NANUK NEW WORLD FUND

NANUK
ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Quarterly Report – June 2020

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 (%)	**(2.4)**	**(3.3)**	**2.6**	**7.0**	**10.5**	**11.8**
FTSE EOAS Return[2] (%)	0.1	(0.5)	9.2	11.5	12.0	11.6
Value Added (%)	(2.5)	(2.7)	(6.6)	(4.6)	(1.5)	0.1
MSCI ACWI Return[3] (%)	(0.5)	(4.3)	4.1	7.6	10.0	8.2
Value Added (%)	(1.9)	1.0	(1.5)	(0.7)	0.5	3.6

Fund Commentary

The Fund was down 2.4% in May, underperforming global equity benchmarks such as the MSCI All Country World Net Total Return (EOAS) Index by 1.9% and its environmental equity benchmark, the FTSE Environmental Opportunities Total Return Index, by 2.5%.

The underperformance during the month was driven by the lacklustre performance of the Fund's holdings in typically more defensive sectors such as healthcare technology and waste management and in Japanese high speed

railway operators which have seen only limited recovery to date in the substantial declines in passenger numbers seen earlier this year.

The major contributors to performance were Microsoft, industrial gas leader Air Liquide and global consulting firm Capgemini, a leader in digital transitions. The Fund also benefited from the strong performance of several smaller European holdings, including digital payment

Notes (1) Inception date 2 November 2015 (2) 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 technology company Worldline, French electrical equipment leaders Schneider Electric and Legrand and Dutch industrial technology business Aalberts Industries.

The Fund finished the first six months of 2020 down 3.3%, 1.0% ahead of the MSCI All Country World Index, but lagging the FTSE EOAS Index by 2.7%. The Fund's performance over this period has been reflective of its current portfolio characteristics, with the Fund outperforming during the first quarter during which global equity markets fell significantly and lagging as markets have recovered strongly during Q2. The Fund continues to hold a portfolio that, on average, demonstrates higher return on capital and lower volatility than global benchmarks, reflecting our current bias towards owning higher quality franchises offering relatively stable earnings outlooks in a time of ongoing economic uncertainty.

The Fund declared a distribution of 8c per unit on 30 June, equal to the net taxable income of the Fund for the financial year and equivalent to 5.2% of the Fund's net asset value.

Market Commentary

Global equity markets rose in June, with the MSCI All Country World Net Total Return Index up 3.2% led by European markets. Europe's EURO STOXX 50 Index was up 6.0%, with Germany's DAX index up 6.2% and Italy's FTSE MIB Index up 6.5%. Chinese equities were also strong, with the Shanghai Shenzhen Composite Index up 7.7% and Hong Kong's Hang Seng Index up 6.4%. The strong performance of large cap technology stocks continued, with the Nasdaq Composite Index up 6.0% and at record highs, whereas the broader US S&P 500 Index was up only 1.8%. Japan's Nikkei 225 Index was up 1.9%.

Environmental equities outperformed traditional global benchmarks with the FTSE Environmental Opportunities All Share Total Return Index up 3.8%. The outperformance of the EOAS index can be accounted for by the 30% rise in Tesla, which now represents around 5% of the index. Tesla's share price rose more than 150% in the first half of the year as it continued to dominate global electric vehicle sales in spite of increasing competition from other auto manufacturers, not just maintaining but increasing its market share, and achieved early success in the large Chinese EV market. The Fund does not hold shares in Tesla. The company's capitalization is now more than that of BMW, Daimler, Volkswagen, Renault, Peugeot, Fiat-Chrysler, Ford and GM combined, and more than 30x its most recently reported book value, implying a continuation of extraordinary growth at extraordinary rates of return on capital that we think is unlikely to be achieved.

Investor appetite for exposure to the nascent electric vehicle and green hydrogen markets was also highlighted by the performance of Nikola Corporation which listed on June 4. The company, which plans to make electric and hydrogen fuel cell hybrid electric trucks, reached a market capitalization of more than $25 billion during the month – despite not yet having a vehicle in production.

The Australian dollar strengthened against the US dollar during the month, resulting in lower Australian dollar denominated index returns.

Industry Commentary

The past month has been marked by important policy and stimulus announcements.

In recent days Democratic presidential nominee Joe Biden confirmed his commitment to support a 2050 net zero carbon emission target for the United States and a 2035 target to achieve 100% renewable electricity generation and outlined a program totaling $2 trillion over 4 years to support clean energy infrastructure and the local manufacturing and purchasing of electric vehicles. Biden's plans are closely aligned with those outlined in the Democrat's stimulus proposal (The Moving Forward Act) that was passed by the Democrat controlled House of Representatives in June. That bill, which won't be supported by the currently Republican controlled Senate, proposed $1.5 trillion in stimulus spending including large amounts directed towards clean energy, electricity grids, electric vehicle charging and water infrastructure and environmental remediation.

Meanwhile the European Union has tied its substantive economic stimulus measures to its 'Green Deal' – the priority policy agenda to fully decarbonize the European economy by 2050. EU economic stimulus will be directed through two mechanisms, a EUR750 billion recovery package that is explicitly tied to its environmental agenda and for which member states accessing the funds will need to demonstrate that their investments are aligned with the Green Deal, and a revised EUR1.1 trillion budget for the next seven years (the Multiannual Financial Framework), of which at least 25% is expected to be directed to sustainable technologies. As noted in last month's report, draft documents indicate that the plan is likely to target building renovation and energy efficiency upgrades, clean transport including rail upgrades and electric vehicle infrastructure, renewable energy and transmission upgrades, digitalization of energy distribution networks and green hydrogen.

National stimulus programs in Europe are still being formulated but those announced to date have included significant amounts directed towards these areas. Germany will take over the EU presidency later this year and has indicated it may seek more concrete commitments action on climate change from member states, as well as its desire to accelerate the bloc's commitment to emission reduction and progress a draft EU law to make the mid-century climate neutrality goal binding and potentially increase Europe's 2030 emissions-reduction goal to 50-55% from the current goal of a 40% reduction from 1990 levels.

Hydrogen has been an area of particular focus with Germany announcing a 9 billion euro program to support the development of green hydrogen production for industrial usage. In early July, the European Union announced an even more ambitious regional hydrogen strategy that targets 40GW of production capacity in Europe by 2030 and as much as $500 billion in spending by 2050. The support for 'green hydrogen' has many parallels to the support for renewable energy that grew out of Europe in the mid 2000s. The technology, in this case using cheap renewable power to produce 'green' hydrogen with electrolysers, is available today but several times more expensive that the 'grey' (fossil fuel based) and 'blue' (fossil fuel based with carbon capture and storage) alternatives and more expensive again than the alternative of using natural gas for the same industrial applications (mainly for heating and as a feedstock). The support for the technology flows from longer term environmental objectives, in this case 2050 net zero emission targets, that necessitate the substitution of fossil fuel usage, and the stimulus support, similar to that received by the renewable industry after the global financial crisis, is expected to allow for the technology to achieve orders of magnitude growth in cumulative capacity that will lead to cost declines and eventually to cost competitiveness.

As was the case with renewable energy in the late 2000s, the policy support and huge growth potential has attracted significant investor interest in related areas such as fuel cells. In that case, the stimulus and regulatory support provided a brief period of high growth at high prices and high margins for the incumbent industry but that quickly gave way to increased competition, economies of scale and falling prices that led to lower growth rates and lower margins, and ultimately to cost competitiveness of the technology but not significant value creation within the industry. It seems likely that this pattern will be repeated and along with it the opportunities to profit from selective investment at the right time in the right types of businesses. At the moment, however, the Fund has limited exposure to this theme, primarily through its exposure to industrial gas businesses such as Air Liquide and Air Products and Chemicals. These are current leaders in industrial hydrogen and are likely to be beneficiaries of the policy driven uptake of green hydrogen. Indeed, Air Products and Chemicals recently announced a $5 billion JV project with ACWA Power and Neom in Saudi Arabia to produce hydrogen from renewable energy for conversion to ammonia and use as a transport fuel.

In other hydrogen related news, mining company Anglo American Plc is advancing plans to convert its fleet of giant diesel-fueled mine trucks to hydrogen power. It will start a pilot project in South Africa next year using hydrogen produced on-site. In Chile, the Energy Minister also announced its government wants to have the country's first plants producing hydrogen from renewable energy sources operating by the end of next year as part of a larger push to become carbon neutral from 2050.

Another area of increasing policy focus is building energy efficiency. Whilst modern buildings are now highly energy efficient, the majority of existing building stock was constructed prior to the introduction of energy efficiency and heating standards. The EU, in particular, has recognized the need to address this component of energy consumption in order to achieve longer term emissions reduction targets and has outlined plans to significantly increase the 'renovation rate'. Interestingly, Denmark's economic stimulus package includes an allocation of nearly 4 billion euros to support energy efficiency renovations in its housing stock from 2020-26. Such programs are likely to benefit providers of insulation and building materials and electrical systems and building controls such as Fund holdings Legrand and Schneider Electric.

Danish lawmakers have also struck a climate agreement to ensure their country can live up to a goal of cutting carbon emissions by 70% from 1990 levels over the coming decade.

Highlighting the range of environmental actions being pursued across Europe, Greece's Environment Minister announced his country's aim to cut the amount of the country's waste going into landfills to 10% of total waste by 2030 from a 'disappointing' 80% today.

Elsewhere, Iceland announced it will invest ISK46 billion over the next five years to help meet its goal of becoming carbon neutral by 2040 and will provide support for making transport greener, carbon capture and storage, and increased local production of vegetables.

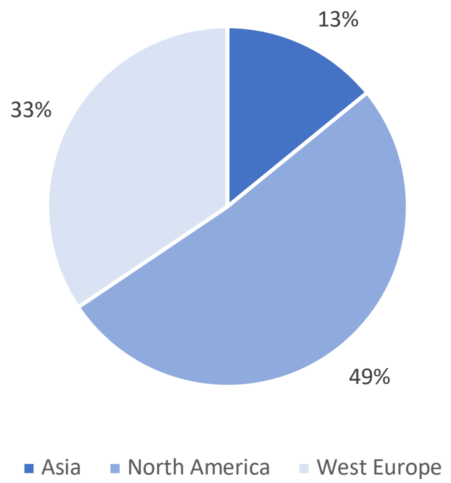
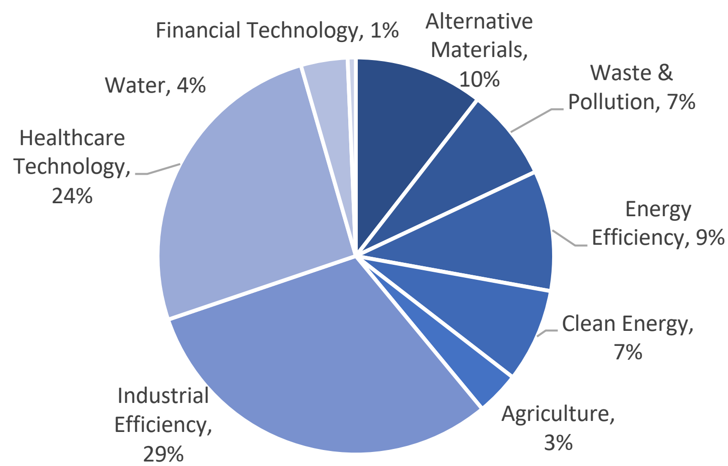
China has not announced a specific 'green' stimulus program but has identified seven key areas of 'new infrastructure' investment including 5G technology, ultra-high voltage (UHV) transmission, EV charging, Inner-city and urban metro rail transport, data centres, artificial intelligence and the industrial internet of things. Recent announcements in China indicate a rapid pick up in investment in areas such as these as well as in renewable energy and energy storage. China awarded a record 26GW of new solar projects many of which will commence construction this year. This is in addition to a number of large scale renewable and storage projects announced at a provincial level, such as China's northwestern Gansu province which plans to build a 2.2-gigawatt project that will integrate solar and wind power with energy storage. The project will include 1.8 gigawatts of wind power and solar power and energy storage facilities that will each have capacity of 200 megawatts.

Increasing global support for solar was also evidenced in Germany, where a cap on solar subsidies set 8 years ago was lifted. The cap limited subsidized solar projects to 52GW, and with 51GW already installed was an impediment to further uptake of rooftop solar. The country also announced measures to encourage community support for more onshore wind development through sharing of profits. In India, the most recent solar auction achieved a new record low price, with the winning projects in the 2GW tender to receive $31/MWh, fixed for 25 years.

Even without government intervention the economic pressures created by the COVID pandemic have accelerated the transitions already underway in areas like electricity generation and energy. Global renewable energy leader Enel SpA announced it plans to exit coal in Italy and the majority of other regions by 2025. The Italian utility is accelerating its coal closures due to worsening economics and with the recent drop in power demand pushing coal out of power mix in many countries. Oil & Gas major BP announced it will revise down the value of its assets by between $13bn and $17.5bn. BP says it has "a growing expectation that the aftermath of the pandemic will accelerate the pace of transition to a lower carbon economy and energy system, as countries seek to 'build back better' so that their economies will be more resilient in the future".

In other corporate news, Amazon is investing $2 billion on "sustainable and decarbonizing technologies" in an effort to eliminate its carbon footprint. The fund, which will be run by the company's corporate development group, aided by Amazon's internal sustainability team, will have a mandate to back technologies being developed to reduce the greenhouse gas emissions blamed for a warming planet. Amazon also announced a more aggressive schedule to power its operations with renewable energy sources - moving forward the deadline by five years to 2025. The company retained its original commitment to be carbon neutral by 2040. Amazon's moves follow those of Microsoft, which announced its own $1 billion climate fund in January that will invest in technology to remove or reduce carbon from the earth's atmosphere, part of an effort to erase the company's cumulative impact since its 1975 founding. Meanwhile, leading semiconductor manufacturer TSMC announced a deal to purchase all of the generation from Orsted's yet to be constructed 920MW offshore wind farm, a deal claimed to be the world's largest corporate power purchase agreement. Amazon, Microsoft and TSMC are all holdings of the Fund.

In the automotive space there have been a number of bold claims and commitments. Leading Chinese EV battery manufacturer CATL announced it has an EV battery pack that will last over 1 million miles, a milestone that Tesla has also claimed it is close to reaching. Tesla's CEO Elon Musk also reiterated his claim that they will have the basic functionality for Level 5 (i.e. full) autonomy complete this year. Regulatory approval to operate a fully autonomous vehicle may not arrive so soon. Ride hailing company Lyft Corp. committed to make 100% of its trips in electric vehicles by the end of 2030. This comes after Californian regulators determined in January that ride-hailing services emit 50% more greenhouse gas per passenger mile traveled than the average car. The state is expected to set out rules to reduce emissions from such services—a world first. Amazon also entered the ride-hailing industry with the acquisition of Zoox, a VC backed company focused on developing autonomous vehicles for ride hailing. In a more tangible announcement, Nvidia and Mercedes-Benz announced a partnership to develop in-vehicle computer systems based on NVIDIA's automotive hardware capable of supporting autonomous driving.

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 30 Jun 2020

Security Name	Weight (%)	Country	Sector
Air Liquide SA	4.2	FRANCE	Alternative Materials
Microsoft Corporation	4.1	UNITED STATES	Industrial Efficiency
Wolters Kluwer NV	3.8	NETHERLANDS	Healthcare Technology
Carlisle Companies Incorporated	3.3	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.2	UNITED STATES	Waste & Pollution
Intel Corporation	3.0	UNITED STATES	Industrial Efficiency
Siemens Healthineers AG	2.9	GERMANY	Healthcare Technology
3M Company	2.8	UNITED STATES	Alternative Materials
PerkinElmer, Inc.	2.4	UNITED STATES	Healthcare Technology
Varian Medical Systems, Inc.	2.4	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	Equity Trustees 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 2020)*	AUD 263.9m		

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