NANUK ASSET MANAGEMENT

Nanuk New World Fund

Monthly Report – June 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 (%)	**(1.9)**	**8.8**	**9.9**	**24.1**	**14.1**
Benchmark Return[2] (%)	(2.5)	6.1	9.7	21.3	10.9
Value Added (%)	0.6	2.7	0.2	2.8	3.2
MSCI ACWI Return[3] (%)	(2.5)	3.7	5.2	15.3	5.0
Value Added (%)	0.6	5.1	4.7	8.8	9.1

Macro and industry commentary

Sustainability themes had yet another exciting month, with the mobility industry once again leading the way. Apple CEO Tim Cook confirmed the participation of the world's most valuable listed company in the development of autonomous driving systems. Swedish premium car manufacturer Volvo, owned by China's Geely, announced that as of 2019 the powertrains of all its vehicles will be either hybrid or fully electric, leading some newspapers to announce the "death knell for petrol" and the "end of the road for diesel". In reality, and in the short-term, the majority of these electric drivetrains are likely to be "mild" hybrid systems with a 48-volt electric motor supplementing an internal combustion engine. Nevertheless it is very clear that the shift towards electric and increasingly autonomous vehicles is underway and they will become commonplace within just a few years. In Finland's capital Helsinki, it was announced that an autonomous bus line will enter scheduled service in the autumn of this year following a year of trials. Honda meanwhile became the latest (and one of the last) major auto manufacturers to announce plans for a fully electric model - as well as an autonomous vehicle - by 2025.

The Fund is positively exposed to these transitions through positions in a number of component suppliers to the automotive industry (such as Delphi Automotive and Valeo) and manufacturers of automotive electronics (such as ON Semiconductor). Uncertainty surrounding the future of internal combustion engine technology and concerns about cyclically high automotive sales in the US have resulted in many automotive suppliers trading at relatively low multiples. We

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 believe that rapid transition shifts in technology will favour suppliers such as those highlighted above who have strong positions in components and systems for electric drivetrains and autonomous driving features.

It wasn't all good news in the mobility space. Uber's troubles continued, culminating in the resignation of CEO Travis Kalanick following an investigation into the company's culture led by former US Attorney General Eric Holder. This followed a string of executive and even board member resignations amid a litany of allegations of misconduct affecting virtually all stakeholders: drivers underpaid by tens of millions of dollars, employees subjected to sexual harassment and customers whose privacy was breached. Uber is reputedly the world's most valuable private company, with valuations touted above $50b. That (even) such a large private enterprise can be challenged by management and cultural difficulties illustrates the importance of a sustainable corporate culture and indeed governance considerations for investors.

The battery supply chain continues to expand quickly to meet anticipated growth in demand from the electric vehicles and growing demand from electricity grid storage applications. South Australian Premier Jay Weatherill announced that Tesla will supply a 100MW / 129 MWh battery system to help South Australia's challenged grid. The system, which is three times larger than any previous installation globally, will primarily be used for 'load balancing' to provide stability to the renewable-heavy generating mix in South Australia. Meanwhile Bloomberg reported additional planned capacity in battery manufacturing capacity in China amounting to 120GWhs, enough capacity for 1.5 million Tesla Model S premium cars per year. Italian utility Enel, a company owned by the Fund and one of the world's largest developers of renewable energy assets and owner of transmission grids worldwide, acquired EnerNOC, a US based energy service provider and a global leader in providing demand response services. The acquisition price was $250m.

We also saw some large scale strategic M&A during the month, with online retailing behemoth Amazon agreeing to buy Whole Foods in a $15b deal. Whole Foods established the natural & organic grocery category in the US, and has grown to $16b in sales. Amazon, which had $135b in sales in 2016, is expected to bring Whole Foods to its broader customer base and utilize Whole Foods' extensive physical distribution network for existing Amazon products. Amazon has a track record of focusing on sales growth over short-term profits, and the deal was greeted with significant sell-offs among conventional grocers. Walmart's share price fell ~5%, $12b of market capitalisation; Kroger, CostCo and even European peers such as Tesco were also affected. A larger deal occurred in the industrial gases sector, with Praxair and Linde agreeing to a $73b merger of equals. The deal has been in the works since 2016 and followed a wave of mergers in the industry.

On the policy front, France's newly-elected Macron government announced proposals to ban petrol and diesel vehicles by 2040 and hit carbon neutrality by 2050, and impose a carbon price of €100/ton by 2030. The United Kingdom government announced plans to invest GBP800 million into driverless and zero-emission vehicle technology and infrastructure, seeking to boost growth as it leave the European Union. Like France, the UK is moving towards 100% zero-emission vehicles by 2050. The plans also outlined the coverage of autonomous vehicles in mandatory insurance policies, which would overcome a potentially significant hurdle for their broader adoption.

In Nevada, a long-standing fight over regulations for residential solar installations concluded firmly in the solar industry's favour. In December 2015, the local electricity utility succeeded in its efforts to have Nevada cancel "net metering", even for customers that had already installed solar systems for which net metering was available. ("Net metering" permits owners of solar installations to export excess electricity to the grid and 'net' such amounts off their power bills from utilities). Having already agreed to grandfather existing customers, the state has now passed a law that will give new customers access to net metering credits, starting at 95% of retail electricity rate and falling to 75%. This is very generous, and is testament to the remarkable support for residential solar in the US even in states with Republican governors – such as Nevada. The Fund has exposure to the continued growth in US residential solar through investments in SunRun, discussed below, and leading solar inverter manufacturer, SolarEdge.

Market commentary

Global equity markets had a relatively sedate June after their roaring start to 2017, with the MSCI All Country World Total Return Index up 0.5%. Europe was the laggard, with the Stoxx 50 down 3.2% in local terms. We have discussed positive signs in the European economy in recent letters, and perhaps inevitably these have been followed by anticipation of monetary tightening. For example, on June 28, European Central Bank President Mario Draghi made a speech saying that deflationary forces have been replaced by reflationary ones; the € jumped 1.5% against the $, and the ECB took the unusual step of issuing a clarifying statement within 24 hours emphasising its commitment to accommodative policy. Nevertheless the € held its gains, and is now up 8% for the year against the $. British politics continued to deliver headlines with the commencement of Brexit negotiation as well as a surprise outcome to election on June 8 in which the Conservative Party lost its majority. However, ultimately the Conservatives remained in government via a deal with the Ulster Unionists, and markets seemed unperturbed. Elsewhere, we saw modest rises, with the US' S&P 500 up 0.5%, Japan's Nikkei 225 up 1.9% and Hong Kong's Hang Seng Index up 0.4%. The Fund's benchmark, the FTSE Environmental Opportunities Total Return Index, rose 0.5% in US$ terms, in-line with global equities, but fell 2.5% in Australian dollar terms due to $A strength.

Fund commentary

The Fund fell 1.9% during the month, albeit outperforming its benchmark index by 0.6%. The Fund nevertheless finished the first 6 months of the 2017 to be up 9.9%, slightly outperforming its environmental equities benchmark but outperforming broader global equities by close to 5%.

The major contributor to the Fund's outperformance in June was SunRun, a US residential solar developer, which was up 40% during the month. We believed that SunRun was trading at close the value of its existing contracted solar assets after a year of significant share price underperformance, and its price did not reflect the value of the company's ongoing business and strengthening market position in an industry with significant longer term growth potential. The company provided evidence of tangible progress during the month, announcing that it has doubled its addressable market from 14 to 26m homes by entering seven new states including Texas and Florida, as well as re-entering Nevada due to the policy news mentioned above. The biggest detractor from monthly performance was the Fund's position in Sprouts Farmers Market, which we have discussed in previous monthly notes. Sprouts was affected both by the Whole Food acquisition referenced above, as well as a profit warning by peer Kroger on June 15. We exited our position in the company late in the month, as the potential upside from owning the stock had fallen as Sprouts has performed well in recent months and Amazon's entry creates risk of significant pricing pressure as well as an improved competitive position for Whole Foods, Sprouts' closest competitor. Lastly, Sprouts is currently sold via Amazon.com to Amazon Prime customers in select locations, and this arrangement is at risk, which will be a direct financial setback.

At the end of May 2017 the Fund's major sector exposures remain in areas including aquaculture, automotive efficiency and vehicle electrification, waste management, building energy efficiency, high speed rail, 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)	-	-	-	-	-	-	9.9

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Weekly
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Weekly
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).