NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Quarterly Report – December 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 (%)	**(0.6)**	**31.1**	**31.1**	**12.4**	**15.3**	**14.2**
Benchmark Return[2] (%)	(0.2)	31.7	31.7	13.1	15.8	13.3
Value Added (%)	(0.4)	(0.7)	(0.7)	(0.7)	(0.5)	0.9
MSCI ACWI Return[3] (%)	(0.4)	26.8	26.8	13.0	13.6	10.4
Value Added (%)	(0.2)	4.3	4.3	(0.5)	1.7	3.8

Fund commentary – December 2019

The Fund was down 0.6% in December, slightly underperforming its benchmark, the FTSE Environmental Opportunities All Share Total Return Index by 0.4% and broader global indices such as the MSCI All Country World Total Return Index by a lesser amount (0.2%).

The major positive contributors during the month were the Fund's positions in automotive component supplier Lear Corporation, solar inverter leader SolarEdge Technologies and semiconductor company Skyworks Solutions. Lear rose after confirming it expected to top its previous earnings guidance amid better than expected automotive production rates, in part as a result of the resolution of a strike at its largest customer. SolarEdge has continued to rise after an analyst day in late November at which it outlined its longer-term financial targets and the transition towards profitability of its recently acquired businesses in uninterrupted power supply (UPS), batteries and e-mobility. Skyworks is a leading player in 5G communication components and is likely to be

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 benefit from a return to growth in global smartphone sales and the accelerating rollout of 5G infrastructure.

There were no significant underperformers, with the largest negative contributor during the month being the Fund's position in sustainable textile manufacturer Lenzing, which was down 5%.

During the month the Fund added new positions in US paper packaging company WestRock, a likely beneficiary of increasing focus on reducing plastic packaging, Austrian building products company Wienerberger AG, and German cloud computing services business S&T AG. The Fund exited long held positions in Swedish industrial conglomerate Indutrade and leading US renewable energy developer NextEra Energy which have both performed strongly, as well as Canadian transit bus manufacturer NFI Group which has struggled in the face of low growth end markets and has expanded through acquisition into the structurally challenged coach market.

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

Market Commentary

Global equity markets finished a year of extraordinary returns with another strong month. The MSCI All Country World Total Return Index rose 3.5% in December, although in Australian dollar terms the index was down 0.4% due to the sharp rise in the Australian dollar. The rise was led by the US and Chinese markets which responded positively to the announcement of agreement on a phase one trade deal and a halt to proposed tariff increases in mid-December. The US S&P 500 index was up 2.9%, with Hong Kong's Hang Seng index and China's Shanghai Shenzhen CSI 300 index both up 7.0%. Other major markets were mostly up, with Europe's STOXX 50 index rising 1.1% and Japan's Nikkei 225 index up 1.6%.

Environmental equities slightly outperformed traditional broader global equity indices, with the Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return (EOAS) Index up 3.7% in US dollar terms but down 0.2% in Australian dollar terms. The outperformance was accounted for by the strong performance of index constituent Tesla which rose 27% during the month.

2019 saw a reversal of the prior year's trends, with environmental equities outperforming traditional benchmarks driven by the strong performance of industrial stocks in areas like industrial machinery, electronic equipment and semiconductors. For the full year the FTSE EOAS Total Return Index was up 31.5% (in US dollar terms), outperforming the MSCI All Country World Total Return Index by 4.9%.

2019 Performance

The Fund finished 2019 up 31.1%, slightly underperforming its environmental equity benchmark but well ahead of traditional global equity benchmarks such as the MSCI All Country World Total Return Index which rose 26.8% (in Australian dollar terms).

The Fund performed particularly strongly during the first half of 2019 driven by a strong recovery of industrial and semiconductor stocks during the second quarter of 2019 and the returns from several positions entered into during late 2018 and early 2019 following significant share price movements during the latter part of 2018. The major contributors to the Fund's annual performance were SolarEdge, US industrial business Carlisle Companies and European wind turbine manufacturer Siemens Gamesa.

The Fund underperformed in the final quarter of 2019 during which time markets continued to perform strongly with many reaching new record highs. The underperformance during this period can be largely attributed to the Fund's significant exposures to more defensive ('low beta') industries such as waste management, Japanese high speed rail, information services and healthcare technology as well as stock specific underperformance of positions such as US solar residential leasing business SunRun and Austrian sustainable textiles manufacturer Lenzing – both discussed in recent monthly reports and both of which remain holdings of the Fund. The Fund's exposure to more defensive areas within Nanuk's investment universe also manifested in underexposure to the strong performance of more cyclical European and Japanese industrial and electronic equipment businesses, many of which had underperformed significant over the previous 12 months. It remains to be seen whether the expectations for a strong recovery in industrial investment in areas like automation and robotics are met.

Industry Commentary

The final year of the decade is likely to have been a pivotal one in the global transition towards longer term sustainability. Continued progress in renewable energy, battery energy storage and vehicle electrification have demonstrated beyond doubt the potential for economically viable decarbonization of electricity generation and road transport and have paved the way for the support and development of the much broader range of sustainable technologies necessary to address global environmental and resource scarcity challenges. This is being increasingly reflected in commitments made by governments, industries and individual companies – by way of ambitious longer-term targets, significant financial commitments and immediate investments in future technology solutions.

December provided not only continued evidence of the former but several examples of the latter - what we described in our recent seminar as the 'Second Wave of the Sustainability Revolution' – in areas such as sustainable materials, hydrogen, food and shipping.

In the automotive sector, Hyundai pledged to invest $17 billion over the next six years on new technologies to speed the switchover to electric and autonomous vehicles and plans to release 20 electric vehicles by 2023. GM announced a $2.3 billion joint venture with its primary electric vehicle battery supplier, LG Chem, to develop a battery factory in Ohio that will provide GM with greater certainty of supply for its growing electric vehicle range. On the policy front, China raised its 2025 electric vehicle target to 25% (from 20%) with a looser objective that electric vehicles become mainstream by 2035. Meanwhile the EU approved as much as $3.5 billion in state aid to help kick start its domestic battery industry and compete with Asian suppliers. The initiative, which is expected to total about $9 billion and involves leading European industrial and automotive companies such as BASF and BMW, is aimed at developing of innovative and sustainable technologies in lithium-ion batteries from mining and processing the raw materials to production and recycling.

The shipping industry, which is in the midst of a mandated transition to low sulphur fuels, announced an ambitious plan to cut its carbon footprint. Shipowner associations representing more than 90% of the global merchant fleet are seeking to create a $5 billion research fund to help develop more environmentally friendly fuels and propulsion systems. The fund aims to help the shipping industry develop commercially viable zero-carbon emission vessels by the early 2030s. Money for the fund would come from a mandatory $2 per ton tax on marine fuel bought by shippers over a 10-year period. It's to be spent on research into greener alternatives -- such as ammonia, fuel cells and synthetic fuels from renewable energy sources -- which don't yet exist in a form that can be applied to large, commercial ships that cross the world's oceans.

2019 has seen an increasing focus on industrial decarbonization which is a necessary component of emerging 2050 net zero greenhouse gas emission targets being embraced around the world. Industrial decarbonization primarily requires a shift away from fossil fuels and carbon emitting feedstocks in industrial processes. December saw examples of early stage investments in both. Orsted, one of the world's biggest developers of offshore wind farms, secured $5 million in funding to develop a renewable hydrogen project in Denmark that will be powered by offshore wind and will produce hydrogen for buses, lorries and potentially taxis. Meanwhile Apple received the first batch of 'carbon-free' aluminium produced by Elysis, a joint venture between Alcoa and Rio Tinto, last week. Aluminium is typically produced using sacrificial carbon anodes that break down releasing carbon dioxide. Elysis uses a proprietary ceramic anode, which does not break down resulting in the release of only oxygen.

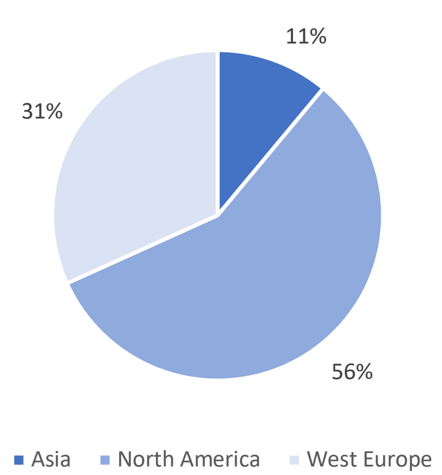
2019 also saw increasing focus on the environmental impact of food production and the rise of plant-based protein alternatives to meat, which was highlighted by the prominent and successful IPO of Beyond Meat. December saw an encouraging development for meat eaters with private Swiss agritech company Mootral, which produces a feed supplement for cattle made from citrus and garlic that has been verified to reduce ruminant emissions by 38%, received qualification of its product for voluntary carbon emission offset credits.

Leading players in the oil & gas industry have continued to shift their strategies away from fossil fuels and towards sustainable technologies. Repsol became the first oil company to commit to net-zero emissions by 2050. Importantly the Spanish company's goal includes direct emissions from its own operations, plus indirect emissions from the end-use of its products. Reducing indirect emissions will require a shift toward producing low-carbon energy and using technology such as carbon capture and storage to reduce the emission profile of its operations. Repsol also aims to double both biofuels production to 600,000 metric tons per year by 2030, and renewable generation capacity to 7,500 megawatts by 2025.

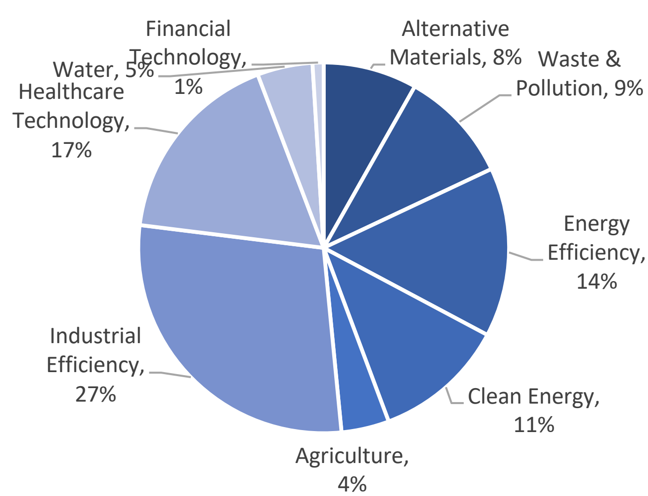
On the policy front 2019 ended with a disappointing outcome at the UN COP25 climate change summit in Madrid. The convention was aiming to finalise the "rulebook" of the Paris Agreement – the operating manual needed when it takes effect in 2020 – by settling on rules for carbon markets and other forms of international cooperation, but was unable to reach consensus in a number of areas including transparency and common timeframes for pledges. 2020 is the first year in which signatories to the Paris climate change agreement are expected to raise the ambition of their efforts.

Entering 2020 we see a number of near-term trends that are likely to support growth in sustainable technologies and offer investment opportunities for the Fund. Increasing concern about waste and in particular plastic waste and microplastics is likely to lead to changes in the packaging sector and support growth for sustainable materials and recycling more broadly. The Fund holds a position in sustainable textiles leader Lenzing and recently acquired a position in US paper-based packaging business Westrock Company. The stabilization of trade relations between the US and China is likely to support a recovery in industrial capital expenditure (from current levels well below long term trend) in areas like industrial automation, robotics and advanced manufacturing technologies. In addition the accelerating roll out of 5G communication infrastructure will benefit a wide range of technology suppliers and support the broader adoption of a range of related applications. The Fund's position in Skyworks Solutions is one of a number likely to benefit from this trend, alongside networking leaders like Arista Networks and Cisco. Finally, the declines in the cost of solar energy and lithium ion battery storage observed in 2019 are likely to continue and support the accelerating adoption of energy storage systems and integrated solar and storage solutions.

Regional Weights (%)



Sector Weights (%)



Top 10 Holdings as at 31 December 2019

Security Name	Weight (%)	Country	Sector
Carlisle Companies Incorporated	3.9	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.4	UNITED STATES	Waste & Pollution
Lear Corporation	3.0	UNITED STATES	Energy Efficiency
Air Liquide SA	3.0	FRANCE	Alternative Materials
RELX PLC	3.0	UNITED KINGDOM	Healthcare Technology
Microsoft Corporation	3.0	UNITED STATES	Industrial Efficiency
Republic Services, Inc.	2.7	UNITED STATES	Waste & Pollution
Stryker Corporation	2.6	UNITED STATES	Healthcare Technology
Sunrun Inc.	2.6	UNITED STATES	Clean Energy
Varian Medical Systems, Inc.	2.5	UNITED STATES	Healthcare Technology

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 Dec 2019)*	AUD 230.9m		

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