NANUK NEW WORLD FUND

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

Quarterly Report – March 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 (%)	**(7.5)**	**(6.1)**	**9.0**	**5.6**	**12.5**	**11.7**
FTSE EOAS Return[2] (%)	(10.1)	(9.3)	6.4	7.5	10.8	10.0
Value Added (%)	2.6	3.1	2.6	(1.9)	1.7	1.7
MSCI ACWI Return[3] (%)	(8.9)	(9.7)	3.0	6.8	9.2	7.3
Value Added (%)	1.4	3.6	6.0	(1.2)	3.3	4.4

Fund Commentary

The Fund was down 7.5% in March, outperforming its environmental equity benchmark by 2.6% and outperforming the broader MSCI All Country World Total Net Return Index by 1.4%.

Equity markets continued the dramatic fall that started in late February, with major indices such as the US S&P500 Index and Europe's Stoxx 50 Index declining by more than 30% from their February peaks, before staging a significant recovery towards the end of the month.

As outlined in last month's report we took steps in late February to reduce exposures to stocks with high levels of operating and financial leverage and to allow the Fund's cash balance to rise above its normal level of 2-3% to 6-7%.

Further changes were made during March to reduce the Fund's exposure to companies assessed to be at risk of higher than average earnings impairment as a result of escalating containment measures globally and to increase exposure to companies

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 better positioned to continue operations in the current environment and through a recovery period.

The significant share price moves also presented opportunities to buy stocks whose share prices had been inordinately affected by the sell off. Consistent with our valuation based approach we did move opportunistically to add a couple of new positions in businesses with strong balance sheets and end markets that have not shown signs of collapsing but we did not do so aggressively given the considerable uncertainty about the near term outlook.

The relative outperformance of the Fund's positions in industries such as electric technology, rail, industrial gases, consumer packaging and healthcare technology contributed to the Fund's outperformance during the month. Outperformance in these areas was partially offset by the underperformance of positions in industrial equipment, automotive components and engineering and technology consulting services.

The major positive contributors during the month included new positions in Japanese electronic medical equipment manufacturer Nihon Khoden, which, amongst other products, manufactures ventilators and patient monitoring technology such as ECG machines, and UK water utility Pennon Group, which announced the divestment of its waste management and recycling arm Viridor.

Positions in consumer staple related businesses such as US organic food manufacturer Hain Celestial Group and aseptic packaging specialist SIG Combibloc performed well. The Fund added exposure in this area via a new position in UK online grocer and online fulfilment technology leader Ocado Group.

Positions in technology businesses related to cloud computing and online services also performed well, including Amazon (also a beneficiary of online retail demand), Microsoft and network technology providers Arista Networks and Cisco (which owns videoconferencing leader Webex). During the month the Fund added new positions in 5G mobile communication technology leader Skyworks Solution and computer memory and data storage leader Micron Technology, both industry leaders in technology areas that are likely to see continued medium to long term growth and both of which had substantially underperformed during the recent period.

Other notable positive contributors included diagnostic technology leader Siemens Healthineers and information services leader Wolters Kluwer. Positions in these companies were increased during the month. Other new positions entered during the month included US listed industrial gas company Air Products and Chemicals, Japanese industrial automation sensor and vision systems leader Keyence Corporation and Japanese chemical company Shin-Etsu Chemical, the global leader in semiconductor silicon.

The major underperformers during the month included US solar installer and financier SunRun and European industrial, engineering and construction products businesses Continental AG, Aalberts N.V., Alten SA and Wienerberger AG. These were relatively small positions within the Fund that have been reduced.

The Fund exited positions in operationally and financially leveraged businesses such as packaging company WestRock Company and auto parts recycler LKQ Corporation, both of which had high debt levels as a result of acquisitions. The Fund exited its position in SunRun which had already been reduced after strong performance earlier in the year. The Fund's exposure to industrial businesses likely to be impacted by containment measures was reduced with positions in automotive business Continental AG, US HVAC and refrigeration leader Trane Technologies and security systems provider ASSA Abloy exited during the month along with reductions in other exposures.

The Fund's performance during the period in which equity markets fell from recent highs to their low points during March was generally consistent with its historical downside capture and ex-ante risk characteristics in mid-February and the subsequent steps taken to exit or reduce higher risk positions and hold a higher than normal cash balance. Between 19th February and 23rd March the Fund fell 19.8% compared to a fall of 23.1% in the MSCI All Country World Net Return Index. Not unexpectedly some of the outperformance was reversed during the dramatic recovery prior to the end of the month during which time the Fund has remained relatively conservatively positioned.

Year to date the Fund has outperformed the FTSE Environmental Opportunities All Share Total Return Index by 3.1% and the MSCI All Country World Total Return Index by 3.5%.

In the current environment in which significant economic disruption is likely to continue for at least several months we remain focused firstly on identifying and reducing exposure to businesses likely to suffer higher than average earnings declines and at risk of permanent impairment of earnings potential, and secondly on identifying opportunities resulting from the significant uncertainty and large price moves. In relation to the latter we remain confident that, as a pathway to recovery from the current pandemic becomes clearer and further stimulus measures are directed towards economic recovery, sustainable technologies will be big beneficiaries of both government support and inevitable changes in corporate strategies and consumer behavior.

Market Commentary and Outlook

Global equity markets recorded both record falls and, later, record gains during March, with the size and speed of some of the moves not seen for nearly a hundred years and reflecting the likely unprecedented economic impact of the COVID-19 pandemic relative to anything experienced since the Great Depression and the Second World War.

The MSCI All Country World Total Net Return Index finished the month down 13.5% in US Dollar terms, 23.6% below its peak in February. Intramonth the index fell 25%, to a level 34% below its February high, before rallying 16.5% in the following 3 days. Most global indices followed a similar pattern. The US S&P 500 Index was down 12.5%, having fallen as much as 34% from its recent record high. Europe, where the impact of COVID-19 has been more significant to date and which was already facing more significant economic and structural challenges, saw equities fare worse, with the Euro Stoxx50 Index down 16.3% having fallen as much as 38% from its February high. Asia, where containment measures appear to date to have been more effective, fared better. Japan's Nikkei 225 Index was down 10.5%, Hong Kong's Hang Seng Index was down 9.7% and China's Shanghai Shenzhen CSI 300 Index was down 6.4%. Unsurprisingly emerging market and small cap indices have underperformed during this recent period.

Environmental equities slightly underperformed during the month. The Fund's benchmark, the FTSE Environmental Opportunities All Share Total Return Index, was down 14.6% during the month, underperforming broader global indices such as the MSCI All Country World Total Net Return Index by around 1.1% and reversing its outperformance in February. The relative performance of environmental equities is driven largely by significant sector biases. The benefits from low exposure to underperforming sectors such as financials and traditional energy were offset by higher exposures to industrial and manufacturing businesses that have also underperformed.

Commodity prices also fell significantly during the month, with the oil price in particular falling dramatically after Russia rejected a demand from OPEC to cut production, which led to Saudi Arabia sharply cutting prices and increasing production in the face of falling demand.

The Australian dollar weakened by 6% against the US dollar during the month, reducing the impact of falls when reported in Australian dollar terms.

So where to from here? The extreme restrictions on movement of people and directly and indirectly on the operation of all but non-essential businesses are still being escalated around the world and the economic impact will be dramatic – large in magnitude, broad in scope and immediate. This is already being seen in economic indicators and employment data that will deteriorate further in the short term.

The containment measures taken in China and South Korea appear to have been reasonably effective at controlling the spread of the virus but it is as yet unclear how quickly and how far these measures can be relaxed without further outbreaks. Testing has not been consistent or widespread enough in Europe for reported case numbers to be a reliable indicator of whether the broad containment measures there have been effective. A sustained reduction in hospitalisations and deaths will be the only definitive proof. Meanwhile, we can expect to see a rapid escalation of cases and deaths in the US in the next couple of weeks before measures being taken there might slow the trend. The outlook in developing nations such as India and Indonesia, with very high population densities, low incomes and savings, and less well developed healthcare systems, is very concerning.

At the same time, we can expect the extent of the financial impact of businesses dramatically reducing their activity and in many cases ceasing operations altogether to become evident.

Governments have acted quickly, as they should, to provide fiscal support. The scale of the first rounds of fiscal support have been staggering – US$2t in the US and $500b in Japan to name just two – but they are necessary, and necessarily directed primarily at supporting businesses to continue offering employment and to support those who have or will lose it. Further support of this nature will probably be required before additional fiscal stimulus is directed towards supporting economic recovery.

As discussed below, it is highly likely that sustainable technologies will benefit disproportionately from these measures when they arrive.

Central banks have also acted quickly and appropriately to support the financial system and credit markets and the breadth and potentially unlimited and open-ended nature of their support was likely a significant factor in the recovery of equity markets at the end of March.

The virus itself is not going away. In due course there are likely to be effective vaccines but they are unlikely to be widely available in the coming months. More likely in the short term is that we will see treatments that reduce the severity and mortality rate of COVID-19. Many candidate drugs are already in clinical trials and aim to provide widely available treatments in a matter of months. Should one or more of these prove effective then it should be possible for containment measures to be reduced within commensurate timeframes as the incidence of severe cases and hospitalization become better controlled through treatment.

It is unlikely that we will see a rapid return to business as usual. The economic impact on consumers and businesses will be significant with consequences for both business investment and consumer spending. Most of the economy will recover but there will be changes to the way many of us do business and to global trade and supply chains – and there will be companies that benefit from these changes. Consumer behavior will inevitably change too, likely with a far greater emphasis on sustainability. It is highly possible that the economic recovery will be supported by massive fiscal stimulus programs and as discussed below, these are likely to be directed disproportionately towards sustainable technologies and infrastructure aligned with longer term climate and environmental objectives. This is what happened in 2009 when a substantial portion of stimulus funding went into clean energy, energy efficiency and environmental technologies.

And what does all of that mean for equity markets? We don't have a crystal ball. We do however have a simple and relatively robust framework that we use to forecast medium term equity market returns, in our case nominal returns over a 7-year period. It is not a useful tool for predicting short term market movements but it can be a useful reference point for identifying points of significant under and overvaluation from which out or under performance is more likely. We primarily use the model, applied at a global, regional and sector level to inform our assessment of portfolio level risks.

At the end of 2019 the model forecast a medium term (7 year) expected nominal US dollar denominated return for global equities of around 4.7%, well below the long run realized and expected return of around 8 to 8.5%. The expected global equity return of 4.7% represented a premium over a regionally weighted 10 year bond yield of only 3.6%, a low level in an historical context.

On 23rd March, when markets reached their recent low point, our medium-term return forecast had risen to slightly over 10%, a level not seen since 2012. The premium over regionally weighted bond yields was over 9%, which was slightly below the level seen at the end of 2008 and in early 2009.

At the end of March, the forecast return was back to 9%, slightly above a 'normal' long term returns for global equities and in line with the expected return in mid-2016 – but well below the level seen during the global financial crisis and the subsequent European sovereign debt crisis. For reference the MSCI All Country World Index is at roughly the same level as at the end of December 2018, and the US S&P500 Index is roughly 10% higher.

Given the obvious risk of material earnings and asset value impairments this year and the potential for a long and slow recovery there is clearly significant potential for equities indices to fall further from this level. That risk is informing a decision to maintain a currently higher than normal cash balance in the Fund and to act cautiously for now in relation to pursuing opportunities in underperforming stocks.

Industry Commentary

We normally provide a broad commentary on monthly development in key sustainable technologies to highlight the continued and extraordinary progress we see around the world and which informs our investment focus and idea generation. This month we had intended to highlight some of the significant recent developments in the production and use of hydrogen as a clean energy source and sustainable feedstock but given the events of recent weeks we will hold that over to another month and focus briefly on some more pertinent observations.

The dramatic slowdown in economic activity resulting from the coronavirus pandemic is impacting sustainability related industries just as it is other parts of the economy. Industrial activity has slowed and many industries have stopped production entirely. Automotive production has largely ceased in Europe and the US. Industrial capital expenditure will slow dramatically, construction and development activity will be halted and industrial services, such as waste management, will suffer significant short term reductions in demand. Even traditionally stable utility services such as electricity and water are seeing unprecedented reductions in demand. Within our focus on environmental sustainability and resource efficiency there are a few exceptions such as renewable energy assets with stable offtake arrangements, consumer goods businesses such as organic food and packaging, businesses related to online retail and cloud-based services, and selected healthcare technology providers. Companies involved in areas such as robotics and industrial automation equipment and suppliers to the automotive or construction industries can expect that demand will slow dramatically in the short term. Renewable energy development will slow dramatically and likely see a large decline in global installations in 2020. Electric vehicle sales will also take a significant step backwards despite continued efforts to bring new models to market this year. And sustainable materials will be impacted by a sharp fall in consumer demand.

However sustainable technologies are in general no more likely to be impacted than other parts of the economy and are generally not exposed to sectors like tourism and airlines that have been particularly heavily impacted. Concerns that low oil prices will impact sustainable technologies are largely unfounded - there is almost no connection between oil prices and electricity prices in developed markets. That is not the case for biofuels and electric vehicles, whose relative economics are impacted, but the operating costs are not a primary consideration for most of today's electric vehicle purchasers. People don't buy Teslas to save money.

It is highly likely that as economies recover sustainable technologies will benefit. Governments will direct stimulus efforts disproportionately towards sustainable technology and infrastructure. In Europe it is likely that COVID-19 stimulus will be aligned with the recently announced European Green Deal and 2050 carbon neutrality target. The European Council, comprising the heads of state of EU nations, has already called upon the European Commission to "start to prepare the measures necessary to get back to normal functioning of our societies and economies and to sustainable growth, integrating, inter alia, the green transition and the digital transformation." China has been quick to start large scale renewable energy project development, including projects that were mothballed only months ago. More recently it has extended tax credits and subsidies for electric vehicles for the next two years. President Trump has already called for a phase 4 stimulus package of a further US$2t with a focus on infrastructure. The agreement of such a package by Congress and the White House will likely take months, but the necessity for it to pass the Democrat controlled House of Representatives will likely result in a large part of the stimulus being directed towards sustainable technology.

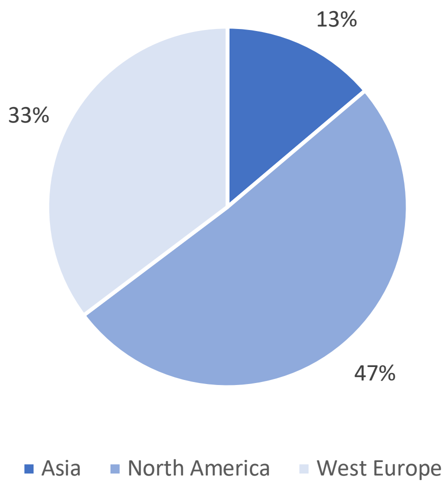
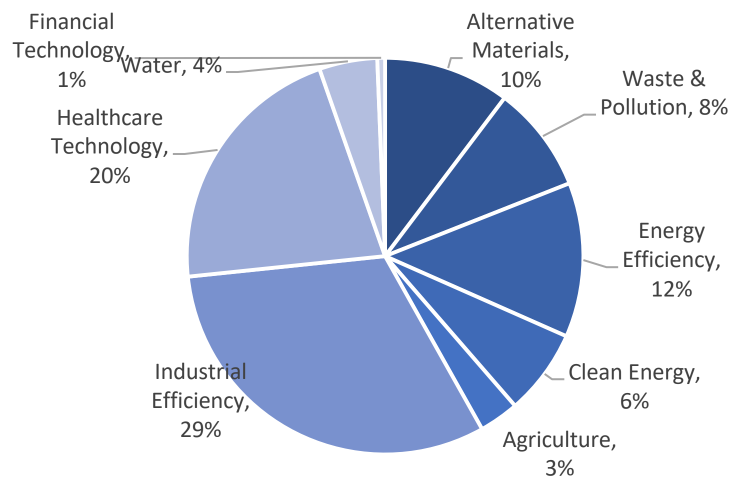
As the economy recovers, businesses are likely to focus on improving the resilience of their operations and potentially localization of manufacturing and supply chains and improving the efficiency of operations. These trends are likely to be supportive of technologies like automation, advanced manufacturing, cloud computing and big data, information services and energy efficiency technologies.

Consumer behavior will likely change too. It is reasonable to think that consumers will pay more attention to the sustainability of their expenditure and what they are purchasing and that we will see a greater emphasis on sustainable products and recycling and reuse as well as a shift away from the wastefulness of single use products.

And healthcare technology, an area essential to reducing the unsustainable cost of healthcare and part of our sustainably themed investment focus, is likely to benefit significantly as the world seeks to bolster its ability to deal with future crises and improve the capability of the healthcare system to more effectively and efficiently deliver its expertise to the public.

In short it is likely that the enormous challenges being faced today and in coming months will lead us more quickly towards a more sustainable economy.

If you are interested in more on the outlook, Michael Liebreich, founder of what is now Bloomberg New Energy Finance, wrote an excellent piece that can be accessed here https://about.bnef.com/blog/covid-19-the-low-carbon-crisis/

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 31 March 2020

Security Name	Weight (%)	Country	Sector
Air Liquide SA	4.3	FRANCE	Alternative Materials
Carlisle Companies Incorporated	4.0	UNITED STATES	Energy Efficiency
Microsoft Corporation	3.6	UNITED STATES	Industrial Efficiency
Wolters Kluwer NV	3.5	NETHERLANDS	Healthcare Technology
Waste Management, Inc.	3.1	UNITED STATES	Waste & Pollution
Siemens Healthineers AG	2.9	GERMANY	Healthcare Technology
Varian Medical Systems, Inc.	2.7	UNITED STATES	Healthcare Technology
Republic Services, Inc.	2.4	UNITED STATES	Waste & Pollution
Keysight Technologies Inc	2.2	UNITED STATES	Industrial Efficiency
RELX PLC	2.1	UNITED KINGDOM	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	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 *(31 Mar 2020)*	AUD 239.1m		

Contact Details

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