Nanuk New World Fund

Monthly Report -October 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 (%)	**5.4**	**12.3**	**14.0**	**32.9**	**17.3**
Benchmark Return[2] (%)	6.3	13.1	11.5	30.1	14.5
Value Added (%)	**(0.9)**	**(0.8)**	**2.5**	**2.8**	**2.8**
MSCI ACWI Return[3] (%)	4.5	8.8	7.5	22.3	8.0
Value Added (%)	**0.9**	**3.6**	**6.5**	**10.6**	**9.3**

Macro and industry commentary

The automotive sector continued to dominate environmental equity headlines in October, but the month also saw some important developments in government policy and renewable energy. European nations finally reached a draft agreement for reform of the EU's Emissions Trading Scheme which has to date failed to achieve its objectives as a result of a longstanding and significant oversupply of emission allowances which have depressed their prices. The reforms are projected to raise prices from ~€8/tonne currently to €24 by 2020 and €31 by 2030, which if achieved would have a significant impact on European electricity markets and companies exposed to them. The European Commission also published a proposal to tighten CO2 emissions requirements for cars by a further 30% by 2030 relative to its current 2021 target.

In the United States, Congressional Republicans are drafting a multi-trillion dollar tax bill, with sustainability one of many sectors affected. The $7,500 electric vehicle tax credit, as well as the wind sector's production tax credit, were respectively slated for removal and reduction by the House, but defended by the Senate. It remains to be see what if anything will be passed as a final bill.

The proposed end to the electric vehicle tax credit presents yet another challenge for industry leader Tesla which is struggling with production issues as it ramps production of its Model 3. Early in the month Tesla warned that it had only produced around 260 Model 3 vehicles during

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 September quarter, compared to a target of 1,500 during September alone and 5,000 a week by the beginning of 2018. During its full third quarter report, the company announced that the 5,000 vehicles per week target had been moved out by 3 months, to March 2018.

Waymo, Google's autonomous driving division, announced that its Phoenix operation, which offers taxi rides to volunteers, would transition in the next few months to driving without a safety driver behind the wheels. Elsewhere, tier 1 automotive supplier Delphi announced a $450m acquisition of nuTonomy, an autonomous vehicle specialist that emerged from of the Massachusetts Institute of Technology in 2013. nuTonomy has been operating autonomous driving taxis in Singapore's CBD and recently received permission to test its self-driving vehicles in Boston. The Fund exited its investment in Delphi recently after strong performance over the last year, shifting its exposure to other automotive suppliers that are positively exposed to electrification and autonomy but priced more attractively.

Meanwhile oil giant Shell began deployment of electric vehicle charging stations across its UK gas station network, following the UK government's earlier announcement to phase out new sales of internal combustion vehicles by 2040. Shell also announced the acquisition of NewMotion, a private operator of charging infrastructure in the UK and Europe. The increasing pressure for the automotive industry to move away from oil was further reinforced with the unveiling of a new "toxicity charge", or "t-charge" in London of £10 per day for pre-Euro 4 vehicles – the emissions standard that came into force in 2005. This fee comes on top of London's congestion charge, currently £11.50 per day.

In the commercial vehicle sub-segment, Daimler AG, which is a leading truck manufacturer as well as owner of the Mercedes car brand, announced that it has begun production of an electric truck for urban deliveries. Tesla is expected to announce details of its electric semi-truck this week.

The impact of competitive auction processes on the renewable energy industry continues to be highlighted at a global level. Contracts for future power supply tendered in Chile's latest energy auction – which was open to all technologies – were won entirely by renewable technologies and at record low prices. The auction, which was for 20 year agreements commencing in 2024, adopted a novel structure permitting bids for power supply during specified time blocks and times of the year. The lowest solar bid was US2.2c/kWh and the lowest wind bid was US3.3c/kWh. Whilst not the lowest prices on record globally they are nonetheless impressive, both well below prices achievable by new coal and gas generation. Enel, a company owned by the Fund, won the largest amount of new capacity in the auction.

The lower pricing realised across renewable projects is increasingly impacting equipment suppliers, particularly manufacturers of wind turbine equipment. Vestas followed its two listed peers Nordex (which recently acquired Acciona's wind turbine business) and Siemens-Gamesa in issuing a profit warning in October. The Fund has only limited investments in the wind industry, primarily through companies that own existing wind projects which are not immediately exposed to these trends.

The solar industry had some better news as it continued to argue against tariffs in the Section 201 trade case. Having already picked up conservative firebrand and Trump confidante Sean Hannity as an unlikely supporter, the industry saw the commission recommend a range of modest tariffs, substantially below those initially sought by the complainants. The proposals are due to be filed with President Trump in mid-November, at which point he will have 60 days to take action. The Fund's investments in US solar residential leasing company SunRun and solar inverter manufacturer SolarEdge are both well positioned to weather the imposition of modest tariffs.

Market commentary

Global equities continued their outstanding year's run, with the MSCI All Country World Total Return Index up 2.1% (in USD terms) and equity indices rising in all major regions. The US' S&P 500 index rose was 2.2%, Hong Kong's Hang Seng index was up 2.5%, Europe's Stoxx 50 index also rose 2.2% and Japan's Nikkei 225 index led the way with an 8.1% rise. The Nikkei's strong performance likely reflected abatement of geopolitical tensions around North Korea, which had seen it under-perform during Q3, as well as a relatively uneventful general election on October 22 which saw Shinzo Abe reinstated as Prime Minister with a strong majority. Environmental equities out-performed traditional indices once again, with the Fund's benchmark, the FTSE Environmental Opportunities Total Return Index up 3.9% in USD terms (6.3% in Australian dollar terms) in October, supported by the strong performance of global industrial businesses.

Fund commentary

The Fund was up 5.4% in AUD terms during October, outperforming the traditional global equity MSCI ACW Index (4.5%) by 0.9% but lagging its benchmark index, the FTSE Environmental Opportunities all share index, by 0.9%.

The solar sector contributed 30bps amid the relatively positive policy development discuss above and the Fund's return on its position in SolarEdge is now above 100%. The Fund also benefitted from notable contributions from exposures to the semiconductor industry and to industrial lasers.

The Fund has exposure a number of companies involved in the global semiconductor industry, which is seeing strong growth in part due to rising demand from the internet of things, autonomous driving and vehicle electrification. The Fund holds small positions in semiconductor capital equipment providers such as Lam Research, Applied Materials and MKS Instruments, as well as manufacturers of communications and industrial semiconductor components like ON Semiconductor and Broadcom. This sector has performed strongly over the last 18 months and has performed particularly well in October, with a number of double digit rises contributing 50bps in the Fund. The Fund's position in IPG Photonics was also up 15%. The usage of industrial lasers is growing thanks to both the growth of key end markets such as electronics manufacturing, but also because they are gaining share in automated materials processing applications such as cutting and welding, taking market share from mature technologies such as arc welding and metal stamping. IPG has led the way in recent years, with its revenue rising 7 times in the last decade. The Fund has recently rotated our position in sector to another leading manufacturer, Coherent Inc. It is exposed to some of the same attractive growth opportunities and has become more attractively valued following IPG's particularly strong performance this year.

The major detractors from returns were JM AB, a Swedish homebuilder, which underperformed as the Swedish housing market slowed under tightening mortgage regulation, and French automotive supplier Valeo which reported Q3 revenue 3% below expectations – which we regard as a short term disappointment of little consequence to our longer term thesis. The underlying strength of Valeo's position in automotive megatrends was signalled by another quarter of blockbuster orders for its e-Automotive division, which has now won €5.4b of orders in its first nine months in operation.

At the end of October 2017 the Fund's major sector exposures remain in areas including building energy efficiency, automotive efficiency and vehicle electrification, waste management, high speed rail, composite materials 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	(1.9)	(1.7)	1.2	5.3	5.4	-	-	21.3

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Weekly (Daily from 20/11/17)
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Weekly (Daily from 20/11/17)
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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[2]Returns are calculated net of all fees and expenses and on the basis of a shareholding since inception (2 November 2015).

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