Nanuk New World Fund

APIR SLT2171AU

Monthly Report – July 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 (%)	**2.8**	**3.2**	**7.6**	**23.3**	**20.5**	**16.2**
Benchmark Return[2] (%)	2.8	4.0	2.8	19.1	16.8	12.5
Value Added (%)	0.0	(0.8)	4.8	4.2	3.7	3.7
MSCI ACWI Return[3] (%)	2.4	4.2	5.8	19.2	15.2	9.3
Value Added (%)	0.4	(1.0)	1.9	4.2	5.3	6.9

Macro and industry commentary

Renewable energy reached a notable milestone in July, as global wind and solar capacity reached 1,000 GW (1 terawatt), roughly equal to the total generating capacity of the US and around 15% of total global generating capacity. Leading research house Bloomberg New Energy finance expects the next terawatt of capacity to take just 5 years, as the cost of both technologies continues to fall and deployments continue to accelerate around the world.

Whilst the longer-term proliferation of renewables will be driven by superior economics, near term growth is still strongly influenced by government policy. There were a number of significant announcements during July. China announced plans to reduce carbon intensity, calculated as emissions per unit of GDP, to 35% of a 2005 baseline by 2030, a further move from the prior target (55% by 2020) that was achieved last year. Denmark's government announced a bipartisan agreement to target 55% renewable energy by 2030, including the development of a large amount of offshore wind. Interestingly the plan also outlines a large reduction in the number of onshore wind turbines in operation as smaller turbines are replaced with newer, more efficient, larger models. Lithuania set a target of 45% renewable energy in its energy mix by 2030 and 100% by 2050, with wind energy set to account for over half. Ireland became the latest country to issue major renewable tenders as it seeks to hit EU renewable targets of 30% by 2030. Sweden is set to reach its 2030 target this year, as cheap Wind drives renewable installation. Outside the EU, Israel also issued

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
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targets to rapidly triple renewable penetration, from 3 to 10% by 2020.

The challenges of investing in the renewables industry were highlighted again in July. Yingli Green Energy Holdings, only a few years ago the largest manufacturer of PV solar panels globally, announced its delisting from the NYSE as the company struggles with its unsustainable debt levels. Yingli joins a long list of once leading solar companies that have destroyed significant value for shareholders as they have pursued growth in the face, including SunEdison, SunPower and Hanwha Solar. The Fund's exposure to renewable energy remains limited and selective. Positions in SolarEdge and SunRun have been reduced recently following strong performance. As discussed in recent reports the Fund has increased exposure to the potential (and likely) growth in wind installations in coming years through its position in leading wind turbine manufacturer Vestas.

Recent government policy news was not all positive however. In Canada, Ontario's new conservative Premier continued his plans to rollback renewable energy, claiming to cancel 750 early stage contracts. The legality of these steps is unclear, with developers insisting their contracts cannot be unilaterally abrogated. In the US, the Environmental Protection Agency's fossil fuel friendly Administrator, Scott Pruitt, resigned after a long string of ethics challenges, but was replaced with a former coal lobbyist, and the EPA's policy agenda appears unchanged. In particular, efforts to reduce fuel economy standards for vehicles continue, with the EPA issuing a formal rule proposal. It remains unclear what outcome if any will result from this process.

In finance, the Church of England announced its $17b endowment would, by 2023, divest any fossil fuel company lacking decarbonisation strategies not in alignment with the Paris Climate Change Accord.

In mobility, the wave of corporate restructuring continues as manufacturers realign their businesses to the mobility revolution. Daimler, subject to shareholder approval, will create three largely autonomous divisions – cars, trucks, and mobility. Ford Motor announced Ford Autonomous Vehicles LLC to contain its autonomy services. Continental, a leading automotive supplier and a company owned by the Fund, announced a more limited restructuring, renaming its "Chassis & Safety" unit "Autonomous Driving Technologies" and IPOing its powertrain unit, which has more exposure to legacy engines. In the UK, the government released further details of its "Road to Zero" plans which aims for 100% EV penetration for new cars by 2040. While long-term in nature, the key short-term focus is on charging infrastructure, including over $500m of fund as well as regulatory support. Conservative politicians continued to challenge the industry. As discussed below, the Fund continues to hold a number of positions in the automotive industry that we believe will benefit from the transition towards electrification and autonomous driving technology.

Market commentary

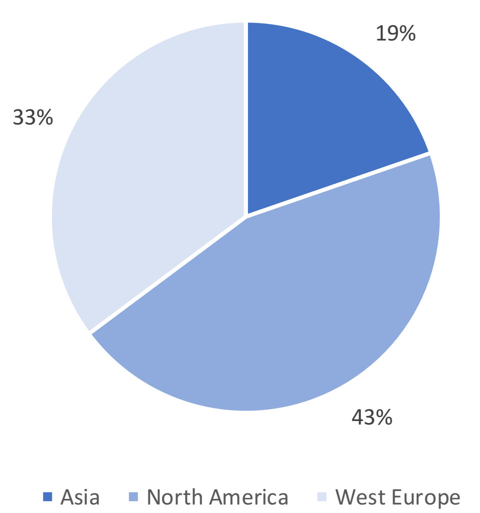
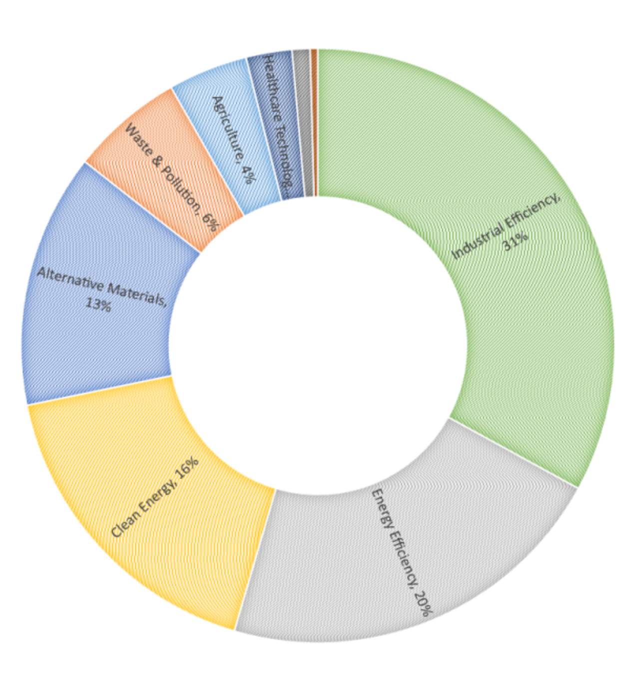
Global equities had a strong month, with the MSCI All Country World Total Return Index rising by 3.0%. The US' S&P 500 and Europe's Stoxx 50 led the way, rising 3.6 and 3.8% respectively, but Asian markets were noticeably weaker. Japan's Nikkei 225 rose 1.1% and Hong Kong's Hang Seng index fell 1.3%, amid deteriorating expectations for the China economy, also reflected in a further 3% decline in the Renminbi. This appears to reflect both internal and external factors in China: internally, multiple indicators of credit availability have tightened; externally, President Trump's 25% tariff on $34b of Chinese imports came into effect, and discussion continues around larger tariffs worth up to $200b. Environmental equities out-performed traditional markets slightly in July, with the Fund's benchmark (the FTSE Russell Environmental Opportunities All Share Total Return Index) rising 3.4% in US dollar terms (2.8% in Australian dollar terms).

Fund commentary

The Fund posted a 2.8% return in the month of July, slightly outperforming its benchmark index. There was a broad range of companies that contributed positively during the month, with larger positive contributions coming from US building materials supplier Carlisle Corporation, US waste management leader Waste Management, collaborative robotics leader Teradyne, solar inverter leader SolarEdge and sustainable textiles leader Lenzing. The funds' positions in Norwegian salmon farming businesses also performed well.

Gains in these areas were offset by losses on automotive suppliers, whose recent results have been impacted by rising steel prices (particularly in the US, where tariffs were imposed in March), reduced production in Europe to transition to new, tighter emission standards following on from 2015's emissions cheating scandal, moderation in China's growth cited above and concerns about the impact of potential tariffs. These stocks have underperformed significantly this year and we see the recent reaction as an opportunity to add to positions in companies that are well positioned to benefit from the longer-term evolution of the automotive industry.

At the end of July 2018 the Fund's largest sector exposures are in composite materials, sustainable materials, waste management, high speed rail, automotive electrification and autonomy, building energy efficiency, the industrial internet of things, industrial automation and battery manufacturing. 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 in a socially responsible and ethical manner.

Regional Weights (%)	**Sector Weights (%)**
	

Top 10 Holdings as at 31 July 2018

Security Name	Weight (%)	Country	Sector
Lenzing AG	4.7	AUSTRIA	Alternative Materials
Valeo SA	4.3	FRANCE	Energy Efficiency
Carlisle Companies Incorporated	3.5	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.3	UNITED STATES	Waste & Pollution
ams AG	3.0	SWITZERLAND	Industrial Efficiency
Vestas Wind Systems A/S	3.0	DENMARK	Clean Energy
Toray Industries, Inc.	2.8	JAPAN	Alternative Materials
Lear Corporation	2.8	UNITED STATES	Energy Efficiency
3M Company	2.7	UNITED STATES	Alternative Materials
SolarEdge Technologies, Inc.	2.3	UNITED STATES	Clean Energy

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%
AUM *(31 July 2018)*	AUD 99m		

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