Nanuk New World Fund

NANUK
ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

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

July 2021 Monthly Fund Update

Performance Summary

The Fund returned 6.0% for the month of July, outperforming traditional global equities indices, such as the MSCI All Country World Net Total Return Index (ACWI), by 3.1%, and outperforming the Fund's environmental equities Reference Index, the FTSE Environmental Opportunities All Share Total Return Index, by 1.8%.

The Fund's performance was primarily driven by stock specific returns and, in particular, by companies which saw positive revisions to future earnings estimates on the back of strong earnings reports or upgrades to profit guidance. Pleasingly the returns came from a diverse range of companies.

	1 Month	YTD	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	SI p.a.[1]
Fund Return (%)	**6.0**	**24.3**	**36.0**	**17.4**	**14.7**	**17.0**	**15.4**
Global Equities[2] (%)	2.8	18.7	29.9	15.7	14.1	14.6	11.8
Value Added (%)	3.1	5.6	6.1	1.7	0.5	2.4	3.6
Environmental Equities[3] (%)	4.2	14.5	41.7	26.1	21.1	19.4	16.9
Value Added (%)	1.8	9.8	(5.7)	(8.7)	(6.4)	(2.4)	(1.5)

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

French engineering consultancy **Alten** (+ 20%) is benefiting from the same demand for digital transformation that drove the strong result at Accenture discussed in last month's letter, with the added boost of a manufacturing focused customer base that is increasing activity as it recovers from COVID related shutdowns.

HVAC equipment leader **Carrier Global** (+ 14%) announced the sale of its Chubb Fire & Security business for $3.1b, simplifying the company around its leading air conditioning and refrigeration business which continues to perform well in a strong environment.

Information services leader **Wolters Kluwer** (+ 13%) did not report but nevertheless saw upgrades from multiple analysts on reports of strengthening demand for data services. The company generates high margins and exceptionally high return on tangible capital employed, so any improvements in its organic growth generate considerable value.

UK water utility **Pennon Group** (+ 12%) announced a sizeable special dividend and forthcoming buyback following the sale of its waste management business, Viridor, last year.

Garmin (+ 9%) offers a range of personal activity devices as well as sophisticated navigation systems for the auto, marine and aerospace industries. Garmin is in the fund mainly due to its remarkable innovativeness, which has driven consistently strong revenue growth at attractive margins. Its second quarter result once again easily beat analyst expectations. It also reported that it won the Collier Trophy, awarded each year for the best achievement in American aerospace. Garmin won the trophy for its Autoland system, which is able to land a private plane in the event of a medical emergency disabling the pilot. Winning this trophy, whose past winners include the Apollo 11 crew, is a testament to its innovation.

New Investments

International Flavours and Fragrances is a leading provider of ingredients to the food and personal care industries. The company doubled its size through the acquisition of Dupont's Nutrition and Bioscience Unit. The company's valuation is depressed in part due to fears of a repeat of a poorly executed acquisition in 2018, but indications are that the company has learnt from its experience and the work has been put in to make this transaction a success, creating an opportunity for the company to improve earnings in future years. The company is an interesting potential beneficiary of the growth in alternative, plant based protein, which in many cases requires specialty ingredients and flavourings to replicate the flavour and texture of the meats that they are aiming to replace.

Ciena Corporation is, alongside Huawei and Nokia, one of the leading global providers of networking hardware, the base infrastructure that transports the data our connected society is built on. The company has a strong technology position, particularly in the latest generation 800G optical fibre transceivers, from which it has grown its market share in recent years. The company was impacted by a sharp slowdown in network investment last year as customers deferred technology migration, leading to a significant share price decline. It is now positioned to resume its growth.

Emcor Group is a leading provider of electrical and mechanical building services – it employs the people who install data centres or carry out energy efficiency retrofits. The cyclicality and variability in returns of many similar construction related contracting businesses often leads to depressed valuations but Emcor stands out for its respectable return on capital, its unusually stable earnings, with operating earnings rising for the last 8 consecutive years, and its structural growth arising from its exposure to data infrastructure and energy efficiency.

Amphenol Corporation is a leading provider of electrical connectors and sensors. It generates very high return on its tangible assets which, as in the case of Wolters Kluwer, makes its organic growth very valuable and thanks to megatrends such as vehicle electrification and the internet of things, this growth is now accelerating.

Exited Positions and Other Portfolio Changes

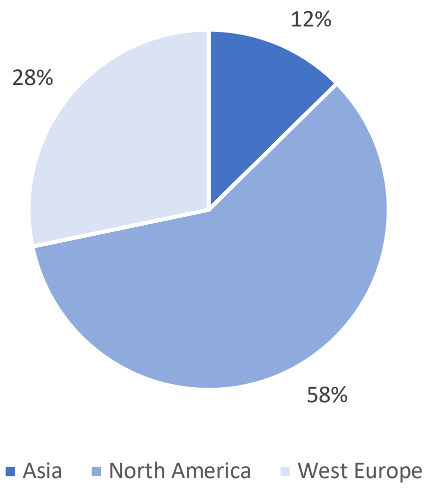
The Fund exited positions in US diagnostic technology company **PerkinElmer** and European water and sanitary equipment leader **Geberit** and reduced positions in **Siemens Healthineers** and cloud-based email security provider **Mimecast** after strong share price rises reduced the relative attractiveness of these stocks compared to other available opportunities.

Top 10 Holdings

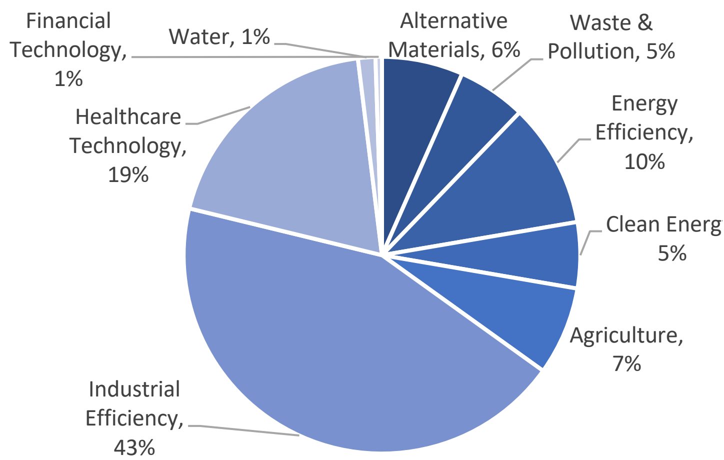
Security Name	Weight (%)	Country	Sector
Siemens Healthineers AG	4.3	GERMANY	Healthcare Technology
Garmin Ltd.	3.9	UNITED STATES	Healthcare Technology
Wolters Kluwer NV	3.2	NETHERLANDS	Healthcare Technology
Air Liquide SA	3.2	FRANCE	Alternative Materials
Alten SA	3.1	FRANCE	Industrial Efficiency
CDW Corp.	3.1	UNITED STATES	Industrial Efficiency
Carrier Global Corp.	3.1	UNITED STATES	Energy Efficiency
Keysight Technologies Inc	3.0	UNITED STATES	Industrial Efficiency
Cognizant Technology Solutions Corporation Class A	2.8	UNITED STATES	Industrial Efficiency
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	2.4	UNITED STATES	Industrial Efficiency

Portfolio Positioning

Regional Weights (%)



Sector Weights (%)



Market Commentary

The performance of global equities markets was mixed in July. Overall, the MSCI All Country World Net Total Return Index was up 0.7% in US dollar terms but the regional picture was varied. Western markets were up, with the US' S&P 500 Index rising 2.3%, and Europe's Stoxx 50 Index up 0.6%. By contrast Asian markets fell, with Hong Kong's Hang Seng Index down 10% and Japan's Nikkei 225 Index down 5.2%. The decline in Hong Kong followed a major regulatory intervention in China's technology sector, with a range of restrictions reaching up to ordering one sub-sector, online tutoring, to become not for profit. The Australian dollar weakened against the US dollar during the month.

Environmental equities, as represented by the Fund's Reference Index, the FTSE Environmental Opportunities All Share Total Return Index, outperformed broader global equities. This was in part due to limited exposure to companies impacted by the Chinese regulatory action mentioned above, but also to the outperformance of industrial stocks and underperformance of traditional energy stocks, in which the index is notably over and underweight respectively.

Notable Industry Developments

- The European Commission announced its 'Fit for 55' package, so named because it aims to reduce the EU's carbon emissions by 55% relative to a 1990 baseline by 2030. The EU set its current 55% target in April, a significant increase from the previous target of 40%. 'Fit for 55' represents the first significant step in implementing more specific legislation to ensure the target is met. The 'Fit for 55' package includes 13 legislative proposals that tackle different aspects of the green transition. Carbon pricing is central to proposals which seek to expand the existing Emissions Trading Scheme to cover previously exempt areas such as buildings and road transport, as well applying a "carbon border adjustment measure" to goods manufactured outside the EU. More specific targets include raising the EU's target 2030 renewable energy share from 32% to 40% and raising the energy efficiency target from a 32.5% reduction to a 37.5% reduction relative to 1990, as well as reducing emissions from new passenger vehicles by 55% by 2030 and entirely by 2035. The measures are anticipated to result in the renovation of up to 35 million buildings by 2030, as well as driving technological change in areas such as marine and air transport. Similar policy initiatives will inevitably follow from the adoption of medium and long-term carbon emission targets in other countries around the world.

- US political negotiations over an infrastructure package are entering a fifth month. The current proposal includes $550b of new spending, 80% less than President Biden's original proposal.

- China's National Emissions Scheme began trading during July. So far the scheme covers only the power sector, and thanks to generous permits, the carbon price is around $8/ton, compared to $64/t in Europe. The scheme will be expanded next year.

- Automakers continued to unveil new, electric vehicle centric, strategies. Mercedes' plan includes a commitment to invest €40b in EVs between 2022-30, a goal of achieving carbon neutrality by 2039, and an intention to transition to solid-stated batteries starting in 2028. Mercedes is also leading its supply chain towards carbon neutrality, citing quantified emissions reductions from steel suppliers, as well as a purchase commitment for carbon neutral steel starting in 2025. General Motors' raised its investment plans in electric vehicles and advanced vehicle technology by $8b, to $35b through 2025. Volkswagen released a 2030 strategy where it forecast "software enabled revenues" will be a key product by 2030, leading it to increase its 2025 margin ambition from 7.5% to 8.5%.

- Tesla reported its first $1b earnings quarter during July, and interestingly also pledged to open its charging network to non-Tesla vehicles later in the year. Tesla's extensive and proprietary charging network has, to date, been a source of competitive advantage for the company and this significant step reflects the likelihood that the rapid expansion of competing open-access networks will soon provide similar convenience to owners of non-Tesla EVs.

- Autonomous driving technology leader Mobileye (a division of Intel, a company in which the Fund holds an investment) became the first operator to test autonomous vehicles in the challenging conditions of New York City.

- Oil and gas companies continue their pivot away from oil. Europe's third largest oil company, Total, has changed its corporate name to TotalEnergies. America's second largest oil producer, Chevron, created a New Energies division, whose initial focus will be on hydrogen, biofuels and carbon capture. Although these technologies are closer to its current operations than renewable energies, they still face significant barriers.

- Chevron's premier carbon capture project is at the Gorgon gasfield in Western Australia. During July it disclosed that it had missed a carbon capture target agreed with the WA government, with one industry journal reporting it had delivered less than half its agreed target. The regulator is working with the company over a plan to make up the shortfall.

- General Electric, one of the world's leading manufacturers of natural gas turbines and jet engines, set a 2050 net zero "ambition", though without detailed plans to achieve this technically challenging target.

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.

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 *(31 Jul 2021)*	AUD 492.0m
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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