Nanuk New World Fund

Quarterly Report –September 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] p.a.
Fund Return (%)	**5.3**	**4.7**	**14.0**	**24.4**	**14.9**
Benchmark Return[2] (%)	4.9	3.7	10.1	20.3	11.5
Value Added (%)	**0.4**	**1.0**	**3.9**	**4.0**	**3.4**
MSCI ACWI Return[3] (%)	3.0	2.8	6.6	15.7	5.9
Value Added (%)	**2.3**	**1.9**	**7.4**	**8.6**	**9.0**

Macro and industry commentary

September saw the North America's difficult hurricane season turn nastier, as the extent of devastation hurricane Maria wreaked on Puerto Rico began to emerge. The US territory, with a population of 3.4 million, saw 100% of its inhabitants without power, 90% without cellular coverage and over 50% without drinking water. Severe hurricanes occur very largely when ocean temperatures are high and this is an example of the increasing and more acute risks from climate change.

In more positive news, the month also saw some of the most notable announcements yet in the mobility space. China's government signalled that it is working on a timetable to phase out the production and sale of fossil fuel powered vehicles in what is the world's largest automotive market. Although a timeframe was not specified, China joins several other major economies that have announced similar plans, including the UK (by 2040), France (by 2040) and India (by 2030).

China also announced details of a "cap and trade" credit system that will require automakers to increase "new energy vehicle" sales. Analysts estimate that it will require fully electric vehicles to reach 3-5% of auto sales by 2020. The announcement was accompanied by new, and much tougher, vehicle emissions standards that will come into effect by the end of next year.

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 month also saw a slew of investment announces from automotive manufacturers. The Frankfurt Motor Show gave Germany's automakers a showcase for their plans. Volkswagen led the way with its "Roadmap E", a significant update to its electrification strategy outlined earlier this year. The revised strategy included doubling its planned investment from €10 to €20b by 2025, offering an electrified version for each of its ~300 models by 2030, and revealing it had tendered for €50b of batteries. BMW announced plans for 12 fully electrified models by 2025, with its CEO later stating "our top priority is electric mobility", while Daimler announced a $1b battery manufacturing plant in the US.

Elsewhere, the Renault-Nissan alliance announced plans for an expanded electric and autonomous vehicle line-up by 2022, with its CEO Carlos Ghosn forecasting "the end of gas" by 2040. Even British home appliance manufacturer Dyson, famed more for its vacuum cleaner and fans, announced a $2.7b investment aiming to manufacture an electric vehicle by 2020.

German auto giant Daimler announced it had bought Flinc, a ride sharing frim with around 0.5 million customers. Daimler already owns a ride sharing business, car2Go, as does peer BMW, whose operation is called DriveNow. Uber's troubles with regulators continued, as London Mayor Sadiq Khan announced its license to operate would not be renewed following transgressions including failure to report sexual assaults to police. The company has the right of appeal and it seems that a negotiated solution is the desired and likely outcome for both parties.

In the US, Ford's new CEO James Hickett held a strategic update, announcing a 30% reduction in investment in internal combustion engine technology, accompanied with the capital redirected to electric drivetrains. He also announced 100% of Ford's US vehicles will be internet connected by 2019. Developments at Tesla Motors were less positive, the company producing just 260 Model 3's during the September quarter due to production bottlenecks - over 80% fewer than its 1,500 car forecast.

In clean energy, a winning project in India's second national wind auction reported a record low power tariff, equivalent to $20/MWh (2 cents/kWh) over the 25 year life of the project. This figure was 25% below the lowest tariff recorded in the previous action in February. Europe saw one of the largest clean energy repowering projects seen to date, as utility Vattenfall joined with the Energy Research Center of the Netherlands (ECN) to replace and upgrade the 100 wind turbines making up the project, increasing its capacity to 295MW. As wind energy projects approach the end of their initial design lives (typically 15-25 years), the prime sites where early projects were developed and where infrastructure is already in place have become attractive prospects for new projects or "repowering" - where existing turbines are replaced with the latest, larger and more efficient technology.

The long running Section 201 trade case hanging over the US solar industry proceeded with a ruling, as expected, that US manufacturers had suffered a material "injury" by imported products. It seems likely this will lead to new tariffs on solar panels imported into the US, on top of existing tariffs added in recent years. The key question remains how big the tariffs will be, and this remains difficult to forecast, with a decision potentially coming personally from President Trump. Any significant tariff will be likely to result in delays or cancellations of many larger "utility scale" solar projects, but the impact on small scale residential projects is likely to be more muted given the relatively small proportion of overall system costs accounted for by the solar panels.

Despite the developments described above, the Trump administration's efforts to support nuclear and coal continued. Energy Secretary Rick Perry formally requested the Federal Energy Regulatory Commission (FERC) to develop a rule that would "allow for the recovery of costs" of plants with a "90-day fuel supply on site" – almost exclusively coal and nuclear plants. The administration is determined, and will succeed in making some intervention, but it remains too soon to tell what, how exactly or when; two FERC commissioners have already criticised the proposal. Scott Pruitt, leader of the Environmental Protection Administration, also announced plans to revoke the Clean Power Plan, which the Obama administration implemented to reduce emissions from the power sector. It remains to be seen whether these efforts will have any significant impact, with utilities showing little support and with important state level policies continuing to support higher levels of renewable energy.

Market commentary

Global equities continued their strong run this year, with the MSCI All Country Total Return index up 1.9% in September in US dollar terms - its 11th consecutive monthly rise. Strength in equity markets was broad-based, with only Hong Kong's Hang Seng index down among major markets (-1.5%). Among rising markets, Europe's Stoxx 50 led the way, rising 5.1%. The US' S&P500 rose 1.9% and Japan's Nikkei 225 rose 3.6%. Environmental equities performed very strongly, with the Fund's benchmark, the FTSE Environmental Opportunities Total Return index, up 3.8% (in US dollar terms) and 4.9% in Australian dollar terms due to the slight weakening of the Australian dollar during the month.

Fund commentary

The Fund was up 5.3% for the month, outperforming its benchmark index by 0.4%.

The outperformance was driven by cyclicals, especially the auto sector, which saw a number of double digit rises after several months of under-performance. The top contributor in the Fund was Lear Corporation, a new entrant to Nanuk's investment universe and a recent investment made by the Fund. Lear is the world's second largest manufacturer of automotive seating, but owes its place in Nanuk's investment universe through its electronic systems and components business. This business makes up over a third of its operating profit and is benefitting from increasing electrical content in cars related to advanced safety features and drivetrain electrification. The company is one of many US automotive players that emerged from bankruptcy protection following the Global Financial Crisis with a competitive cost structure, and has performed well both operationally and for shareholders since. Its cash generation has been so strong that the company has bought back around 40% of its shares since its IPO in 2010. European automotive suppliers Valeo and Continental were also strong contributors to Fund performance.

The largest detractor from performance during the month was US residential solar leasing business SunRun, which fell double digits on fears that the ongoing International Trade Commission investigation mentioned above will result in major tariffs. Nanuk has followed the ITC case closely. Although it is now evident that the above news had not been fully priced in, the portfolio continues to hold this company – supported by robust fundamental analysis, positive discussions with the company and suppliers during the recent Solar Power International conference and a belief that it will continue to grow its business in the face of likely tariffs.

Another contributor to Fund performance included UK specialty chemicals business Johnson Mathey, which rose nearly 30% after its recent capital markets day. Johnson Mathey is a leading supplier of automotive catalytic converters, used to reduce emissions from gasoline and diesel engines. While the company faces headwinds in the short term from the declining market share of diesel passenger vehicles and longer term from the shift from internal combustion engines to electric drivetrains, it does however, supply specialty materials for cathodes used in lithium ion batteries and it recently announced a new cathode chemistry that it believes will provide superior safety, performance and cost and position the company well to gain market share in this rapidly growing market. The Fund exited its position in Telit Communications, discussed in last month's report, following a further recovery in its share price.

At the end of September 2017 the Fund's major sector exposures remain in areas including building energy efficiency, automotive efficiency and vehicle electrification, waste management, high speed rail, composite materials and electronic technologies related to the internet of things.

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	-	-	-	15.1

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Weekly
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Weekly
Administrator & Custodian	RBC Investor Services Trust	Notice period	2 Days
Inception	2 November 2015	Buy-Sell spread	0.25%
Management Fee	0.8%	Total management costs	1.2%

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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).

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