NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Quarterly Report – December 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	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Since Inception p.a.[1]
Fund Return (%)	**(3.7)**	**(9.8)**	**(3.5)**	**8.1**	**10.2**	**9.3**
Benchmark Return[2] (%)	(2.9)	(5.1)	(2.9)	8.5	9.7	8.0
Value Added (%)	(0.8)	(4.7)	(0.6)	(0.4)	0.5	1.3
MSCI ACWI Return[3] (%)	(3.6)	(4.5)	0.6	7.5	7.8	5.7
Value Added (%)	(0.1)	(5.2)	(4.2)	0.7	2.5	3.6

Macro and industry commentary

Macro Context

2018 saw the continuation of the key sustainable technology trends of 2017, most prominently in renewable energy and the automotive industry. The cost of solar and wind energy and battery energy storage all continued their rapid declines and the development of unsubsidised renewable energy projects accelerated, marking a key milestone in the shift away from fossil fuels. Investment in vehicle electrification and autonomous driving technology continued to escalate and, despite some setbacks for autonomous vehicle programs during the year, the future direction of automotive technology seems assured.

Economic growth slowed across the major economies and industrial production and capital expenditure stalled in the face of new and threatened tariffs, trade disputes and shifting monetary policy settings. This created a very challenging investment environment particularly in industrial sectors with global supply chains.

Global equity markets fell, with industrial and manufacturing businesses - which constitute a large

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 part of environmental equities – significantly impacted. Volatility in share prices rose, consistent with rising geopolitical uncertainty and risks to global economic growth. As a result of continued earnings growth and falling equity prices the forward price-earnings ratio for global equities has fallen from a historically high multiple (17.5x) at the start of the year to a more normal level (13.8x) by the end of 2018. The current environment is one in which we see greater opportunity to invest in businesses engaged in sustainable technologies and practices at prices and valuations that provide for attractive potential long term returns.

Industry and Sector Commentary

Renewable energy had a breakthrough year in terms of competitiveness through 2018. The wind industry spent 2016 and 2017 coping with a transition from fixed subsidies to competitive auctions in most key markets. In 2018 it began to reap some rewards: the cost of wind power has fallen significantly (by around 40% since 2015) with the result that both governments and corporate consumers increased tenders for new generation, driving industry order books to record levels. The transition was perhaps most dramatic in offshore wind; once seen as a luxury technology, its competitiveness has improved so markedly that in 2019 the Netherlands (for example) plans to charge developers for the right to build offshore wind parks. The onshore wind industry is expected to deliver solid growth in 2019 and 2020, while the offshore wind industry is expected to grow significantly into the early 2020s as new markets such as Taiwan, China, Japan and the US are developed. The Fund is exposed to growth in the wind industry through its investments in leading wind turbine manufacturers Vestas and Siemens-Gamesa, and leading submarine cable manufacturer Prysmian.

The solar industry experienced some dramatic changes through 2018. China, which represented around half of global solar energy demand in 2017, abruptly eliminated quotas for subsidised solar projects in mid 2018. This led to a dramatic fall in the price of solar PV panels, which finished down more than 30% over the year. As with wind, cheaper prices have quickly driven an increase in demand and the solar sector is expected to resume growth in 2019. Mindful of the significant challenges of commoditisation, the Fund's exposure to the solar industry is currently limited to a holding in SolarEdge, a technology leader in inverter systems for small scale solar systems.

The market for battery energy storage, the least mature of the key clean energy technologies, expanded strongly in 2018, with prominent large scale deployments in South Australia and California and strong growth in small scale installations. Significant investment and the rapid scaling up of lithium battery production to meet growing automotive demand saw battery prices fall around 20% through 2018. A continuation of this trend is anticipated in 2019, supported by massive expansion of production capacity, particularly in China. Capitalising on the growth in energy storage is plagued by the same challenges as solar, with falling costs and commoditisation presenting significant challenges for participants up the value chain.

The cost of large scale battery energy storage systems has also fallen sharply (around 40% since 2017 according to Bloomberg New Energy Finance). The improving economics have been highlighted in a number of recent proposals to regulators for energy storage systems to replace legacy technology: Californian utility PG&E successfully applied to its regulator to develop four storage systems totalling 568MW that will operate in place of gas fired generation. Perhaps more significantly, China approved its first large scale battery storage pilot project, a 720MW project in Gansu province, an area with excellent wind resources and home to the massive Gansu Wind Project.

Smaller scale energy storage systems represent a significant part of the overall energy storage market and deployment of small-scale systems is expected to double in 2019 (to around 3GW). Interestingly Australia is expected to be the largest single end market in 2019, a reflection of high levels of residential solar system ownership, relatively high electricity prices and supportive government programs.

The potential for solar and storage was further highlighted in the recent application by the Hawaii Electric Company to its regulator for approval of seven new solar and storage projects totalling 262MW of solar and 1,048MWh of battery storage (i.e. 4 hours of storage at peak capacity). The projects will supply electricity at rates averaging less than US10c / kWh, substantially less than the cost of competing fossil fuel generation.

The mobility revolution continued apace in 2018. The industry has embraced investment in the "ACES" (Autonomous, Connected, Electric and Shared) technologies. Both incumbents and new entrants are aggressively pursuing these: while Tesla overcame manufacturing concerns to successfully launch its mass-market Model 3, the first real competition to its premium S and X models appeared with the release of Jaguar's iPace SUV and the announcement of soon to be released electric models by Audi, Mercedes and Porsche, amongst others. Investment in the transition to electrification continues to escalate among incumbents: for example, Volkswagen once again raised its planned investment in "ACES" technologies to €44bn (up from an initial commitment of €10bn made in 2016). Elsewhere Toyota, long committed to hybrid and hydrogen technologies, recently announced that it would release more than 10 fully-electric vehicles in the early 2020s and invest more than 1.5trn yen (US$13bn) in battery development through to 2030.

Fatalities involving vehicles in autonomous or self-driving modes focused the attention of regulators in 2018 and tempered the proclaimed ambitions of companies developing autonomous technology. But it has neither slowed nor stopped investment in these technologies: Waymo, Google's autonomous driving unit - widely considered to have the most advanced autonomous driving technology - finished 2018 with the limited launch of a commercial autonomous car service in Pheonix, Arizona, the "Waymo One". Bosch and Daimler (parent company of Mercedes) have announced a similar pilot program for autonomous S Class Mercedes vehicles in San Jose during 2019. Bosch also revealed a slow speed urban autonomous shuttle that provides a more realistic vision of how shared, autonomous vehicle are likely to come to market, with similar utilitarian concepts also shown by Volkswagen, BMW and Daimler.

Notwithstanding the continuation of these technology trends, 2018 was a challenging year for investment in the automotive sector. Contraction in the major Chinese and European passenger vehicle markets and a US market at a historically high level, as well as cost pressures and escalating investments in new technology, pressured both growth and margins across the industry.

Companies providing industrial automation and advanced manufacturing technologies faced similar challenges. Investment in these areas is closely tied to industrial capital expenditure, which, already impacted by slowing investment in the automotive and semiconductor industries, slowed sharply in 2018 amidst increasing uncertainty about US-China trade relations. Emerging robotic technologies did however have a notably strong year, exemplified by Fund holdings such as Ocado (robot-based automated grocery fulfilment), Univeral Robotics/Teradyne (small collaborative robots, or "cobots") and Intuitive Surgical (medical surgical robots).

On the policy front the year ended with oil-producing nations and the US Trump administration block acceptance of research on the impact of climate change at the UN's latest Climate Change conference, a report the planet to be on a path for severe environmental harm. While the US is actively working to promote fossil fuel consumption, in contrast many other countries accelerated their policy ambitions and targets during the year. As examples, China raised its emission reduction targets and commenced the first phase of its renewable portfolio standard, Spain released a proposed law targeting 70% renewable energy by 2030 and 100% by 2050, Germany announced a target of 65% clean power by 2030 and, notwithstanding the actions of the US administration, California passed a law of its own that sets a goal of 100% renewable energy by 2045.

The uncertainty of the government sector's commitment heightens the importance of private sector efforts to promote sustainability, and on this front there was meaningful progress during 2018 with substantial commitments, both firm and aspirational, made by many of the largest companies in the world to shift away from unsustainable practices - and particularly from fossil fuel generation. Apple proclaimed its global facilities are now powered with 100% renewable energy, while companies such as Microsoft and AT&T continued to enter direct agreements to purchase renewable power to meet their needs.

Unsurprisingly legacy power technologies had a challenging year amid the rapidly falling cost of clean energy technologies, and industry leader General Electric wrote down US$22bn from the value of its power division. Major global energy companies have also reacted to the increasingly challenged longer-term outlook for fossil fuels: Statoil, Statkraft, Shell, Repsol, Exxon-Mobil, Chevron, Eni, Total, Petrobras and BP were amongst those to announce strategies or initiatives aimed at reducing carbon emissions, long-term scenarios envisaging a transition beyond fossil fuels or direct investments in non-fossil fuel based technologies.

Beyond the government and corporate fields, populist movements had a prominent role during 2018. On the positive side, a "War on Plastic" broke out, with major companies from McDonald's through to Coca Cola, Nestle and many others making bold commitments to reduce plastic pollution from their products. On the other hand, a large, regressive and ill-timed "hydrocarbon tax" increase by French President Emmanuel Macron triggered violent protests and subsequent retraction. Current greenhouse gas emission levels imply that major societal change is a near certainty - either in the form of a new energy system or significant environmental damage .

Market commentary

Global equity indices fell significantly in December, with the MSCI All Country World Total Return Index down 7.2%. All major regional indices fell during the month. Environmental equities fared only marginally better with the FTSE Environment Opportunities All Share Total Return Index (the Fund's benchmark) falling 6.4% in US dollar terms. Taking a longer view, the MSCI All Country World Index fell 11% in 2018. Chinese and European equities markets both fared particularly poorly, reflecting the weakness in economic growth in these regions – the Shanghai Composite -29% and Europe's Stoxx 50 -18% both in USD terms). The S&P 500 index fell 6% and the Nikkei 225 fell 12%.

2019 begins with significant geopolitical uncertainty and ongoing concerns of over global economic growth. In the US, the Federal Reserve began 2019 by signalling that it will slow or stop rate increases given growth has slowed, uncertainty prevails on trade and the Federal Government entered shutdown on a range of government services. The UK is dealing with Brexit, due to occur on March 31st but with a parliament yet to agree an exit deal with the EU, and the sustainability of Italy's debt balance remains in question. Data indicates that the Chinese economy is slowing below its potential despite efforts by the Chinese government to stimulate growth during 2018.

Fund commentary

The Fund posted a 3.7% decline in December, in line with traditional global equity indices but underperformed its benchmark index by 0.8%. The Fund benefitted from positive contributions from its positions in Japanese high-speed railway operators as well as a number of European industrial businesses that recovered during the month. The major detractors were the Fund's positions in Accenture and Siemens Gamesa. Accenture, a consulting services giant, fell on a lower than expected earnings result, while Siemens Gamesa retraced after posting a 25% rise during November.

For the calendar year 2018 the Fund fell 3.5%, underperforming its benchmark index by 0.6%. The Fund's annual performance was dominated by a number of significant stock specific positive contributors, concentrated in the first half of the year and the underperformance stemming from exposures to the cyclical automotive, smart phone and semiconductor capex end markets, which was most pronounced in the second half of the year. The largest detractor was French automotive supplier Valeo which saw margins fall as rising costs and investment to support its anticipated growth related to vehicle electrification and active safety impacted near term profitability as growth in its end markets slowed. Other major detractors included ams AG, NFI Group and Lenzing.

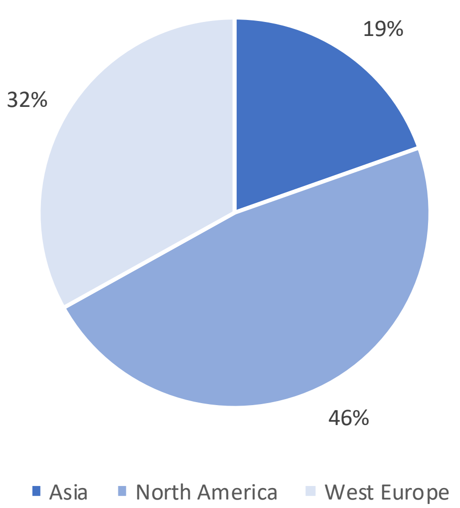
On the positive side the major contributors were Ocado, which sold its robotic grocery fulfilment technology to multiple international retailers, SolarEdge which continued to gain share in the solar inverter markets, and US residential solar leasing leader SunRun, which reached an important milestone of cash flow breakeven. The Fund's positions in Norwegian salmon farming businesses Leroy Seafood and Marine Harvest (recently renamed Mowi), wind turbine leader Vestas, offshore wind developer Orsted and Intuitive Surgical also made notable positive contributions during the year.

The Fund's underperformance relative to traditional global equity benchmarks can be largely attributed to the sector and geographic biases within the Fund's investment universe, which are well represented by the Fund's benchmark index. The FTSE Environmental Opportunities All Share Index underperformed the MSCI All Country World Index by 3.9% over the year. The majority of this difference is a result of the underperformance of the Producer Manufacturing sector, which represents more than 40% of the benchmark index. Consistent with the trend seen in broader global equities, the forward P/E ratio of environmental equities fell from 20x at the end of 2017 to just over 15x at the end of 2018.

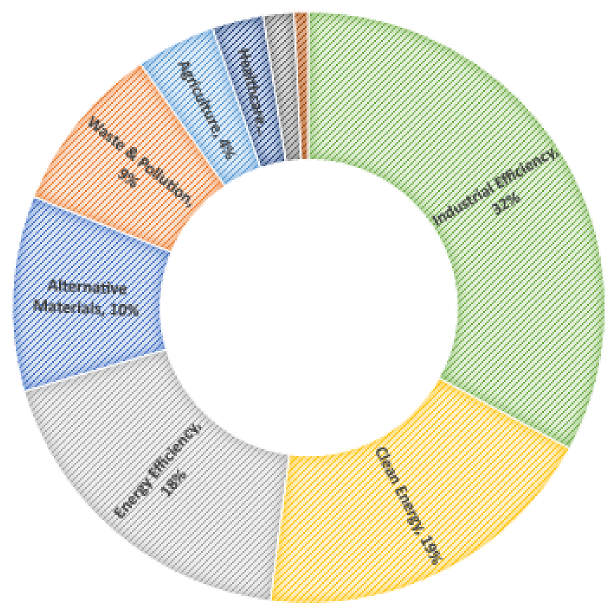
The Fund's investment approach remains unchanged - we seek to buy good quality businesses that are benefitting from industry trends at prices that provide attractive return potential. The continuing progress of sustainable and efficient technologies and practices, and the fall in equity market prices, provides an increasingly attractive opportunity set. This is reflected in the Fund's overall portfolio characteristics, which over the past year have seen an increase in the in the expected forward EPS growth (from 10 to 11.5%) and a decrease in the forward P/E multiple of the portfolio (from 15.7 times to 13.6 times). The average return on equity of the portfolio remains high, at around 20%.

At the end of December 2018 the Fund's largest sector exposures are in the industrial internet of things, building energy efficiency, high speed rail, advanced and sustainable materials, industrial automation, waste management, automotive efficiency and the wind energy sector.

Regional Weights (%)



Sector Weights (%)



Top 10 Holdings as at 31 Dec 2018

Security Name	Weight (%)	Country	Sector
Carlisle Companies Incorporated	4.2	UNITED STATES	Energy Efficiency
Lenzing AG	4.0	AUSTRIA	Alternative Materials
Accenture Plc Class A	3.8	UNITED STATES	Industrial Efficiency
Waste Management, Inc.	3.8	UNITED STATES	Waste & Pollution
Siemens Gamesa Renewable Energy, S.A.	3.8	SPAIN	Clean Energy
Vestas Wind Systems A/S	3.1	DENMARK	Clean Energy
Teradyne, Inc.	3.0	UNITED STATES	Industrial Efficiency
Central Japan Railway Company	2.7	JAPAN	Industrial Efficiency
West Japan Railway Company	2.6	JAPAN	Industrial Efficiency
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 December 2018)*	AUD 118m		

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