NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Monthly Report – July 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 (%)	**(0.4)**	**(3.6)**	**1.4**	**5.3**	**11.0**	**11.5**
FTSE EOAS Return[2] (%)	3.5	3.0	12.2	11.9	14.3	12.2
Value Added (%)	(3.9)	(6.6)	(10.8)	(6.6)	(3.3)	(0.8)
MSCI ACWI Return[3] (%)	1.1	(3.2)	3.0	7.0	10.9	8.3
Value Added (%)	(1.4)	(0.4)	(1.7)	(1.7)	0.1	3.2

Fund Commentary

The Fund was down 0.4% in July, lagging global equity benchmarks such as the MSCI All Country World Net Total Return index by 1.4% and the Fund's environmental equity benchmark, the FTSE Environmental Opportunities All Share Total Return Index by 3.9%.

The largest contributor to performance was the Fund's position in leading semiconductor fabricator TSMC, which reported a strong increase in quarterly profits that was supported by faster than anticipated adoption of 5G technology in mobile devices and is seen as a beneficiary of increasing outsourcing of semiconductor manufacturing to a declining number of companies with the capabilities to produce high performing semiconductors at increasingly challenging (smaller) sizes. Notably, Intel announced that production of its next generation of processors would be delayed and that it would seek to outsource some of its manufacturing, likely to TSMC.

The Fund's positions in leading global industrial gas businesses Air Liquide and Air Products and Chemicals performed strongly, with both

Notes (1) Inception date 2 November 2015 (2) 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 businesses reporting relatively stable results during the prior quarter and Air Products and Chemicals announcing a US$5b project to produce green hydrogen from renewable energy in Saudi Arabia. This was by the far the largest such project announced globally and indicative of the strong position from which the company and its peers such as Air Liquide will compete in the development of green hydrogen infrastructure globally. The Fund's positions in diagnostic technology companies also performed well during the month, with companies such as PerkinElmer and Danaher Corporation benefitting from the increase in diagnostic testing associated with COVID-19. Analytical instrument company Waters Corporation, a company the Fund recently invested in on the basis of its potential to improve returns, rose strongly on the announcement of a new CEO. Medical diagnostic technologies leaders Siemens Healthineers, Philipps and Varian Medical Systems all rose during the month. Subsequently Siemens Healthineers has announced that it will acquire Varian at a substantial premium from which the Fund will benefit despite a related fall in Siemens Healthineers share price.

The major underperformers during the month were Intel, which fell sharply on the abovementioned announcement regarding the delay of its next generation processors, and the Fund's positions in the three leading Japanese high-speed railway operators which have all seen substantial falls and limited recovery to date in ridership on shinkansen (high speed) routes as a result of COVID-19.

The Fund's portfolio remains concentrated in companies for which we believe there is higher than average certainty about short and medium term earnings in a period of ongoing economic weakness and uncertainty. This approach has contributed to underperformance relative to benchmarks in recent months as many more cyclical stocks have outperformed in anticipation of economic recovery.

The Fund's underperformance during July against environmental equity indices also reflected the exceptional recent returns from stocks such as electric vehicle companies Tesla, NIO and BYD and renewable energy companies such as SunRun (a previous holding of the Fund) and Vivint Solar, which both rose strongly after announcing an agreement to merge. Whilst the Fund does have some exposure to vehicle electrification and renewable energy through equipment and component suppliers into these industries, our approach seeking companies of good financial quality, likely to benefit from the manner in which their industries are evolving and at prices that provide for attractive potential returns based on our assessment of their prospective value has led us to be cautious in pursuing the rapid rise in share prices seen in these areas in recent months. Although it is understandable that investors broadly are seeking increasing exposure in these areas, we believe that at current prices it is unlikely that many of these companies will achieve the longer term growth in profits and cash flows implied by their current valuations. This is particularly the case in capital intensive industries that are seeing falling prices and increasing competition. Tesla's recent share price performance has been particularly prominent and has seen its market capitalisation exceed the combined capitalization of Volkswagen Group, Daimler (Mercedes), BMW, Ford, General Motors, Fiat Chrysler, Renault and Peugeot. To some degree this reflects that the company has surprised many by gaining market share recently in the face of emerging competition in the premium electric vehicle space, but it is priced in such a way now that it will need to continue to do so at improving levels of profitability as competition continues to escalate in coming years – with a significant risk that this will not be what eventuates. Our approach remains to seek out companies that will be able to grow profitably but where that growth is not so fully reflected in share prices and where the industry dynamics are likely to be favourable.

Market Commentary

Global equity markets were mixed during July. The MSCI All Country World Net Total Return Index rose by 5.1%. US equities performed strongly with the US S&P 500 Index up 5.5% and were led once again by technology stocks, with the NASDAQ Composite index up 6.8%. Chinese equities also performed strongly, with the Shanghai Shenzhen CSI 300 Index up 12.8%, although this was not reflected in the performance of the Hong Kong market with the Hang Seng Index up only 0.7%. European and Japanese equity indices lagged, with Europe's Stoxx50 Index down 1.8% and Japan's Nikkei 225 Index down 2.6%, with the performance of these markets impacted by the weakening of the US dollar against both the Euro and Japanese Yen. The Australian dollar also strengthened against the US dollar during the month, correspondingly reducing the reported Australian dollar denominated returns of the Fund and reference indices.

Environmental equities, as represented by the FTSE Environmental Opportunities All Share Total Return Index performed strongly in July, outperforming broader global equity benchmarks by around 2.5%. Half of this was accounted for by the performance of Tesla, whose shares gained a further 33% in July after the company reported another quarter of profitability that qualified the company for potential inclusion in the S&P500 Index. Other areas of strong performance included industrial gas suppliers, diagnostic technology, renewable energy developers and equipment suppliers and industrial automation equipment suppliers. The fund holds a number of positions across these areas, notably in industrial gas and diagnostic technology, discussed above.

Industry Commentary

July saw a continuation of sizeable green stimulus commitments around the world. As mentioned in last month's report Democratic Presidential Nominee Joe Biden outlined his ambitious energy and climate platform that would see the US embrace a 2050 net zero carbon emission target as well as a shorter term 2035 100% renewable energy target, adopt national energy efficiency and clean energy standards and implement policies and financing mechanisms to support $2 trillion of investment over a 4 year term. The plan, which would be unlikely to receive Congressional support unless the Democrats win control of the Senate, also aspires for the US to overtake China as world leader in the manufacturing and deployment of electric vehicles. Suffice to say if the Democratic Party does achieve control of Congress and Biden becomes President the stage is set for a transformation change in support for sustainable technology and infrastructure in the US. Time will tell. Meanwhile, a bipartisan group of governors representing 15 states from across the nation and the District of Columbia announced a joint commitment to eliminate toxic air pollution from new medium- and heavy-duty truck and bus sales by 2050, with a target 30% of new truck and buses to be zero-emission by 2030.

Elsewhere South Korea's government announced a US$61b Green New Deal stimulus package to be invested over the next five years and focused primarily on accelerating the development of renewable energy generation, in particular rooftop solar and offshore wind, and the uptake of electric and fuel cell vehicles. The government also announced a US$48b Digital New Deal plan to update and strengthen its digital infrastructure. In Europe, France announced EUR35 billion of funding for environmental projects including home energy efficiency, rail freight, extending bike lane networks and supporting electric vehicles. The funding is part of an EUR100 billion stimulus package that President Macron announced with the ambition to transform France into the most carbon free economy in Europe. In the UK the government announced a GBP3 billion program directed at improving energy efficiency in buildings, with GBP1.3b to be spent on public building projects and GBP2b available under a Green Homes Grant program to enable up to 600,000 homeowners to undertake upgrades such as insulation, double glazing, ground source heat pumps, energy efficient doors and heat controls. The UK also announced a GBP350m program to drive down emission in heavy industry, construction and transport – including scaling up of hydrogen use – and an Automotive Transportation Fund that will provide up to GBP1.1 billion in funding for industrial research and capital projects to support the development of a value added, electrified automotive supply chain in the UK.

Renewable energy saw a major milestone during July when China announced a batch of approvals for subsidy free renewable energy projects that will receive only the prevailing coal power reference prices in their respective regions. The approvals totaled 45GW of which the majority was solar projects. Further approvals are anticipated later this year and although not all of the projects may end up being developed it provides a clear indication that solar and wind generation are now competitive with coal generation in roughly two-thirds of China. In Australia the government granted 'major project status' to the proposed Australian-ASEAN Power Link project in Western Australia, which contemplates developing the world's largest solar farm and battery system in Australia's Northern Territory and connecting it to Singapore and Indonesia via a 3,700km undersea cable. Similar projects have been muted in other countries and it is not clear whether the demand exists to support the economics of the project. In the US, leading renewable energy developer NextEra Energy announced that it is planning to run one of its Florida based gas power plants in part on hydrogen produced from solar.

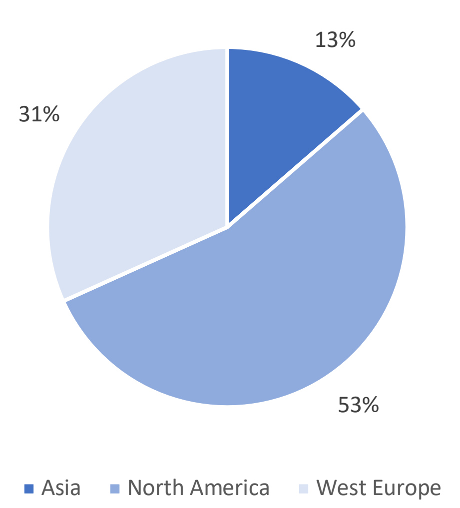
The automotive sector saw several announcements related to the development of battery production in Europe to support an anticipated rapid rise in production of EVs by European auto manufacturers. BMW, which recently announced it will product electric versions of its high selling 5 series sedan and X1 SUV, signed a deal with Swedish company Northvolt for the delivery of EUR2bn of battery cells commencing in 2024. Northvolt secured $1.6b in debt from banks and pension funds to finance its expansion plans two factories in Sweden and Germany. Interestingly BMW also announced it will develop a hydrogen version of its X5 SUV using fuel cells from Toyota. Mercedes announced that it is partnering with Chinese lithium-ion battery leader Contemporary Amperex Technology (CATL) to provide battery systems for its EQ line of electric vehicles. CATL is constructing a battery factory in central Germany. Finally, French start-up Verkor, a company backed by investors including EIT InnoEnergy SE, Schneider Electric SE (a company owned by the Fund) and French real estate company Groupe IDEC SAS, announced that it is looking to build a 18GWh capacity battery factory in France at a cost of around EUR1.6b to meet growing demand from European auto manufacturers.

Electric vehicle charging infrastructure, which is set for a big boost as a focus area of many stimulus programs, reached a notable milestone during the month with more than 1 million charging points now installed globally. Private company ChargePoint, builder of the world's largest EV charging network, raised $127m during the month. The company has more than 115,000 charging points globally and plans to expand that to 2.5 million by 2025.

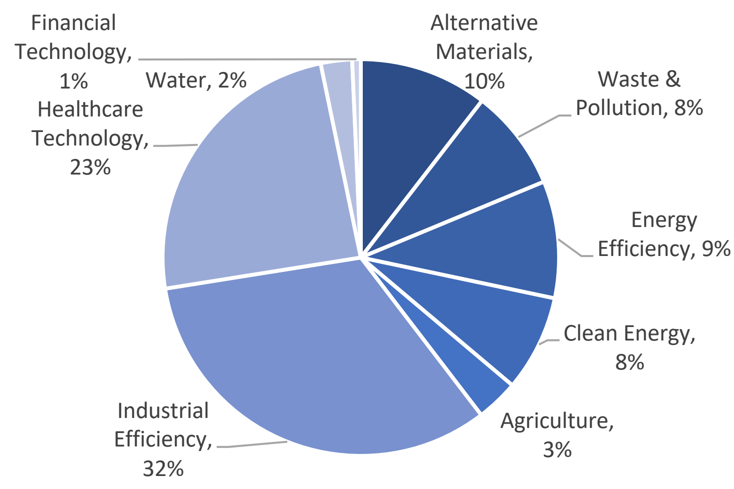
In autonomous driving technology, Waymo and Fiat Chrysler (FCA) announced an extension of their partnership that will see Waymo responsible for development of fully self-driving technology across all FCA product lines. The exclusive relationship is similar to deals announced between Waymo and Volvo, the Renault-Nissan-Mitsubishi alliance and Jaguar Landrover.

Finally, COVID has not stopped corporates from pursuing decarbonization. Apple made a significant pledge to achieve carbon neutrality across its entire value chain by 2030. The company already claims to be carbon neutral in its own right, but now seeks to achieve emission reduction across its supply chain of 75% by 2030, and to develop 'carbon removal solutions' to address the remaining 25%. Vodafone Europe Network announced it is to be 100% powered by renewables by 2021. Indian industrial conglomerate Reliance Industries announced it has set a target to replace transportation fuels with electricity and hydrogen to become carbon neutral by 2050. General Motors announced that it is working with electric-vehicle charging operator EVgo to build a nationwide fast-charging infrastructure as the automaker prepares a major push into battery-powered models. The two companies will jointly invest in 2,750 fast chargers in cities and suburbs across the U.S.

Regional Weights (%)



Sector Weights (%)



Top 10 Holdings as at 31 Jul 2020

Security Name	Weight (%)	Country	Sector
Air Liquide SA	4.6	FRANCE	Alternative Materials
Waste Management, Inc.	4.6	UNITED STATES	Waste & Pollution
Microsoft Corporation	4.3	UNITED STATES	Industrial Efficiency
Wolters Kluwer NV	3.7	NETHERLANDS	Healthcare Technology
Carlisle Companies Incorporated	3.7	UNITED STATES	Energy Efficiency
Siemens Healthineers AG	3.1	GERMANY	Healthcare Technology
Intel Corporation	3.1	UNITED STATES	Industrial Efficiency
PerkinElmer, Inc.	2.9	UNITED STATES	Healthcare Technology
3M Company	2.7	UNITED STATES	Alternative Materials
Varian Medical Systems, Inc.	2.6	UNITED STATES	Healthcare Technology

Fund Details

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	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 Jul 2020)*	AUD 257.3m		

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