Nanuk New World Fund

Quarterly Report – March 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 (%)	**1.2**	**6.5**	**12.1**	**27.8**	**23.2**	**17.1**
Benchmark Return[2] (%)	(0.4)	0.5	7.1	17.9	18.9	12.2
Value Added (%)	**1.7**	**6.0**	**5.0**	**9.9**	**4.3**	**4.9**
MSCI ACWI Return[3] (%)	(0.6)	1.0	7.1	14.2	15.1	7.7
Value Added (%)	**1.8**	**5.5**	**5.0**	**13.6**	**8.1**	**9.4**

Macro and industry commentary

Sustainable and resource efficiency technology news was again dominated by the renewable energy and automotive sectors.

Italy announced it would reopen its renewable subsidy program, targeting 6GW of new wind and solar capacity between 2018-20. Saudi Arabia announced a wildly ambitious project to develop 200 GW of solar by 2030, equivalent to around half of total global solar installations today. The project, in partnership with Japan's telecommunication and technology giant Softbank, is projected to cost $200 billion and is to be funded by Softbank's Vision Fund in which Saudi Arabia is a large investor. The first 7GW stage of the plan, itself the largest solar project ever undertaken, is planned to start construction this year and commence operation in 2019. It is proposed that later stages of the project will include energy storage and involve building a fully vertically integrated solar supply chain in Saudi Arabia.

The impact of recent US tariff announcements has had an immediate impact on the solar industry, with leading Chinese solar module manufacturer Jinko Solar confirming its plans to build a module plant in Florida and an agreement to supply up to 2.75GW of solar panels to utility NextEra Energy (a Fund investment) over the next four years. Softbank also announced a plan to develop 4GW of solar manufacturing capacity in India in partnership with Chinese partner

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

Golden Concord, the controlling shareholder of solar wafer manufacturer GCL Poly. India has proposed significant tariffs on imported solar cells and panels.

The improving economics of offshore wind power were highlighted by the award of a zero-subsidy project in the Netherlands to Swedish utility Vattenfall. General Electric underlined its efforts to enter the offshore wind market with plans for a 12MW, 260m tall turbine, while in China, Shanghai Electric expanded its licensing partnership with Siemens-Gamesa to include an 8MW offshore turbine, the largest currently available in China. The Fund has exposure to the strong growth in offshore wind development through investments in Vestas, the global leader in wind turbines and joint venture partner in MHI Vestas Offshore Wind, Orsted, the leading global developer of offshore wind projects and Prysmian, the leading supplier of submarine cables. The Fund also owns shares in Siemens. General Electric, under considerable pressure in its conventional energy business, also announced the release a grid scale battery storage product, GE Reservoir. The GE Reservoir solution incorporates lithium ion batteries with power electronics in a modular form that has wide application. Significant reductions in storage project construction time and cost are claimed.

Renewable energy continues to attract significant corporate commitments. Microsoft announced a record corporate solar power purchase agreement, for 315MW from a new project in Virginia, and is on track to procure 60% of its energy from renewable sources by 2020. The largest corporate renewable purchase agreement was announced by AT&T in February, relating to 520MW from wind projects owned by NextEra Energy in Oklahoma and Texas.

In the automotive sector, two fatal accidents involving autonomous driving dominated headlines. Uber suspended its road testing of autonomous vehicles after a pedestrian fatality on March 18, and Tesla saw a fatal accident of a Model X operating under its Autopilot function. Few people were under any illusions that autonomous driving would eliminate fatalities, particularly during early development. Nevertheless, these incidents lend credibility to more cautious development paths, which in Europe are required due to tighter regulation. Industry participants and technology providers have been quick to distance themselves from the accidents. Waymo, the autonomous driving technology spin off of Google's parent Alphabet, has been keen to point out that Tesla's Autopilot isn't a true self driving system and that their system would likely have responded differently in both incidents. Waymo also announced the commencement of trials of self-driving semi trucks in Atlanta using technology already deployed in its mini-vans which commenced testing in January.

Elsewhere, electric and shared mobility took centre stage with Jaguar unveiling the I-Pace, an all-electric luxury SUV that will be the first direct competitor to Tesla's Model X. The I-Pace, which will be available later this year, offers comparable performance (0-100km/h in about 4 seconds) and range (300+ km) at competitive pricing. Looming competition for Tesla comes at a time when the company is struggling to ramp production of its Model 3 and has recalled almost half of the cars it has produced to date for modification. Tesla's share price fell more than 20% during the month. The Fund is not invested in Tesla. Jaguar also announced that it will develop a self-driving version of the I-Pace in partnership with Waymo and expects to build 20,000 such vehicles in the next two years for deployment in Waymo's planned fleet of autonomous taxis.

Ford Motor announced its North America strategy, featuring an "all-in" push on hybrid electrics by 2020, with full battery electric rollout starting thereafter. Audi AG, Volkswagen Group's premium mark, announced a "significantly expanded electric roadmap" at its 2022 strategy release, while Volkswagen itself announced €20b of battery procurement from suppliers including Korea's Samsung SDI, LG Chem and China's CATL. Nissan set a target of 1 million EV sales per year by 2022.

In mobility services, Lyft announced a $200m investment from Magna, a leading automotive component supplier, while German automotive giants Daimler and BMW announced they would combine their shared mobility operations. Their combined fleet-based sharing service (Zipcar is an example operating in Australia), in which users hire cars, will have over 4 million users, the largest such network in the world. Toyota announced that it has begun testing a new taxi dispatch system in Tokyo using artificial intelligence software, as well as a partnership with Japanese electronics company Renesas to develop autonomous driving hardware.

On the policy front, March was another month of steady progress. In the US, clean energy programs received a double-digit budget increase within the omnibus bill that will fund the federal government through to September, continuing the trend of President Trump requesting large budget cuts, then signing budgets that maintain or improve support for clean energy research. In China, the National Energy Administration proposed a long awaited renewable energy portfolio standard that will require its grid operators, power distributors and certain large power customers to purchase minimum proportions of their energy from renewable sources. The scheme, which doesn't yet have the backing of the important National Development and Reform Commission (NDRC), may help to reduce curtailment of renewable generation but won't alleviate the massive deficit in China's renewable energy subsidy fund. Several countries in the EU have proposed a minimum carbon price for power generation, recognising that despite the adoption in February of significant reforms to the EU's emissions trading scheme aimed at bolstering weak prices, further reforms are necessary to achieve targeted emissions reductions and limit global temperature increases to agreed levels.

The legacy energy industry also made some noteworthy announcements. Statoil, Norway's national oil company, announced it would change its name to Equinor, to symbolise a move away from crude oil. Its financial commitments are very modest, targeting 15-20% of capital expenditures to be spent on renewables by 2030, but it's more than nothing. Shell, Europe's largest oil company, announced a zero carbon scenario for 2070, called "Sky Scenario". Again, this is a scenario rather than a plan, but shows evolving thinking even at the heart of the fossil fuel industry.

Finally, a quick note on cryptocurrencies. Although the development of cryptocurrencies like Bitcoin doesn't fall directly within the Fund's remit, it is notable that the growth in cryptocurrency 'mining' has started to impact electricity markets. The 'mining' process, through which blockchain ledgers are settled and for which new currency is created, is extremely computationally intensive and requires large amounts of electricity. It has been estimated that cryptocurrency mining already accounts for 0.2- 0.5% of global electricity consumption, with comparison being drawn to the power consumption of nations like Denmark and Columbia. 'Miners' have gravitated to regions with reliable low cost electricity like China (mostly coal fired generation), Iceland (geothermal and hydro) and Canada (hydro). Hydro-Quebec warned during the month that it may set a higher price for cryptocurrency miners, a comment supported by Quebec's Premier who has questioned the economic benefit of supporting these businesses.

We do see significant potential for the underlying blockchain technology in areas like energy markets, but the future of these unregulated fiat currencies seems far from certain. The Fund is however exposed to the strong growth in more efficient, cashless, financial transactions through its investment in Worldline, a French company that provides digital payment processing technology.

Market commentary

Global equities extended their fall during March, with the MSCI All Country Total Return Index falling 2.4% in US dollar terms, following February's 4.2% decline. Declines were relatively consistent across major global indices: the US' S&P 500 index fell 2.7%, Europe's Stoxx 50 index was down 2.3%, Japan's Nikkei 225 index was down 2.8%, and Hong Kong's Hang Seng index was down 2.4%. Environmental equities out-performed marginally, with the Fund's benchmark, the FTSE Environmental Opportunities Total Return Index, down 2.0% in US dollar terms. The Australian dollar weakened against the US dollar during the month.

Three macroeconomic factors grabbed headlines during the month. President Trump announced further tariffs, worth $50 billion and targeted at China, stoking fears of disruption to global trade. Additionally, Facebook became ensnared in a controversy over data privacy, amid news of privacy breaches of up to 87 million users. Control of data is critical not just to Facebook but also to other tech giants, including Google, and the threat of regulation is very real with the European Union's General Data Protection Regulation due to roll out on May 25. The tech heavy Nasdaq 100 index fell 4% during the month. Crude oil prices also provided a headwind during the month, with Brent Crude rising to $70/bbl, around its high since the oil bear market began in late 2014.

Fund commentary

The Fund rose 1.2% in Australian dollar terms during March, outperforming the FTSE EOAS benchmark index by 1.7%. The Fund rose 6.5% in the March quarter, outperforming its benchmark by 6.0%. The relative outperformance has been driven by consistent performance across the portfolio and the avoidance of major underperformers, as well as a several strongly performing individual positions.

The major performance contributor in March was SunRun, a US residential solar leasing business, which rose more than 30% during the month. SunRun installs and finances residential and small scale commercial rooftop solar systems, providing customers with electricity at less than utility rates – similar to the 'virtual power plant' project recently announced by the South Australian government. Increasingly SunRun's systems include batteries, increasing their value. SunRun is effectively a financing business and has an unusual financial profile, but it is a well-managed business that leads its industry and, in our assessment, had been priced at less than the vaue of existing assets despite continued double digit growth in new system installations.

The largest detractor was the Fund's position in Japanese diversified chemical business Toray Industries. Toray is a global leader in both battery separator materials and carbon fibre. The stock fell around 8% during the month after the company announced the proposed EUR 1 billion acquisition of Tencate Advanced Composites, which on historical earnings multiples appeared expensive. The acquisition appears justified based on the strong growth outlook driven by growing aerospace demand, significant synergies and the strategic importance of the acquisition, and the Fund continues to hold its position.

At the end of March 2018 the Fund's largest sector exposures are in composite materials, waste management, high speed rail, automotive electrification and autonomy, building energy efficiency, the industrial internet of things and industrial automation. 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.

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)	(1.7)	1.2	5.3	5.4	2.2	(2.2)	21.2
2018	2.1	3.0	1.2										6.5

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 *(31 Mar 2018)*	AUD 51m		

[2]Returns are calculated net of all fees and expenses and on the basis of a shareholding since inception (2 November 2015).

Contact Details

Investment Manager	Administrator
Nanuk Asset Management Pty Ltd Level 8, Kyle House, 27-31 Macquarie Place Sydney NSW 2000, Australia Tel: +61 2 9258 1600 Fax: +61 2 9258 1699 Email: contact@nanukasset.com www.nanukasset.com	RBC Investor Services Trust – Registry Operations GPO Box 4471 Sydney NSW 2001 Tel: +61 2 8262 5000

Legal Notice

Nanuk Asset Management Pty Ltd is an AFS Licensee, (AFS License number 432119). Whilst the information contained in this report has been prepared with all reasonable care, Nanuk Asset Management Pty Ltd (Nanuk) accepts no responsibility or liability for any errors, omissions or misstatements however caused. The information is not a personal advice. This document has been prepared without taking into account of your objectives, financial situation or needs. The fact that shares in a particular company may have been mentioned should not be interpreted as a recommendation to buy, sell or hold that stock. This is general securities information and is not intended to be a securities recommendation. Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Potential investors should seek independent advice as to the suitability of the Fund to their investment needs. The information in this document is intended only for the person or entity to which it has been provided and may contain confidential and/or privileged material. In accepting receipt of the information you agree that you and/or your affiliates, partners, directors, officers and employees, as applicable, will keep all information strictly confidential. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information is prohibited.