NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Monthly Report – November 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 p.a.[1]
Fund Return (%)	**0.0**	**(10.4)**	**(6.4)**	**(2.0)**	**12.8**	**11.5**
Benchmark Return[2] (%)	0.0	(7.4)	(1.7)	(2.4)	12.4	9.8
Value Added (%)	0.0	(3.0)	(4.7)	0.4	0.5	1.6
MSCI ACWI Return[3] (%)	(1.5)	(6.6)	0.9	2.9	11.7	8.3
Value Added (%)	1.5	(3.8)	(7.2)	(5.0)	1.1	3.2

Macro and industry commentary

Positive developments for the renewable energy sector during November included the release of a proposed climate law by the Spanish government that targets 100% renewable power generation by 2050, with an interim target of 70% of electricity demand being met from renewable sources by 2030, and the banning of the sale of internal combustion engine vehicles by 2040. The proposal includes the development of 30GW of renewable generation between 2020 and 2030 and implies the rapid retirement of fossil fuel generation. The proposal also contemplates that Spain will stop issuing fossil fuel exploration licenses, ban fracking and scrap fossil fuel subsidies. Achieving the proposed levels of renewable penetration would likely require the development of grid

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 interconnector capacity and dispatchable generation, potentially from an energy storage system - neither of which are addressed in the proposed law. Should Spain proceed with the aggressive decarbonisation of its power markets it would likely be benefit many companies involved in both renewable energy and transmission infrastructure. The Fund's current holdings include Spanish wind turbine manufacturer Siemens-Gamesa Renewable Energy, European HV cable and grid equipment suppliers ABB and Prysmian. These are the type of companies that may benefit from such a proposal.

Whether or not Spain's proposed law is approved, it is indicative of the likely acceleration of investment in renewable technologies worldwide post 2020. Both solar and wind generation are already economic without subsidy in Spain and multiple gigawatts of economic projects are already under development in that country. It is no surprise that the government is focusing on these technologies; the debate is more on the speed of transition to renewable energy sources and community support for closure of conventional power plants. It was notable that Spain's proposal came alongside a transition agreement with coal mining unions.

There were similar developments in Germany and Poland this month. Germany's last hard coal mine, Prosper-Haniel in the Ruhr Valley, will shut in December 2018 after the government elected not to extend mining subsidies, though funding will be provided to support affected workers and for environmental remediation. At the same time the size of Germany's tenders for wind and solar were increased by 2GW per year, alongside 1GW per year of "innovation auctions" to support grid integration technologies such as energy storage. Wind energy staged a comeback in Poland, winning all of the available capacity in a tender for new generation, at prices around half that budgeted. Wind energy had struggled in Poland, whose government has showed little interest in supporting the technology, but the significant fall in the cost of wind generation in the past year appears to have stirred legislators' interest.

It was also a month of encouraging developments in large scale energy storage. California approved four battery energy storage facilities that will replace three older gas peaking plants. In South Australia, Tesla commenced development of phase 2 of its virtual power plant, a centrally managed aggregation of 1,000 rooftop solar and storage systems. Phase 1 of the scheme involved 100 houses, with around 70% of power generated being sold to households at lower than utility rates and the remainder sold into the grid in an organised manner. Phase 3, should it proceed, will include up to 50,000 houses. German competitor Sonnen Gmbh announced plans for a similar 'plant' to be built in 2019. Elsewhere in Australia, the Labor Party's re-election in Victoria's state elections affirmed its support for residential solar in that state, with 50% of power set to be produced from renewables by 2030.

In the automotive industry, Volkswagen once again raised its planned investment in next generation automotive technologies to €44b. These include electrification, autonomous driving, mobility services and digitalization. VW's plans included the development of a €1b plant for production of electric vehicles in Germany and 2,500 EV charging points in the UK in car parks owned by supermarket chain Tesco. Further investment in vehicle electrification was announced by Korea's SK Innovation, which will begin construction of a $1b EV battery manufacturing plant in the US early in 2019. Meanwhile Swedish utility Vattenfall, which aims to operate a network of EV charging points across Europe, announced installation of its charger network in the UK will begin in January. Governance at Tesla, a point of focus for investors, may have taken a step forward with the appointment of former Telstra CFO Robyn Denholm as the company's new Chairman; Denholm's appointment to replace Elon Musk, a requirement of his and the company's recent settlement with the SEC, appears to have been favourably received.

On the policy front, November's most shocking development was the violent protests over France's plan to raise fuel taxes, during which three people died. Fuel taxes were raised in January by 7.6 € cents per litre for diesel and 3.9 € cents for gasoline. November's protests were triggered by plans to raise taxes by a further 6.5 € cents on diesel and 2.9 € cents on gasoline in January 2019; diesel taxes are rising more because currently they are lower than gasoline. Raising fuel taxes is politically challenging because it's a tax rise people notice every time they fill up and is often perceived as unfair as poorer people spend more of their incomes on fuel. The US hasn't raised its fuel tax even to keep up with inflation since 1993, leading to chronic underfunding of the Highway Trust Fund the fuel tax is meant to finance, while the UK's fuel tax has been similarly frozen since 2010.

Market commentary

Global equities had a modest recovery during November after a weak October, with the MSCI All Country World Total Return Index rising 1.5% in US dollar terms. Regional performance was mixed. Europe's Stoxx 50 index was down 0.8%, with political uncertainty persisting due to Brexit and the ongoing dispute over Italy's budget deficit between its government and the EU Commission. Most other major equity indices were up, with the US S&P 500 index rising 1.8%, Japan's Nikkei 225 up 2.0%, and Hong Kong's Hang Seng index leading the way with a 6.1%. Among other asset classes, US bond yields retreated and finished the month back under 3%. Also notable was a sharp correction in oil prices, with Brent Crude down 22% during November, from $75 to $59/barrel. In part reflecting the related underperformance of energy stocks, environmental equities out-performed during November with the Fund's benchmark index, the FTSE Environmental Opportunities All Share Total Return index, rising by 3.1% in US dollar terms. The Australian dollar strengthened during the month, reducing returns in $A terms.

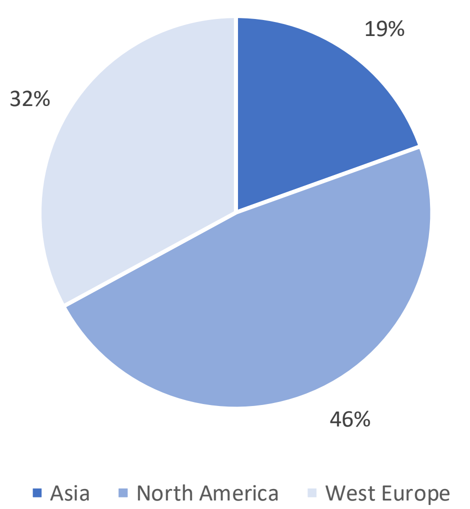
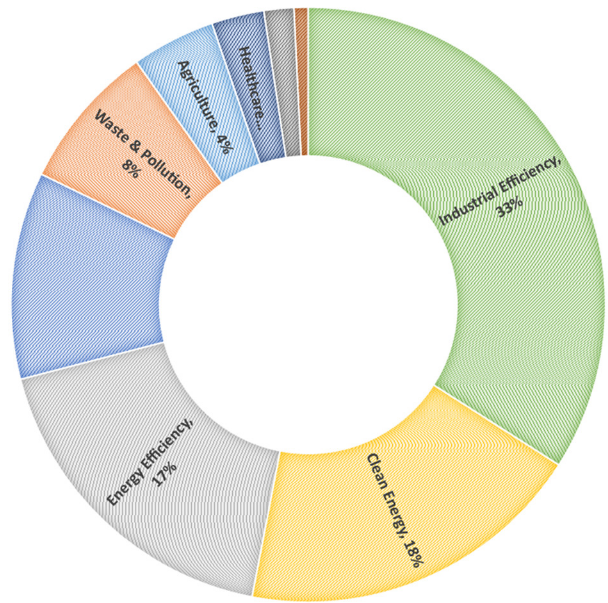
Fund commentary

The Fund posted a flat performance during November, in line with its benchmark index FTSE EOAS and above traditional global equity benchmarks such as the MSCI All Country World which was down 1.5% in Australian dollar terms.

The Fund gained over 1% from its positions in the two leading manufacturers of wind turbine generators, Vestas and Siemens Gamesa Renewable Energy. Following a tough 2016 and 2017 for the wind sector, the transition to competitive auctions is largely complete and the wind industry is now reaping the benefits of greater volumes driven by much lower prices. November saw both Vestas and Siemens Gamesa report improving order flows as well as improved future earnings guidance, with these stocks rallying strongly. Fund gains in these stocks were partially offset by losses in the auto sector and in several companies with exposure to the smartphone supply chain, where volumes have disappointed in recent months. Indicative of this dynamic, Apple took the revealing step of ceasing disclosure of iPhone volumes, and within a fortnight, four different Apple component suppliers issued profit warnings, including 3D sensing module supplier ams AG, a small holding of the Fund. In auto, we saw General Motors announce 4 plant closures in the US, perhaps inevitably following concerns about the business costs associated with US tariff imposition. The Fund's exposure to both these sectors was reduced during the month.

The recent market volatility is presenting new opportunities for the Fund and during the month we increased the size of our positions in a number of good quality businesses with strong longer-term growth prospects that had underperformed, including leading energy efficient water heater manufacturer A.O. Smith and Amphenol, a leader supplier of electronic and fibre optic connectors.

At the end of November 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.

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 30 Nov 2018

Security Name	Weight (%)	Country	Sector
Lenzing AG	4.2	AUSTRIA	Alternative Materials
Accenture Plc Class A	4.0	UNITED STATES	Industrial Efficiency
Waste Management, Inc.	3.7	UNITED STATES	Waste & Pollution
Carlisle Companies Incorporated	3.6	UNITED STATES	Energy Efficiency
Siemens Gamesa Renewable Energy, S.A.	3.6	SPAIN	Clean Energy
Vestas Wind Systems A/S	3.0	DENMARK	Clean Energy
Teradyne, Inc.	3.0	UNITED STATES	Industrial Efficiency
Lear Corporation	2.7	UNITED STATES	Energy Efficiency
West Japan Railway Company	2.6	JAPAN	Industrial Efficiency
A. O. Smith Corporation	2.5	UNITED STATES	Energy 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 *(30 November 2018)*	AUD 120m		

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