NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Monthly Report – October 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[1] p.a.
Fund Return (%)	**(7.6)**	**(8.9)**	**(6.0)**	**0.0**	**15.3**	**11.2**
Benchmark Return[2] (%)	(6.9)	(4.9)	(1.1)	0.2	14.2	9.5
Value Added (%)	(0.7)	(4.0)	(4.9)	(0.2)	1.1	1.7
MSCI ACWI Return[3] (%)	(5.6)	(1.8)	2.3	7.6	14.7	7.8
Value Added (%)	(2.1)	(7.1)	(8.3)	(7.6)	0.6	3.4

Macro and industry commentary

China outlined an increased longer-term renewable energy target during October. According to media reports a draft plan of the National Development and Reform Commission (NDRC) aims for at least 35% of electricity consumption from renewables by 2030, a potentially significant increase from the current goal of non-fossil fuel sources to make up 20% of energy use by 2030. Reports also emerged in early November that the Chinese government is considering raising its solar installation target for 2020. The current target of 110GW has already been exceeded by around 50%, and a new target in excess of 200GW is likely. (One gigawatt is roughly equivalent to a typical large-scale coal fired power plant). With the recent removal of quotas for subsidised projects it is not clear how such a target might be implemented, however the focus of recent policy changes in China has been towards using market based mechanisms (specifically a Renewable Portfolio Standard) to support the implementation of minimum renewable energy consumption, in effect providing a penalty to utilities and large power users who fail to achieve the target.

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

Spain's minister of energy announced that 5GW of unsubsidised solar projects are currently under development in her country, while in Australia Macquarie Bank announced it would participate in the financing of the Asian Renewable Energy Hub, an ambitious large-scale unsubsidised wind and solar project planned in the Pilbara region. The scope of the project, which is intended to supply cheap solar and wind energy to the region and potentially for export to Indonesia, was also extended from 9GW to 11GW, with an estimated cost of A$22b.

Both the short-term challenges and longer-term potential of the solar industry were highlighted during the month. The industry has faced significant challenges following the cessation of subsidies for new solar projects in China earlier this year which lowered global demand by 10-15%. This has led to a significant short-term supply-demand imbalance and downward pricing pressure and prompted many countries to review solar subsidy schemes to both reduce subsidies and accelerate adoption.

The impact on the solar panel manufacturing industry has been severe, and even industry leaders have not been immune. Q3 reporting highlighted the challenges. Germany company SMA Solar, a global leader in solar inverters, announced a dramatic downgrade, guiding that its 2018 EBITDA margin will be negative, 10% worse than anticipated at its Q2 reporting. First Solar, the largest US solar company and a significant beneficiary of tariff protection in the US, downgraded both earnings guidance and volume expectations for its strategically important next-generation Series 6 module. The Fund sold its holding First Solar earlier in the year after a significant run up in the share price.

Elsewhere Germany's coalition government finalised a long-debated renewable power plan for 2021, which will lead to tenders of 4GW each of solar and wind over the next 3 years. The plan is aimed to "speed achievement of a 65% share for clean power... by 2030". A further package of auctions for the years out to 2030 is expected next year.

The significant developments in the offshore wind industry evident through the year continued with news that offshore wind projects are now sufficiently cost competitive in the Netherlands that the Dutch government is planning to charge for development rights with the price set by auction. This reflects the rapid fall in the cost of offshore wind generation which has seen locations from the US east coast to Taiwan emerge as multi-gigawatt markets. Indeed, even the US government is getting in on the action, announcing plans this month to initiate offshore wind development off the coast of California.

Corporate leadership in the adoption of renewable energy was also highlighted, with both Google and Microsoft (an investment of the Fund) announcing strategies to more accurately match their electricity consumption with clean energy on an hourly basis.

In the automotive industry, Honda became the latest partner in General Motors' self-driving unit, Cruise Automation, with a $2.75b investment. This follows a similar investment from Japanese technology giant Softbank earlier in the year. Elsewhere, electric vehicles are making progress in the niche market of underground mines where diesel emissions are especially dangerous in these enclosed environments, requiring workers to use respirators. Leading miners including BHP Billiton and Goldcorp are piloting efforts to replace their fleets with electric vehicles that would eliminate this need.

Challenges for traditional (non-renewable, incumbent, legacy) technologies continued to mount. The nuclear industry saw a notable development in Czech Republic, whose government delayed plans to force 70% state owned utility CEZ to build a new nuclear power plant due to objections from CEZ's management and lawsuits threatened by CEZ's minority shareholders. This is testament to the economic challenges faced by nuclear generation today. On the corporate front, General Electric provided a dramatic example of value destruction from its legacy technology exposure, writing off $23b from the value of its power division, leading to the second CEO change in twelve months and a >90% dividend cut to 1 cent per share. The Power division, once the crowning jewel of the company, reported an EBIT margin of -11% for 18Q3.

Market commentary

Global equities fell during October, with the MSCI All Country World Total Return Index declining by 7.5% (in US dollar terms). Falls in major regional equity markets were fairly consistent - the US S&P 500 index fell 6.9%, Europe's Stoxx 50 index fell 5.9%, Japan's Nikkei 225 index fell 9.1% and Hong Kong's Hang Seng index fell 10.1% - and were accompanied by significant moves in other asset classes. In commodities, Brent crude oil fell 9%. In FX, the € fell 2.5% and China's Yuan depreciated 1.5% against the US dollar, while Japan's ¥ appreciated by 0.7%. In bond markets, 10-year sovereign yields rose modestly in US the (9bps) and more notably in Italy (30bps). Factors contributing to the decline in equity prices include deceleration in global growth: growth rates in Europe and China have been moderating all year but slowed slightly further; while the US, which had stood apart with above expectations growth, has witnessed a modest reality check with rising inflation and interest rates significantly impacting rate-sensitive sectors such as housing and construction.

Environmental equities underperformed slightly during the month, with the Fund's benchmark index, the FTSE Environmental Opportunities All Share Total Return Index (EOAS), down 8.8% (in US dollar terms) in October.

Fund commentary

The Fund was down 7.6% during October, underperforming its environmental equities benchmark by 0.7%.

The loss was primarily driven by the broad fall in global equities and the continuation of recent underperformance of environmental equities versus traditional benchmarks. The EOAS index has underperformed traditional global equity indices such as the MSCI All Country World Index during 2018, reflecting the benchmark's structural sectoral biases (overweight industrial and manufacturing businesses) as well as regional biases (underweight US and overweight Japan). Analysis of global equity performance during this period highlights the underperformance of the producer manufacturing sector (down 16%), process industries and industrial services (each down around 10%). These sectors constitute a significant part of the Fund's environmental sustainability and resource efficiency focused investment universe, and the Fund itself (as well as the benchmark EOAS index) has meaningful exposure to these segments through investments related to clean energy, energy efficiency, industrial efficiency and advanced manufacturing. At a global level sectors that have outperformed during 2018 include retail trade, healthcare technology, energy minerals and technology services, segments in which the Fund has relatively small or no exposure.

The underperformance of the Fund in October relative to its environmental equity benchmark index was driven by several stocks that reported earnings or outlooks below both our and consensus expectations. The larger of these were the Fund's positions in French automotive supplier Valeo, US industrial products business Carlisle Industries, Austrian sensor manufacturer ams AG and sustainable fibre manufacturing Lenzing, discussed in last months report. Underperformance on these positions were partially offset by outperformance in the Fund's positions in Norwegian salmon farming companies Leroy Seafood Group and Marine Harvest, and SolarEdge, mentioned earlier in the note. A number of more defensive positions also contributed positively during the month, including US water management leaders Waste Management Inc and Republic Services Group, and US animal healthcare business Zoetis.

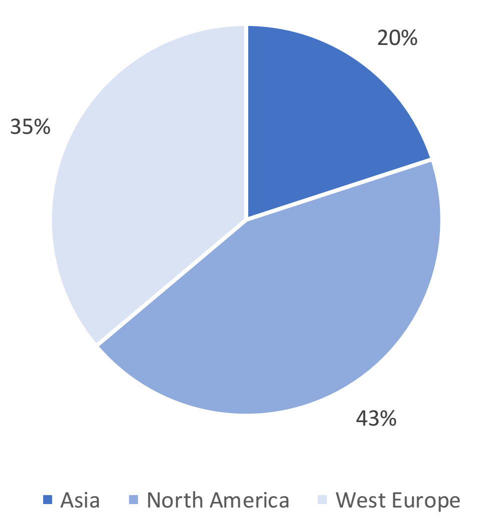
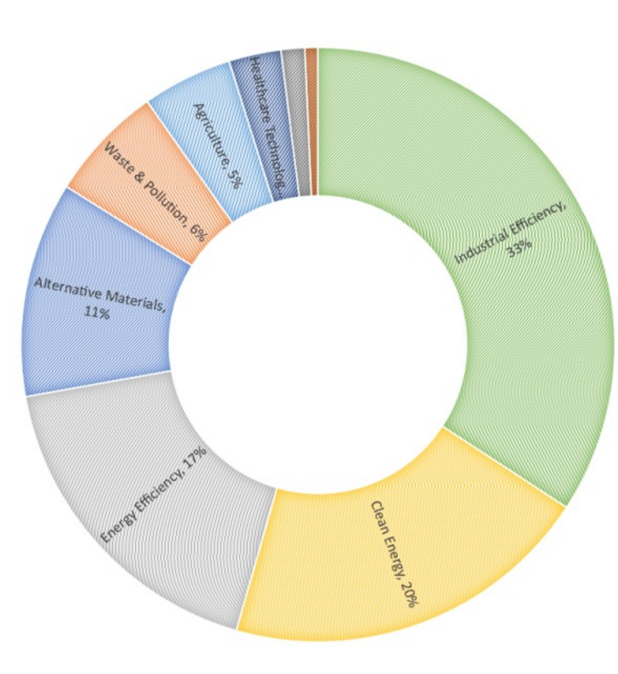
Valeo, a long term holding of the Fund, downgraded its guidance for 2018 profitability by around 20% and reduced its outlook for revenue growth in 2019. The factors affecting the short-term growth and profitability are well known – the slowdowns in the US and particularly Chinese auto markets, the impact of revised emission testing protocols in Europe and increasing material costs – but the extent of the impact, particularly from increasing costs associated with supporting new products and growth, has been underestimated. The company remains a leader in EV and ADAS technology, and despite macro headwinds reducing growth at the revenue and profit lines, the fall in the share means the stock remains attractively priced and the Fund continues to hold its position.

ams is experiencing strong growth associated with the adoption of its 3D sensing modules in consumer electronics devices, notable the Apple iPhone and now iPad. It achieved 60% year on year revenue growth in Q3 and reiterated its targets to achieve annualised revenue growth of 60% through 2019, with a pipeline of opportunities to support continued growth beyond that. The company disappointed with lower than expected margin guidance, citing unfavourable product mix, and despite reiterating its longer-term margin target of 30%, the market has quickly priced an expectation of materially lower than target growth and margins. We continue to believe that the company's technology will see more widespread adoption and at the current price believe the stock offers considerable upside provided modest margin expansion is realised.

Carlisle Industries is a US diversified industrial business but its primary business is construction materials. In Q3 it was hit by rising input costs, led by crude oil, as well as the slowdown in the construction sector which has been impacted by rising interest rates. The recent decline in oil prices is now likely to result in an easing of input price pressure.

Reflecting industry commentary made above, the Fund has exposure to the growth in offshore wind through investment in leading wind turbine manufacturers Vestas and Siemens-Gamesa, and also through Prysmian, the leader in high voltage submarine and underground cables. The Fund's only position in the solar sector, inverter manufacturer SolarEdge, was exited during the month having contributed positively to returns.

At the end of October 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 31 October 2018

Security Name	Weight (%)	Country	Sector
Lenzing AG	4.5	AUSTRIA	Alternative Materials
Valeo SA	4.4	FRANCE	Energy Efficiency
Accenture Plc Class A	3.6	UNITED STATES	Industrial Efficiency
Waste Management, Inc.	3.5	UNITED STATES	Waste & Pollution
Siemens Gamesa Renewable Energy, S.A.	3.4	SPAIN	Clean Energy
Teradyne, Inc.	3.1	UNITED STATES	Industrial Efficiency
Vestas Wind Systems A/S	3.0	DENMARK	Clean Energy
Carlisle Companies Incorporated	2.7	UNITED STATES	Energy Efficiency
Toray Industries, Inc.	2.6	JAPAN	Alternative Materials
Lear Corporation	2.6	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 *(31 October 2018)*	AUD 115m		

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