NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Monthly Report – May 2019

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 (%)	**(3.2)**	**15.7**	**4.4**	**9.9**	**13.1**	**12.7**
Benchmark Return[2] (%)	(5.3)	11.8	6.7	8.2	11.9	10.4
Value Added (%)	2.2	3.9	(2.4)	1.7	1.3	2.3
MSCI ACWI Return[3] (%)	(4.4)	10.8	7.8	8.9	10.7	8.1
Value Added (%)	1.3	4.9	(3.4)	1.0	2.4	4.6

Fund commentary

The Fund was down 3.2% in May, outperforming its benchmark index (the FTSE Russell Environmental Opportunities All Share Total Return Index) by 2.2% and the broader MSCI All Country World Total Return Index by 1.3%.

The Fund benefitted from the strong performance of investments in more defensive sectors such as healthcare, information services, high speed rail and waste management as well as a meaningful contribution from the Fund's largest position, SolarEdge, which was up 20% after it reported a Q1 result well above consensus expectations. SolarEdge's share price had fallen significantly after reporting margin deterioration in 2018 related to elevated warranty expenses, but analysis of its filings as well as contact with industry experts indicated margins were likely to recover and the Fund reinvested in the company in March this year.

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

The Fund's positions in information services businesses Wolters Kluwers and RELX, also known as Reed Elsevior, represent a new area of investment for the Fund. Both firms are former publishers of paper book and journals who pivoted to electronic publishing during the 2000s, before pivoting again to providing value added analytics built on their vast databases. Both companies are seeing modest but accelerating growth as the use of 'big data' analytics begins to proliferate through the economy, with this incremental growth being achieved at very high returns on invested capital. Both companies were discussed during Nanuk's webinar in May on the broader theme of Big Data. A recording of the webinar is available at www.nanukasset.com/webinars

The Fund's positions in more cyclical and trade exposed industries such as the automotive and semiconductor sectors underperformed during the month, but the Fund's outperformance reflected the deliberate reduction in these exposures and increased diversification, into areas like information services, within the Fund compared to 12 months ago.

At the end of May the Fund's largest sector exposures are in high speed rail, cloud computing services, waste management, building energy efficiency, solar, advanced and sustainable materials and healthcare technology.

Market Commentary

Global equity markets fell significantly during May amid weak economic data and fears of intensifying trade conflicts. The MSCI All Country Total Return Index was down 5.9% in US dollar terms and all major regional equity indices fell. The US S&P 500 index was down 6.6%, Hong Kong's Hang Seng index was down 9.4%, Japan's Nikkei 225 index was down 7.4% and Europe's Stoxx 50 index was down 6.7%. Sovereign debt yields fell with the German 10-year yield down to a near record low of negative 0.2%. Commodity prices mostly fell, led by a double-digit percentage fall in crude oil prices.

Economic data pointed to weakening growth, with manufacturing PMIs signaling contraction in Europe, China and Japan. The US indicator remained expansionary but at its lowest level since 2016, with manufacturers anticipating a near term deceleration in new orders.

Trade negotiations between the US and China stalled during the month amid accusations of China stepping away from earlier commitments. Meanwhile the US stepped up its trade restrictions, banning US companies from supplying Chinese telecom giant Huawei and threatening tariffs of up to 25% on Mexico, whose exports to the US were worth over $370 billion in 2018.

Environmental equities underperformed traditional global equity benchmarks in May, with the Environmental Opportunities All Share Total Return Index down 6.8% in US dollar terms and 5.9% in Australian dollar terms. The underperformance of the EOAS index, which represents a significant portion of the Fund's investment universe, was driven by its overweight exposure to industrial and electronic technology related sectors which underperformed during the month, partially offset by its overweight exposure to water and renewable energy related utilities which outperformed. Another notable factor was the performance of Tesla, a constituent of the index (but not a company owned by the Fund), the shares of which fell over 20% during the month after the company announced another capital raising as well as another price cut and the need to lower costs.

Industry Commentary

The positive outlook for renewable energy technologies was highlighted in reports from the International Renewable Energy Association (IRENA) and leading industry analyst Bloomberg New Energy Finance. Bloomberg reported that both wind and solar reached the 'tipping point' of unsubsidized competitiveness with traditional fossil fuel generation in Spain in 2018 and forecast that Europe's four other largest economies (Germany, France, Italy and the United Kingdom) will achieve the same milestone by 2020. IRENA's report analysed the falling costs of solar projects and found that 83% of utility scale solar projects to be commissioned in 2020 will produce electricity at prices less than the cheapest fossil fuel alternatives available. Utility scale solar generation is expected to achieve a remarkable global average cost of 4.8c/kWh next year.

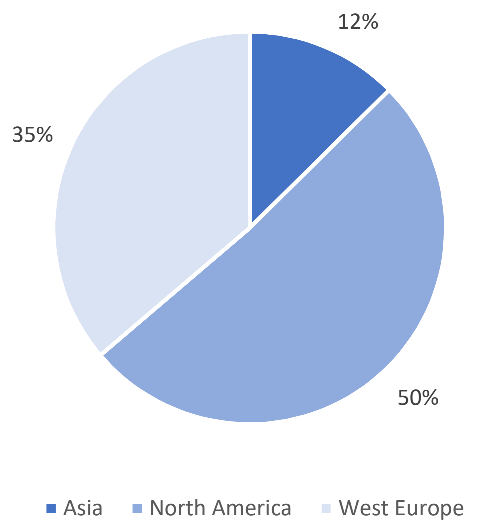
During the month the Chinese government approved the first batch of 'grid-parity' renewable energy projects, including 4.5GW of wind and nearly 15GW of solar projects. The projects, to be constructed starting this year, will not receive additional subsidies beyond the prevailing local grid power prices but may benefit from some incentives such as lower land use fees and their development will be prioritized over subsidized projects. In the

Middle East, Iraq issued its first solar tenders totaling 750MW.

It was a month of mixed news for legacy power technologies. Japan passed legislation that will effectively bail out its struggling coal and nuclear generation, much of which still remains out of operation following the Fukushima disaster in 2011. A similar measure was passed in the US state of Ohio's House of Representatives. Germany's government proposed a more forward-thinking measure, a €40 billion plan over 20 years to help coal producing areas to transition to new sectors, including clean energy. Siemens, one of Germany's largest employers, announced it would separate and subsequently IPO its Gas and Power division, comprising its oil and gas, conventional power generation, power transmission and related services businesses – best known for its gas and steam turbines used in conventional power generation. The new company will include Siemens 59% interest in wind turbine leader Siemens Gamesa Renewable Energy, a company owned by the Fund.

In the automotive industry the proposed merger of Fiat-Chrysler and Renault, which was abandoned in recent days with both parties directing blame towards the French government, pointed to the challenges faced by incumbent auto manufacturers as the industry transitions towards electric and autonomous vehicles. Meanwhile, BMW and Jaguar Land Rover announced a partnership on the development of future electric vehicles aimed at reducing the significant costs involved in development and scaling production of these new products. Automotive stocks have underperformed significantly over the past year as the industry's major end markets (China, the US and Europe) have seen declining volumes and the industry invests heavily in new product development. The Fund has some exposure to the sector through investments in tier one automotive suppliers such as Lear Corporation, Continental and TE Connectivity – businesses that are likely to benefit from the electrification trend. Daimler's new CEO, Ola Kallenius, forecast the majority of the automaker's sales would be electric by 2030 and its subsidiary Mercedes announced that it plans to launch 10 electric vehicles by 2022, a target it had previously set for 2025. Meanwhile Japan unveiled a new fuel economy standard, targeting a 32% improvement in fuel efficiency by 2030 – electric vehicles are a means through which the targets can be achieved and as such it is a defacto mandate for 20-30% electric vehicles by this date.

The headline grabbing policy news during the month was the release of the UK government's Committee on Climate Change's recommendation to set a legally binding target to cut greenhouse gas emissions to zero by 2050. Whilst the recommendation has not been politically ratified it does appear to have political support. The committee outlined measures considered necessary to achieving the goal, including banning petrol and diesel car sales by 2035, ceasing connection of new homes to gas supply by 2025 and cutting beef, lamb and dairy consumption.

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 31 May 2019

Security Name	Weight (%)	Country	Sector
SolarEdge Technologies, Inc.	4.6	UNITED STATES	Clean Energy
Carlisle Companies Incorporated	4.2	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.7	UNITED STATES	Waste & Pollution
Stryker Corporation	3.2	UNITED STATES	Healthcare Technology
Lenzing AG	3.2	AUSTRIA	Alternative Materials
Lear Corporation	3.1	UNITED STATES	Energy Efficiency
Microsoft Corporation	2.9	UNITED STATES	Industrial Efficiency
Wolters Kluwer NV	2.9	NETHERLANDS	Healthcare Technology
Siemens Gamesa Renewable Energy, S.A.	2.8	SPAIN	Clean Energy
West Japan Railway Company	2.7	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 May 2019)*	AUD 155.9m		

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