Nanuk New World Fund

Quarterly Report – March 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]
Fund Return (%)	**3.6**	**1.0**	**9.1**	**18.7**	**10.0**
Benchmark Return[2] (%)	3.2	3.4	9.3	19.9	8.3
Value Added (%)	0.4	(2.4)	(0.2)	(1.1)	1.7
MSCI ACWI Return[3] (%)	2.0	1.5	8.5	16.0	3.3
Value Added (%)	1.5	(0.5)	0.6	2.7	6.8

Macro and industry commentary

March saw a raft of noteworthy developments across a number of the key sustainability themes.

Tesla continued to make the news as its market capitalisation surpassed Ford's and then General Motor's, reflecting burgeoning hopes for the successful launch and production ramp of its new 'mass-market' Model 3 later this year. Sightings of the new $35,000 model, for which Tesla has received as estimated 400,000 pre-orders, are increasing as the company begins on-road testing ahead of production which is scheduled to start in July.

Whilst the media is focused on Tesla and the billions of dollars being spent by major auto manufacturers around the world to develop their own EV platforms, there has also been some interesting announcements in more utilitarian applications for electric vehicles. The London Taxi Co., maker of London's famous black cabs and now owned by Chinese firm Geely Automotive, opened a new factory in Coventry, England, to manufacture an electric version of the black cab. The company expects to export its products to cities like Paris, in addition to meeting demand from London where new cabs will need to be zero-emissions capable from January 2018. Deutsche Post, the German postal company, has also developed its own electric van – dubbed a StreetScooter – which it intends to use for its own local deliveries as well as potentially selling to others. It intends to produce as many as 10,000 vehicles a year as it looks to electrify its global fleet of 92,000 vehicles.

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

The role of cities in leading the transition to cleaner transport was also highlighted by a group of 30, mostly Democrat governed, cities that have jointly asked US automakers for the cost and feasibility of providing 114,000 electric vehicles for civic usage – including police cars, street sweepers and rubbish trucks.

Autonomous driving technology hit the headlines when an Uber autonomous car was involved in a collision in Arizona whilst in autonomous mode, although it appears that the car was not at fault. However the bigger news was the announcement by Intel, the world's largest chipmaker, of an offer to acquire Mobileye, the leading provider of autonomous driving software, for a valuation of ~$14bn. Intel had lacked a position in this rapidly emerging industry, lagging behind key peers such as gaming chip manufacturer Nvidia, and this acquisition is a decisive (and expensive) move to establish itself. Although Mobileye does not make chips (it currently sources chips from STMicroelectronics) it is the leading provider of vision based autonomous driving software and its technology is already in use by many of the large car manufacturers. The data collected by cars on the road is becoming increasingly important and the rationale for this transaction will rest heavily on Intel being able to gain access to this data.

The solar industry continued to demonstrate remarkable progress on cost reduction, although it has been to the detriment of many industry participants. Indeed it appears that Suntech, once the largest solar manufacturer in the world, is headed towards insolvency for the second time, this time under the ownership of Shunfeng International Clean Energy. Solar module prices fell around 35% year on year in 2016. The impact on the profitability of manufacturers has been significant, with the larger low cost manufacturers in China like Canadian Solar, Jinko Solar and JA Solar all reporting operating margins in the low single digits. Despite this they all announced significant capacity expansion plans that are likely to see prices and profitability remaining under severe pressure. Solar costs have fallen so fast that in its latest Market Outlook, Bloomberg New Energy Finance felt the need to raise the learning rate (the fall in unit costs each time cumulative production doubles) they use to estimate solar module costs, from 24% to 28%. The potential for this kind of cost reduction to continue was highlighted by a standout performance by leading Chinese manufacturer Longi Green Energy. Longi has invested heavily in the manufacturing of higher efficiency monocrystalline solar products, which have historically been a small part of the overall market due to higher cost. Through improvements in both efficiency and manufacturing technology (like the use of diamond wire saws in the manufacture of silicon wafers) it has been able to lower the cost of monocrystalline panels and the company was able to achieve an operating margin of over 20%. This is unlikely to persist for long, as much of the new capacity investment of its peers is being directed into monocrystalline production and the end result is likely to be the continued rapid decline in pricing. During the month we saw this decline reflected in record low prices for solar projects in Germany, where winning projects in recent government tenders were at around 7c/kWh, less than the cost of new coal fired generation despite Germany's relatively poor sunlight conditions.

The lack of success of listed companies set up specifically to hold renewable assets was highlighted during the month, with Brookfield Asset Management bidding to acquire a controlling interest in the US YieldCos TerraForm Power and TerraForm Global which were listed only two and half years ago by now bankrupt SunEdison. Portuguese utility EDP also bid to acquire the minorities in its listed renewable project owning subsidiary EDP Renovaveis, which it listed in 2008. In doing so it completes the reacquisition of all three major European listed renewable vehicles, the others being reacquired in recent years by their respective sponsors Iberdrola (France) and Enel (Italy). It is an interesting problem for the renewables industry that such vehicles have not succeeded – listed market valuations have not reflected the prices achieved for their underlying assets in unlisted markets where demand from yield seeking private and institutional investors remains strong.

President Trump announced a review of tighter fuel economy standards which were implemented by President Obama. Notably, Mr Trump made the announcement in Ypsilanti, Michigan, the site of a major World War Two heavy bomber plant that is being developed into a testing ground for autonomous vehicles. He also signed an Executive Order to begin the process of unwinding the Clean Power Plan, an Obama initiative to reduce utility carbon emissions, although as a relatively late initiative much of it was yet to be implemented. The stark contrast between the new US Administration's uncertain position on climate change and most of the rest of the world has been highlighted by the G-7 nations who were recently unable to agree on a joint statement of commitment to fight climate change. US backtracking on climate change is being met with increased resolve from most other major countries, notably from China which is taking a more prominent lead. This is very likely to be a point of increasing friction going forward.

The Dutch elections on March 15 delivered a relatively welcome outcome. Geert Wilders' Eurosceptic Party for Freedom gained seats, albeit fewer than expected and hence unlikely to form part of the government once coalition formation concludes. Eyes now turn to the upcoming French election and the battle between Mr Macron and Ms Le Penn.

Market commentary

Global equity markets made further gains in March, with the MSCI All Country World Total Return Index up 1.2%. Regional indices' progress varied. Europe's Stoxx 50 index was up 5.5% after underperforming in January and February. Elsewhere, the US' S&P 500 was flat, Japan's Nikkei 225 fell 1.1% and Hong Kong's Hang Seng Index was up 1.6%. Environmental equities had a strong month, with the FTSE Environmental Opportunities Total Return Index up 2.4% in USD terms, outperforming broader global equities. In Australian dollar terms the benchmark was up 3.2% reflecting the slight weakening of the Australian dollar during the month.

Fund commentary

The Fund was up 3.6% for the month, outperforming its benchmark index by 0.4%.

The biggest contributor was Sprouts Farmers Market, discussed during our January letter. Its shares rose 25% during the month, as welcome news of grocery price inflation was followed by reports of an impending acquisition offer by private equity firm Cerberus Capital Management. While the offer remains unconfirmed, it is notable that private equity has a strong presence in the US grocery market: Cerberus already owns Safety and Albertsons; while Apollo Capital Management, from which Sprouts IPO'd in 2013, acquired Fresh Market in 2015. Other notable positive contributors included Telit Communications, a communications module manufacturer that reported a confident growth outlook with its annual results; New Flyer Industries, a North American bus manufacturer which also had a good earnings report; and Schouw & Co, a Danish diversified industrial company that announced an attractively valued acquisition of an automotive part remanufacturer. These offset losses on positions in the salmon farming industry, which have underperformed on recent falls in salmon pricing; and in First Solar, a position that has been reduced significantly in size as it is facing a more challenging outlook given the developments at its Chinese competitors discussed above.

At the end of March 2017 the Fund's major sector exposures include advanced and sustainable materials (eg composite materials like carbon fibre as well as sustainable materials like biochemical and bioplastics), waste management, building energy efficiency, high speed rail, electronic technologies related to the internet of things, and aquaculture.

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	-	-	-	-	-	-	-	-	-	1.0

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Monthly
Domicile	Australia	Minimum Subscription	AUD 500,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Monthly
Administrator & Custodian	RBC Investor Services Trust	Notice period	One week
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).