Nanuk New World Fund

APIR SLT2171AU

Quarterly Report – June 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 (%)	**(0.0)**	**0.4**	**6.9**	**17.9**	**21.2**	**15.5**
Benchmark Return[2] (%)	0.6	1.8	2.3	13.1	17.1	11.7
Value Added (%)	(0.6)	(1.4)	4.6	4.9	4.1	3.8
MSCI ACWI Return[3] (%)	1.9	4.4	5.4	15.0	15.1	8.6
Value Added (%)	(1.9)	(4.0)	1.5	3.0	6.1	6.9

Industry commentary

FY17/18 Recap

The last 12 months has been a pivotal period in the adoption of sustainable technologies globally. The early stages of the transition towards new technology solutions have been clearly evidenced across a wide range of sectors and the continued acceleration of this trajectory has been ensured by a marked shift in corporate behaviour and investment.

The automotive industry has dominated headlines as all the major auto manufacturers have reshaped their strategies around electric vehicles and autonomous driving. The announced investment in these new technologies runs into the hundreds of billions of dollars and the related decline in investment in internal combustion engine technology will ensure its decline. The first real competitors to Tesla's pioneering Models S, X and 3 have hit the road and literally hundreds more are set to arrive in the coming years. Investment in autonomous driving has accelerated too, with increasing real-world testing highlighting both the potential and the shortcomings of the technology today. While autonomous driving steals the headlines, the rapid proliferation of active safety technologies continues and will quickly reach even the cheapest cars.

The energy industry had already seen the emergence of solar and wind as economically competitive alternatives to traditional energy sources such as coal in many parts of the world. But the staggering improvements in cost continue to surprise. The cost of solar PV modules has fallen by

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
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nearly 20% in the last 12 months, continuing its remarkable trajectory of cost reduction that has lasted over 40 years. The impact of competitive auctions has seen a similar fall in the price of wind energy, both onshore and offshore. Both technologies are now succeeding in many competitive and unsubsidised markets, and the scope of this success will only grow as costs continue to fall in coming years. Despite this growth the wind and solar industries have endured challenging periods, with the commoditised nature of energy and step wise shifts in regulation and subsidies pressuring the profitability of many companies.

The energy industry took a large leap towards the future with the successful deployment of several large scale battery energy storage systems, the most notable being the Hornsdale Power Reserve, a 129MWh battery system installed by Tesla in South Australia. The costs of large scale batteries have fallen at faster pace than solar in recent years, and although prices will continue to fall, battery storage systems are already seen as a viable alternative to gas peaking plants and a critical component of future electricity infrastructure worldwide.

The industrial landscape has in recent years benefitted from steady and strong global growth, supported by significant investment cycles in the automotive and electronics industries. Increased global investment has accelerated the adoption of advanced manufacturing technologies and the integration of data collection, networking and artificial intelligence into industrial applications. The consistently falling costs of these technologies will ensure that their adoption continues to grow in beyond the economic or industry cycles.

On the environmental front we saw increasing focus on the negative impacts of plastic in the environment and early examples of shifting corporate behaviour towards the adoption of more sustainable alternatives in consumer goods and packaging. Elsewhere, while President Trump's administration continued to fulfil its promises to dismantle environmental legislation in the US, with few exceptions the rest of the world reinforced their commitments. While incumbent industries facing the destruction of their businesses will no doubt continue to fight against change, inevitably it will be the improving economics of new technologies that will drive change on a global scale. The past 12 months brought much evidence that this is the direction the world is heading, placing incumbent industries and companies at risk.

Fund Commentary – June 2018

Notwithstanding the positive industry developments and the improving outlook for many sustainable technologies, environmental equities slightly underperformed traditional global benchmarks over the past year. This was mostly due to underperformance over the last 3 months which can be attributed primarily to the recent relative strength of US equities and Energy (related to the recent strength in the oil price) and the relative underperformance of manufacturing and industrial stocks (to some extent related to recent trade disputes and tariffs).

Over FY2017/18 the Fund returned 17.9%, outperforming its benchmark index (the FTSE Environmental Opportunities All Share Total Return Index) by 4.9% and traditional global equities benchmarks such as the MSCI All Country World Index by 3.0%. Fund outperformance reflected strong returns in areas such as solar and robotics and the avoidance of investment in areas that were overvalued and susceptible to increased market volatility - the latter a key driver of the Fund's outperformance in Q1'18.

The Fund was close to flat (0.0%) in the month of June, delivering a 0.4% return for the June quarter. The Fund underperformed its benchmark index by 0.6% and 1.4% in these time periods respectively. Relative underperformance against traditional global equity indices such as the MSCI All Country World Index was more significant over the June quarter (4.0%), due mainly to the Fund's underweight position in US equities and Energy, overweight positions in Japan and Europe and the Manufacturing sector.

At a stock level, European automotive and US semiconductor positions were the major underperformers. Partially offsetting this were positive contributions from Lenzing - an Austrian manufacturer of sustainable wood-based fibres and textiles, which announced a large, high quality project to expand its raw material processing, Murata Manufacturing - a leading Japanese electronic component supplier that is benefitting from growing automotive demand for passive electronic components and SunRun - discussed in prior reports and mentioned below, a beneficiary from falling solar module prices.

At the end of June 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. The Fund remains well diversified from both a sector and geographic perspective, and we believe is well

positioned to continue to benefit from investments in the secular themes of environmental sustainability and resource efficiency in a socially responsible and ethical manner.

Market commentary – June 2018

Global equities had a mixed month in June. The MSCI ACWI TR fell 0.5% (in USD terms), a relatively modest move that belays significant regional and sector volatility. The key driver was escalated concerns about a trade war, led by President Trump's announcement of $50b of tariffs on various Chinese exports including semiconductor products and plans for tariffs on EU automotive exports. Reflecting this, the US' S&P 500 rose 0.5% while the Shenzhen Composite index in China fell almost 8%. Elsewhere Europe's Stoxx 50 index fell 0.3% with its automotive component falling almost 10%. Japan's Nikkei 225 rose 0.5% in Yen terms but fell 1.4% in USD terms. The Energy sector performed well, led by higher oil prices (+10%).

The Environmental Opportunities All Share Total Return index fell 1.8% in USD terms over June, due mainly to underperformance of the well-represented industrial and manufacturing sectors, the Index's underweight position in Energy and its regional biases (underweight US and overweight Europe and Japan). The EOAS Index rose 0.6% in AUD terms in the month, reflecting a weaker $A vs the $US.

Macro and industry commentary – June 2018

The solar sector provided the biggest surprise, with China abruptly slashing its policy support to the sector, halting approvals for utility scale projects and significantly reducing the volume of smaller 'distribution connected' projects for this year. The changes won't stop solar installations: China will likely remain the largest market globally, but the impact will be significant. Accordingly Bloomberg New Energy Finance (BNEF) halved its forecast for China's solar installation in the second half of 2018, a 30% reduction of its (previous) estimate of global demand for the period. China's solar policy was due for reform: in calendar 2017 China installed 50GW of capacity, more solar than the rest of the world combined and more than Australia's entire existing generation capacity. This was achieved under a subsidy scheme which was not fully funded and which was accumulating a growing backlog of overdue payments. Solar PV module prices have fallen 15% since the announcement and are likely to fall further as the industry deals with oversupply. This change, while certainly painful for industry participants, is part of the industry's transition to maturation. It also means demand outside China is likely to increase as cheaper module prices improve the already attractive economics of solar generation. The Fund's positions in US residential solar installer SunRun and inverter company SolarEdge are likely to benefit from further falls in module prices.

The wind sector saw more positive news. BNEF upgraded its forecast for cumulative onshore wind installations to 2040 by 25% based on faster-than-expected improvements in the technology's competitiveness. The Fund's investment in leading wind turbine manufacturer Vestas, which is also the largest provider of operation and maintenance services for wind farms, stands to benefit from an acceleration in industry growth. In the offshore sub-sector, Siemens Gamesa announced the largest order in the nascent industry's history - a 1.4GW project in the UK (for reference, the generating capacity of a typical nuclear or large-scale coal fired power station is around 1GW). Meanwhile in Taiwan, the first auction for offshore wind saw prices halve relative to previous bids based on feed in tariffs, bringing Taiwanese prices close to those achieved in more mature offshore markets in Europe, albeit with a lag of 3-4 years.

In the automotive sector, Tesla dominated the headlines with focus on its Model 3 production ramp. The company reported that it had finally hit its 5,000 vehicle per week production target, although it had gone to great lengths to do so with additional production coming from new lines housed in temporary structures. Meanwhile, there were continued announcements from existing OEMs for increased investment in the development of new electric vehicles. Fiat Chrysler unveiled its five-year strategy, with 32 electrified models. Jaguar Land Rover announced that its 3-year investment plan through 2021 would be 26% higher than its plan through 2018, and that it would retool all its British plants to produce EVs. Renault announced a €1b investment to raise EV capacity at four of its plants in France. Germany's Porsche bought a 10% stake in a manufacturer of electric supercars, Rimac Automobili, after announcing it would release its first fully electric model, the Taycan, in 2019. In the US, Daimler's market-leading heavy truck brand, Freightliner, unveiled two battery powered models, with a planned production date of 2021. The sector also saw California and New York approve $1 billion of subsidies for EV charging.

Grid-scale storage also had a strong month. Italian utility and global renewable energy leader Enel (an investment of the Fund) completed its first utility scale battery, a 25MW facility in the UK. Fluence, an energy storage joint venture between Siemens (an

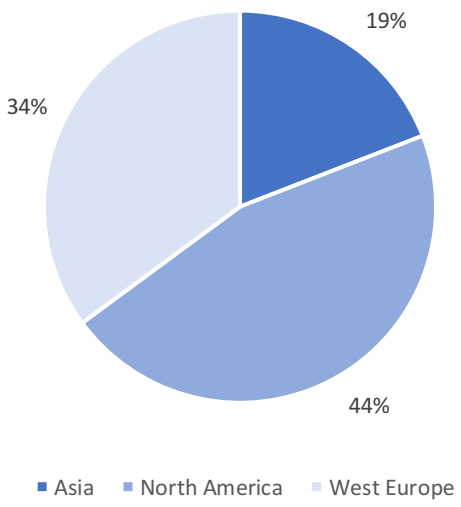
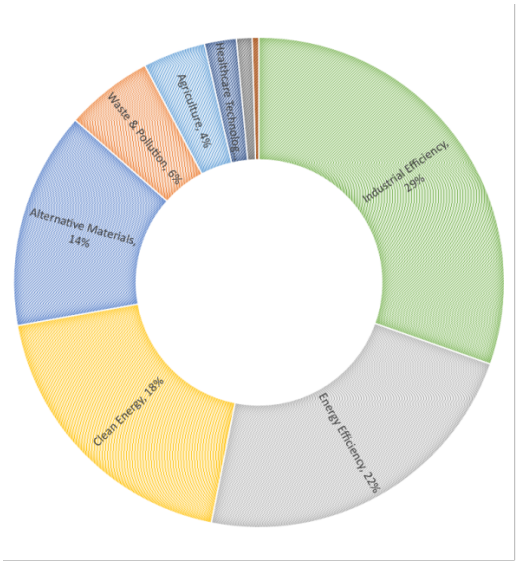
investment of the Fund) and US utility AES Corp, forecast 20% of Japan's peak load will be met by storage within a decade. Bill Gates' Breakthrough Energy Ventures fund announced its first investments, and both will be in the storage sector. US utility Xcel Energy applied to regulators to replace two coal plants in 2022 and 2025 with a portfolio of wind, solar, gas and battery storage on the basis that it would lower costs for consumers. Jim Robo, CEO of NextEra, the world's largest solar and wind generator and also a company owned by the Fund, forecast this trend, where storage allows renewables to compete with legacy energy sources on cost without compromising reliability, will become widespread within a few years. The growth in battery production was also reflected in a $700m deal by mining giant Vale to sell cobalt, a key raw material for lithium ion battery production, from its Voisey's Bay mine. Korean automaker Hyundai also announced an interesting deal with Wartsila, a leader in flexible power generation, where Wartsila will re-deploy used batteries from Hyundai EVs for grid-scale storage.

The Fund increased its exposure to growth in batteries through the addition of Panasonic to the portfolio during the month. Panasonic is perhaps best known for its consumer products which represent about 35% of sales, but it has significant businesses in industrial and automotive electronics and batteries, for which it is Tesla's primary supplier and joint venture partner. While the company's share price performance and valuation (around 8x EV/EBIT) reflects a mixed track record, it is a beneficiary of growth in automotive batteries and active safety technology and with more disciplined management returns are likely to improve.

June was also a big month for IPOs. Foxconn Industrial Internet, which makes network equipment and has ambitions in a range of emerging technologies including the Internet of Things (IoT) and Artificial Intelligence (AI), listed on June 7. Contemporary Amperex, China's leading automotive battery manufacturer, listed on June 19. Both companies listed in China and are now valued at more than US$50 billion and US$20 billion respectively, though the free floats are only about 10% of shares outstanding this point.

In policy developments, Japan set a target for 22-24% of its electricity generation to come from renewables by 2030, up from just 10% set in 2010. Europe set a similar target, at a level of 32%. On the other hand, Doug Ford, newly elected Premier of the Canadian province of Ontario, announced a repeal of its cap-and-trade scheme.

The rapid evolution at incumbent energy giants continued. General Electric announced that it will divest its oil services unit, Baker Hughes. Siemens was reported to be considering disposing of its gas turbine division after its CEO had earlier said it is now part of its industrial core. British oil giant BP announced a $170m acquisition of an EV charging service, Chargemaster, also based in the UK. Another corporate trend that continued was the transition of leading brands to sustainable materials and renewable energy. Samsung Electronics vowed to source all energy in the US, Europe and China from renewable energy by 2020, while furniture giant Ikea said by 2030 it would only use renewable and recycled materials and reduce its carbon footprint by 70%.

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 30 June 2018

Security Name	Weight (%)	Country	Sector
Lenzing AG	4.9	AUSTRIA	Alternative Materials
Valeo SA	4.7	FRANCE	Energy Efficiency
Carlisle Companies Incorporated	3.6	UNITED STATES	Energy Efficiency
Vestas Wind Systems A/S	3.2	DENMARK	Clean Energy
Toray Industries, Inc.	3.2	JAPAN	Alternative Materials
Waste Management, Inc.	3.2	UNITED STATES	Waste & Pollution
Lear Corporation	3.0	UNITED STATES	Energy Efficiency
3M Company	2.8	UNITED STATES	Alternative Materials
Coherent, Inc.	2.6	UNITED STATES	Industrial Efficiency
Panasonic Corporation	2.4	JAPAN	Clean Energy

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Daily
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty 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 *(30 June 2018)*	AUD 89m		

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