Nanuk New World Fund

Monthly Report - May 2017

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	Since Inception[1] p.a.
Fund Return (%)	**5.3**	**14.9**	**17.4**	**19.9**	**16.3**
Benchmark Return[2] (%)	3.7	12.3	17.1	19.7	13.3
Value Added (%)	1.6	2.6	0.3	0.2	3.0
MSCI ACWI Return[3] (%)	2.7	8.5	12.5	14.4	7.0
Value Added (%)	2.6	6.3	4.9	5.5	9.3

Macro and industry commentary

Sustainability themes had another exciting month.

By far the biggest recent news was President Trump's announcement on June 1 that the US is to withdraw from the Paris Climate Accord. This marks a new peak in his administration's efforts to decelerate the US federal government's response to climate change and is deeply concerning given the clear scientific consensus that further emissions reductions are necessary to mitigate the risks of climate change. The strength of the criticism of Mr Trump's decision has been notable, with leaders in China and the EU announcing plans for an alliance to accelerate emission reductions. France's new President Emmanuel Macron also undertook a pro-sustainability campaign, headlined "Make Our Planet Great Again", referencing Mr Trump's "Make America Great Again" slogan. In the US many state and city governments have joined an alliance that will commit to meeting the US' pledges under the Paris Accord. The reality is that state legislation in the US is the key mechanism through which emission reductions are being targeted and legislated. Meanwhile in the corporate sector, the CEOs of Apple, General Electric and Disney have stood out among many others in criticising Mr Trump's decision, highlighting the growing importance of corporate citizenship in sustainability. It is also notable that polling data indicates Americans supported participation in the Paris Accord: a poll taken soon after Mr Trump's election saw support for participation ahead by 69-13%, and even Republicans by 51-26%. It is

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 clear that the incremental impact of the US' withdrawal will be determined by reaction of those beyond Mr Trump's administration.

In other political news, Korea held Presidential elections on May 9, following the impeachment of incumbent Park Geun-hye. The winner was Moon Jae-in, whose energy proposal will see renewable's share of electricity generation rise from 6 to 20% by 2020, with gas rising from 22 to 37% at the expense of coal and nuclear energy. It is notable that Moon's leading opponent, Ahn Cheol-soo, supported this policy direction which targets the closure of older coal plants, a phase out of diesel passenger vehicles, an eight-fold increase in solar generating capacity by 2030 and a fourteen-fold increase in wind generation capacity, mostly in offshore wind.

The month of May saw further falls in the cost of new renewable energy generation in India, with the winning bids to build 250MW of capacity in Rajasthan falling to 2.62 rupees per kWh (approximately 4 US cents a kilowatt hour). This is around 30-40% cheaper than cost of supply from newly-built coal-fired power stations. Similar auctions for onshore wind power in Germany resulted in prices around 6c per kWh, and interestingly the winning bids were dominated by smaller projects backed by local citizens groups. The corporate sector also had an active month. Audi announced that it aims to have a third of its sales from EVs by 2025. There was a flurry of announcements of battery capacity: Germany's Chancellor Angela Merkel led a ground-breaking ceremony for a new Daimler battery plant, one of many planned or under construction which are similar to the (large) scale of those already announced in Sweden, Hungary and Poland. It is also a similar story in Asia, where lithium-ion battery leaders such as Samsung SDI, LG Chem and BYD are expanding capacity, and new players such as Thai solar developer Energy Absolute have recently announced plans to build large scale factories in coming years. Panasonic, Tesla's partner in its battery Gigafactory, held an Investor Day which heavily focused on EVs as well as autonomous vehicles. The company aims for sales in its environmental business to grow 87.5%, or over $3b, between the 2017-19 financial years. In terms of technical improvement, it aims to improve power density by 50% and energy density by 100% by the year 2020. US Chemical manufacturer FMC Corp continued to discuss plans to spin off its lithium business as a stand-alone entity in 2018-2019, after completing two planned capacity expansions. In conjunction with Delphi's separation of its powertrain and autonomy/electrification businesses discussed last month, this indicates strong investor interest for direct exposure to these important sustainability related trends.

On May 10, Tesla announced pricing for its solar roofing product. Almost indistinguishable from conventional roofing tiles, the solar roof tiles are made from tempered glass tiles and incorporate solar cells. The product is not yet in production, and pricing is somewhat complex as it depends on a variety of construction specific factors. Bloomberg New Energy Finance wrote that the price was "better than everyone expected" and at least 30% below its prior estimate, making the product a compelling economic proposition for any newly-built home looking to install solar. Interestingly Mercedes announced a partnership with Tesla/SolarCity competitor Vivint Solar to sell its battery systems to residential customers in the US.

Market commentary

The MSCI All Country World Total Return Index rose 2.2% in May. Strength was spread across the globe: the US' S&P 500 was up 1.2%, Japan's Nikkei 225 was up 2.4% and Hong Kong's Hang Seng Index rose 4.2%. Europe's Stoxx 50 fell 0.1% in local currency terms, but rose 2.9% in US$, reflecting a 3.1% appreciation of the € during May.

Environmental equities outperformed during the month, with the Fund's benchmark index (the FTSE Environmental Opportunities Total Return Index) rising 3.2% in US dollar terms. In Australian dollar terms the index was up 3.7%, reflecting the slight weakening of the Australian dollar during the month.

Fund commentary

The Fund was up 5.3% for the month, outperforming its benchmark index by 1.6% and the MSCI ACWI by 2.6%.

The Fund's positions in the salmon and solar sectors were key contributors to returns, as were several smaller positions held by the Fund in European utilities. In the solar sector, First Solar benefited from upgrading guidance at its 17Q1 result as well from the possibility of increased new US tariffs on imported Chinese solar modules, discussed last month. This position has subsequently been exited given the rise in the share price and risk that the tariffs do not materialise. Solar inverter and optimiser manufacturer SolarEdge also had a strong result, as it continues its track record of out-performing key peers - Enphase, which significantly missed guidance and whose status a going concern is in question, and Huawei, which had targeted a competing version of SolarEdge's residential solar optimiser product as early as 17Q1 which now appears delayed to late-2017 or even later. The salmon price continued to recover following its 17Q1 correction, driving equities higher. Otherwise, we had positive contributions from a range of companies with good earnings results, including Iriso Electronics (automotive electrical connectors), Nichias (industrial insulation) and Kyudenko (environmental engineering) in Asia, New Flyer Industries (clean energy buses), Sprouts Farmers Market (organic food retailer) and Zoetis (animal healthcare) in North America, and TKH Group (technology systems design and integration) in Europe. The biggest detractor from performance was US solar leasing business SunRun, which delivered a strong 17Q1 report reflecting its ongoing market share gains but which stands to suffer if any new modules tariffs are introduced, and which also faced media coverage of industry reporting practices of certain non-GAAP metrics prior to its IPO.

At the end of May 2017 the Fund's major sector exposures remain in areas including aquaculture, advanced and sustainable materials, waste management, building energy efficiency, high speed rail, and electronic technologies related to the internet of things.

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	-	-	-	-	-	-	-	12.0

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

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Weekly
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Weekly
Administrator & Custodian	RBC Investor Services Trust	Notice period	2 Days
Inception	2 November 2015	Buy-Sell spread	0.25%
Management Fee	0.8%	Total management costs	1.2%

Contact Details

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