NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Quarterly Report – June 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 (%)	**6.8**	**23.6**	**11.5**	**14.7**	**17.9**	**14.4**
Benchmark Return[2] (%)	7.3	20.0	13.9	13.5	16.0	12.3
Value Added (%)	(0.5)	3.6	(2.4)	1.2	1.9	2.1
MSCI ACWI Return[3] (%)	5.2	16.6	11.3	13.1	13.9	9.4
Value Added (%)	1.6	7.0	0.2	1.5	4.0	5.1

Fund commentary

The Fund was up 6.8% in June, outperforming the MSCI All Country World Total Return Index by 1.6% but slightly underperforming its environmental benchmark, the FTSE Environmental Opportunities All Share Total Return Index, by 0.5%.

The Fund's performance was supported by double-digit gains across a range of automotive, semiconductor and industrial stocks. This was partially offset by the weaker performance in defensive sectors such as Japanese high-speed rail and US waste management. The Fund's position in US-listed solar inverter manufacturer SolarEdge was up a further 15% in June as positive industry data continued. The most notable change during the month was an increase in the Fund's position in US automotive component supplier Lear Corporation, discussed in more detail below.

The Fund has returned 23.6% for the first half of 2019, outperforming both its benchmark and

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 broader global equity benchmarks. The return for the 12 months to 30 June 2019 was 11.5%, roughly in line with the MSCI All Country World Total Return Index.

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

Market commentary

After a brief pull back in May, global equities rallied strongly again in June. The MSCI All Country World Total Return Index was up 6.5% in US dollar terms, with equity indices rising in all major regions. The US S&P 500 index was up 6.9%, reaching an all time high and experiencing its strongest first half year since 1997. Hong Kong's Hang Seng Index was up 6.1%, Europe's STOXX 50 Index up 5.9% and Japan's Nikkei 225 Index up 3.3%. The context for these gains was accommodative signals from the US Federal Reserve and the European Central Bank and abating fears over trade conflict. Fed Chairman Jerome Powell signalled openness to cutting rates at several speeches through the month while ECB President Mario Draghi said "additional stimulus will be required" if the Eurozone economy does not improve. Benchmark interest rates fell in both regions, with Germany's 10-year bond yield hitting new record lows at negative 0.3% while the US 10-year yields reached 2.0%, the lowest level in 3 years. On trade, President Trump dropped his tariffs on Mexico mere days after issuing them and announced a resumption of talks with China at the G20 Summit at the end of the month.

Environmental equities outperformed with the Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return Index, up 8.7% in US dollar terms and 7.3% in Australian dollar terms. Outperformance during the month was driven by the strong performance of industrial stocks, which make up a large portion of the index.

Industry Commentary

The rapid evolution of the automotive sector towards electrified and autonomous vehicle and mobility services is presenting many challenges for the industry. Auto manufacturers are seeking to accelerate the development of EVs and autonomous driving solutions but the substantial costs and the backdrop of weak global automotive sales is leading to weaker profitability, ongoing restructuring and increasing collaboration across the industry.

Ford Motor's new CEO is working through a $10 billion restructuring of the company's operations, with 20,000 jobs to be cut and multiple plants shutdown. It was notable that the two factors Ford cited for maintaining a plant are that it must contribute to "cash flow" and "CO2 compliance". Volkswagen announced further steps in its ongoing evolution. It plans to IPO its truck unit, acquire 20% of European EV battery manufacturer Northvolt, as well as trial a limited ride sharing service called "WeShare" which will operate 2,000 electric vehicles in Europe from next year. Volkswagen also announced that it had ended its partnership with Aurora Innovation, an autonomous vehicle technology business backed by Amazon, as it moves closer to a broader collaboration on autonomous technology with Ford. Aurora meanwhile announced a deal with Fiat Chrysler to focus on integrating its technology into FCA's Ram Truck commercial vehicles. Apple was reported to be acquiring autonomous vehicle technology company Drive.ai.

Electric vehicle development continues to accelerate. BMW moved forward its target of offering 25 electric and hybrid models, from 2025 to 2023. Toyota also held an event titled "Aiming to Popularize BEVs" (Battery Electric Vehicles) where it unveiled accelerated plans for its full suite of electric vehicles, which includes fuel cell powertrains as well as the more common lithium ion battery-based solution. Technical progress in electric vehicles continues. Bloomberg New Energy Finance (BNEF) reported that battery density continues to improve and on current trends could enable electric passenger vehicles with 800km of range by 2025, as well as high power charging in as little as 4 minutes. In more sobering news and reflecting the challenges of such rapid development, Chinese EV start-up NIO recalled 25% of all its cars after reports of fires in several of its vehicles and Audi took recalled 1,600 of its e-Tron SUVs sold in the US.

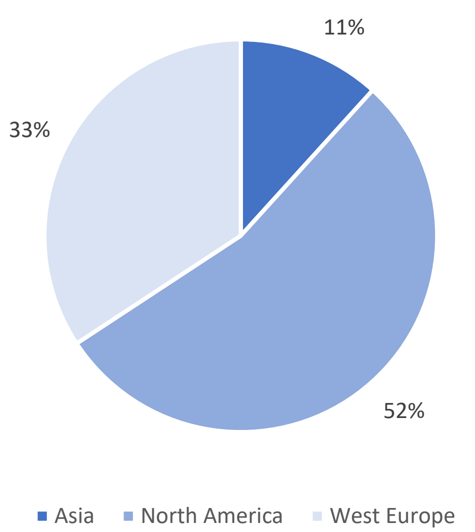
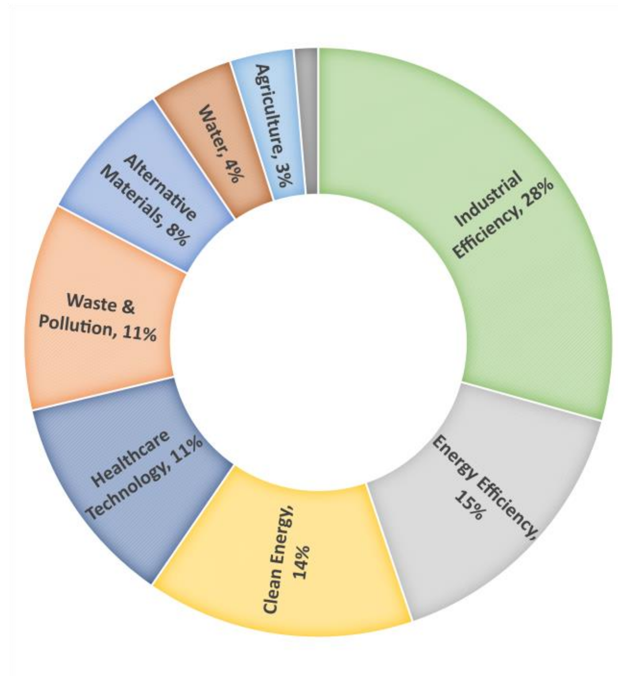
The automotive sector has suffered a very challenging 18 months, with widespread profit warnings and several companies forced into debt restructuring or capital raisings. The sector has well known medium term structural challenges necessitating increasing investment in research and development however these did not emerge recently. What did is a decline in volumes. Global automotive sales volume estimates have been revised down almost continually over the past 18 months and now stand 7% below where they began. Given the industry's financial characteristics of high fixed costs and modest margins this has had a significant impact on profitability across the sector.

Our analysis indicates this contraction is likely to end and may even reverse. The decline came primarily from China where auto production was down almost 20% in the first half of 2019. Chinese production is now over 10% below retail sales, and supply chain data indicates excess inventory has been reduced. As a result, we believe production is set to recover.

The Fund's position in Lear Corporation is our preferred exposure for this anticipated development. Lear makes automotive seating and electronics, and through the latter is a beneficiary of the increasing electrification of cars. Lear has not escaped the volume decline described above but its operations and balance sheet were sufficiently resilient that it has raised its dividend by 50%, continued to buy back shares, and has been awarded record levels of new business. Our analysis indicates 19Q2 will likely prove a nadir for the company's earnings, and beyond it we will see a recovery in revenues and earnings ahead of consensus expectations.

Leading clean energy researcher Bloomberg New Energy Finance (BNEF) unveiled its annual New Energy Outlook. Its most striking headline is an estimate that solar and wind are today cheaper sources of new generation than fossil fuels for two thirds of the world's population. By 2030 that will be true for almost everyone. The month saw multiple manifestations of this development. The UK's National Grid said clear zero-carbon power sources overtook fossil fuels in Britain's power mix for the first time in modern history, with a share of 48%. The US saw 1.2GW of 'solar plus storage' projects unveiled in the state of Nevada, a huge figure for a technology solution that has only recently found commercial application at large scale. Offshore wind capacity is also set for rapid growth in the US with BNEF forecasting capacity to rise to 15GW by 2030, from just 30MW today. France's Prime Minister, Edouard Philippe, announced the country will begin annual auctions of 1GW of offshore wind capacity in response to this technology's falling costs.

The UK government enshrined its commitment to achieving zero net carbon emissions by 2050 in an amendment to its Climate Change Act and has challenged other countries to do the same. German Chancellor Angela Merkel expressed her support for a German commitment to the same target and endorsed a European Union target. Although the US federal government again shied away from climate related commitments at the G20, the State of New York's Democrat controlled government passed legislation adopting ambitious targets including 100% carbon free electricity by 2040 and economy wide net zero carbon emissions by 2050. In Chile the first coal plants were retired as part of a plan to fully exit coal power by 2040. The Bank of England added climate change to the range of risks include in its stress tests for large insurance companies.

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 30 June 2019

Security Name	Weight (%)	Country	Sector
SolarEdge Technologies, Inc.	4.9	UNITED STATES	Clean Energy
Lear Corporation	4.5	UNITED STATES	Energy Efficiency
Carlisle Companies Incorporated	4.1	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.5	UNITED STATES	Waste & Pollution
Microsoft Corporation	3.0	UNITED STATES	Industrial Efficiency
Lenzing AG	2.9	AUSTRIA	Alternative Materials
Stericycle, Inc.	2.9	UNITED STATES	Waste & Pollution
Stryker Corporation	2.8	UNITED STATES	Healthcare Technology
Wolters Kluwer NV	2.8	NETHERLANDS	Healthcare Technology
West Japan Railway Company	2.5	JAPAN	Industrial 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 *(30 Jun 2019)*	AUD 170.5m		

Contact Details

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