Nanuk New World Fund

APIR SLT2171AU

Quarterly Report – September 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 (%)	**(3.1)**	**1.4**	**1.8**	**14.1**	**19.1**	**14.6**
Benchmark Return[2] (%)	(0.5)	5.0	6.9	14.4	17.4	12.5
Value Added (%)	(2.5)	(3.6)	(5.1)	(0.3)	1.8	2.1
MSCI ACWI Return[3] (%)	0.4	6.5	11.1	19.0	17.4	10.2
Value Added (%)	(3.4)	(5.1)	(9.3)	(4.9)	1.8	4.4

Macro and industry commentary

September saw some notable milestones in the development of both offshore wind and electric vehicles.

The offshore wind industry has had a breakout year in 2018 as the technology has reached cost competitiveness with traditional generation and new markets open up. During the month Orsted, the world's leading offshore wind farm developer and operator, announced the completion of the world's largest offshore wind farm, the Walney Extension in the Irish Sea. (The Fund sold its position in Orsted earlier in the year after strong performance). MHI Vestas, a joint venture between leading wind turbine manufacturer Vestas (in which the Fund is invested) and Mitsubishi Heavy Industries, began sales of the worlds' first production 10MW wind turbine, with the first installations expected in 2021. New Jersey began an offshore wind tender, of 1.1GW. Elsewhere, two oil giants, Brazil's Petrobras and Norway's Equinor (formerly Statoil), announced an agreement for development of offshore wind in Brazil.

September also saw the release of flagship electric vehicle models from Mercedes and Audi, the EQC and e-Tron respectively, both of which are expected to be available next year. The e-tron is the first of 12 full electric models planned by Audi before 2025.

Electric vehicle headlines were however dominated (once again) by Tesla. Tesla CEO Elon Musk was charged with misleading investors by the Securities Exchange Commission, the US market regulator, on Friday 28 September over his claims the company was to be taken private, leading Tesla's shares drop 15% on ~$8b of trading volume. By market open the following Monday the charges had been settled and the stock regained its losses in another day of multi-billion dollar turnover. Chinese EV manufacturer NIO also began trading on the New York Stock Exchange during the month. It rose 75% on its second day of trading before losing almost all of that gain in the subsequent fortnight. In Shanghai, Beijing Auto's electric vehicle subsidiary listed via a reverse merger into a listed shell company. Its shares also saw extreme volatility, falling 35% on their second day of

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 trading. The Fund recently invested in Hong Kong listed Chinese automotive manufacturer Geely, a leader in electric vehicles in China. Toyota announced during the month that it was in discussions with Geely about cooperation on hybrid gasoline-electric technology.

The trend of major oil companies transitioning their businesses towards renewable technologies continues. America's largest oil companies, Exxon Mobil and Chevron, joined the Oil & Gas Climate Initiative, amid more than $1 billion of commitments for carbon reduction. While this is undoubtedly more of a public relations exercise than a true commitment to moving beyond oil, it is notable that they felt the need to participate in such a venture. Elsewhere, in a more concrete development, Norway's state-owned utility Statkraft announced plans for annual investments of 10 billion kroner, or ~US$1.2 billion, in renewables through 2025. French oil giant Total, which has investments in solar, batteries and retail electricity, expanded its portfolio with an acquisition of a network of 10,000 charging stations across France. Spanish giant Repsol announced the establishment of a car sharing business in joint venture with Korean auto manufacturer Kia. The JV, called Wible, will use hybrid electric cars and utilise Repsol's extensive network of gas stations – initially in Madrid, but with plans to roll out to other cities in Spain and beyond. Repsol also acquired a 'low emission' hydro and gas fired electricity generating business earlier in the year.

The ongoing challenges for legacy technologies were once again highlighted in the nuclear industry. Belgium was forced into contingency plans to meet winter electricity demand after operational issues affected its aging nuclear fleet – just 1 of 7 plants will be operational by November this year. This outcome is notable, as one of the reasons cited for the need for nuclear is superior reliability relative to renewables. Nuclear plants are highly reliable when they are operating, but there have been significant operational challenges at both existing and new plants in recent years. In the US, the expansion of the Vogtle nuclear power plant in Georgia had its latest cost over-run approved by its partners. The latest increase, of $2b, brings the total over-run to 100% relative to the original $14b budget. Lawmakers are increasingly questioning the investment and its impact on consumer power pricing in a region where solar projects with storage are now able to provide increasingly reliable power at lower costs.

The cost competitiveness of solar continues to improve rapidly, assisted by the significant fall in the cost of solar modules this year. PV module prices (measured per unit of generating capacity) have fallen by around 35% since the start of the year and are down more than 60% over the last 3 years. As a result, solar has become increasingly less reliant on regulatory support and subsidies. During the month, Spain's Secretary of State for Energy noted that about 5 GW of solar farms are under development in Spain that are relying purely on commercial power purchase agreements with customers or selling electricity at market prices.

In policy news, China's National Development & Reform Commission was reported to have drafted a plan that would increase its 2030 renewable generation target from 20% to 35%, though this is yet to be confirmed. California passed an eye-catching "100 Percent clean energy" law, and though the name is somewhat misleading - the 100% target is only a goal, and only by 2045 - there is a concrete increase in the power sector's 2030 renewables mandate from 50% to 60%.

Market commentary

Global equities were up modestly during September, with the MSCI All Country World Total Return Index up 0.4% in US dollar terms. Regional performance was mostly consistent. The US's S&P 500 index rose 0.4% to reach a record high. Europe's Stoxx 50 index rose 0.2%, while in Hong Kong the Hang Seng index fell 0.4%. The standout was Japan's Nikkei 225, which rose 5.5% on strong performance from defensive stocks. The Fund's benchmark, the FTSE Russell Environmental Opportunities All Share Total Return index, fell 0.5% in US dollar terms.

Geopolitical tension remained in the news. Brent Crude oil prices continued their upwards trend, climbing by 7% to over $80/barrel as Iranian exports continued to fall ahead of returning US sanctions and fears that the deepening crisis in Venezuela will impact production in that country. The US also imposed tariffs on $200 billion of imports from China, accompanied with prospective tariffs on a further $267 billion of goods on January 1st 2019. The tariffs are already impacting many global businesses and are affecting business confidence and investment, particularly in areas like industrial automation and advanced manufacturing. Elsewhere the US announced a new trade deal with Mexico, and subsequently an expanded deal also including Canada that will replace the NAFTA with the USMCA.

Fund commentary and context

The Fund fell 3.1% during the month, underperforming its benchmark by 2.5%, primarily attributable to falls in stocks that have been impacted by tariffs and in the semiconductor and automotive industries which have been broadly impacted by concerns about slowing growth.

Whilst the Fund has generated positive returns over the past two quarters it has underperformed both its environmental benchmark and broader global equity indices over this period, largely due to exposures in cyclical end markets and notably the automotive industry and semiconductors. The automotive industry's global supply chain has been impacted by inflationary pressures and in some cases by increasing research and investment associated with the technology transitions towards electrification, active safety and autonomy. The semiconductor industry has also experienced a long period of unusually stable growth driven by technology adoption in the industrial and automotive end markets, and the growth in cloud-based computing. These trends are likely to continue in the future, but the industry has also been impacted by tariffs and cyclicality. The threat of tariffs and the slowing of capital investment across both these areas has also impacted global growth in investment in industrial automation and advanced manufacturing technologies.

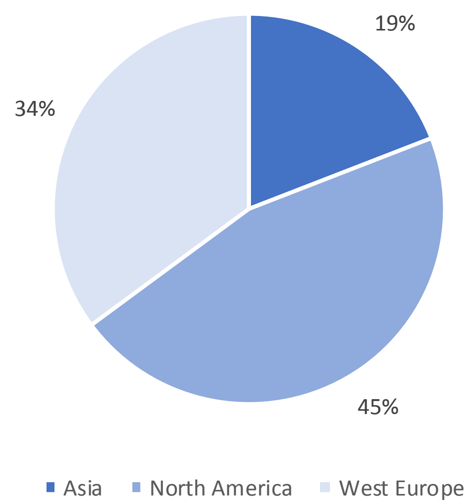
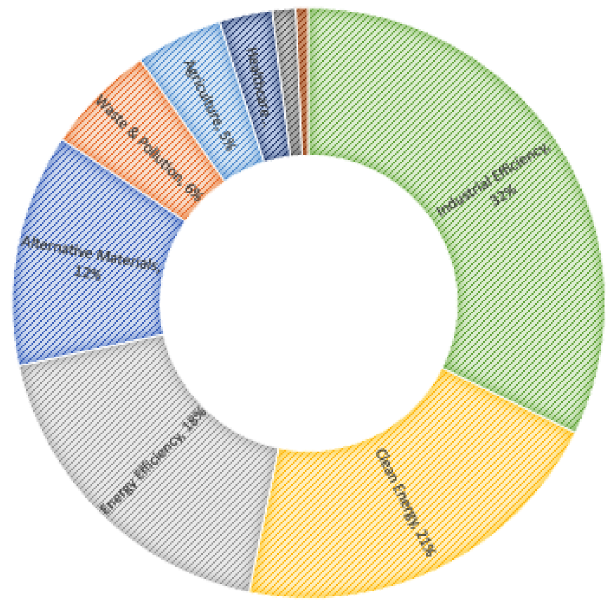
The largest detractor in September was Lenzing, which fell 14% after it announced it would suspend the construction of a new lyocell sustainable textile facility in the US due to China's retaliatory tariffs on US exports. This came as a surprise as the company, which is based in Europe and has multiple plants in Asia, had previously expected to avoid material impact from tariffs; it appears the company had under-estimated the escalation that occurred during September. Solar inverter manufacturer SolarEdge was another company impacted by the September round of tariffs, though it had previously outlined contingency plans for expanding production outside China over 6-12 months that will allow it to sell into the US duty free

The Fund increased its exposure to the wind sector during the month, adding a position in Siemens-Gamesa Renewable Energy, now the largest wind turbine manufacturer in the world and the leader in offshore wind. The stock has underperformed significantly over the last year but is expected to benefit from growing demand in response to the significant recent fall in the cost of wind energy, including offshore wind. The Fund is also exposed to significant anticipated growth in offshore wind in coming years through its investment in Prysmian, the global leader in high voltage submarine cables.

The Fund remains well diversified across both technologies and business types, in areas consistent with the approach of focusing on good quality businesses, mostly industry or technology leaders, that are positioned to benefit from the ongoing structural changes within their respective industries. The approach is to buy these stocks at prices that provide for attractive potential returns, typically stocks with lower valuation multiples relative to their profitability.

Notwithstanding the longer terms merits of this approach it has resulted in the Fund holding positions that have underperformed in recent months as the performance of many stocks with lower valuation multiples (lower P/Es) have diverged significantly from the performance of stocks with higher valuation multiples. This phenomenon is very likely to be temporary in nature and recent share price moves across the Fund's investment universe are presenting new investment opportunities. We believe that continued focus on quality, growth and investing at sensible prices based on well researched insights will be rewarded.

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

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 30 September 2018

Security Name	Weight (%)	Country	Sector
Valeo SA	4.8	FRANCE	Energy Efficiency
Lenzing AG	4.6	AUSTRIA	Alternative Materials
Carlisle Companies Incorporated	3.7	UNITED STATES	Energy Efficiency
Siemens Gamesa Renewable Energy, S.A.	3.5	SPAIN	Clean Energy
Waste Management, Inc.	3.5	UNITED STATES	Waste & Pollution
Accenture Plc Class A	3.4	UNITED STATES	Industrial Efficiency
Vestas Wind Systems A/S	3.0	DENMARK	Clean Energy
Toray Industries, Inc.	2.7	JAPAN	Alternative Materials
Lear Corporation	2.6	UNITED STATES	Energy Efficiency
Applied Materials, Inc.	2.5	UNITED STATES	Industrial Efficiency

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 *(30 Sep 2018)*	AUD 117m		

Contact Details

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