July 2022

Monthly Fund Update

NANUK ASSET MANAGEMENT

Investing Sustainably, Managing Responsibly

# NANUK NEW WORLD FUND

A GLOBAL EQUITIES FUND GENERATING RETURNS FROM INVESTMENTS IN A UNIVERSE OF LISTED EQUITIES EXPOSED TO THE BROAD THEMES OF ENVIRONMENTAL SUSTAINABILITY AND RESOURCE EFFICIENCY

## Performance Summary

The Fund returned 6.5% during July, outperforming traditional global equities benchmarks, such as the MSCI All Country World Net Total Return Index (ACWI), by 1.1% in a month that saw a strong recovery in global equities markets.

The outperformance of industrial stocks, which are strongly represented in the Fund's environmental sustainability and resource efficiency focused investment universe, and the underperformance of financials, which are not, contributed to the Fund's outperformance. In addition to the key stocks contributing to the Fund's outperformance noted below, several smaller positions reported share price rises of over 20% - including mapping technology leader TomTom, North American forestry and timber company West Fraser Timber and semiconductor capital equipment manufacturer KLA Corporation.

| | 1 Month | YTD | 1 Year | 2 Years p.a. | 3 Years p.a. | 5 Years p.a. | SI p.a.[1] |
|---|---|---|---|---|---|---|---|
| **Fund Return (%)** | **6.5** | **(14.0)** | **(8.5)** | **11.5** | **8.0** | **11.2** | **11.5** |
| Global Equities[2] (%) | 5.4 | (11.0) | (5.7) | 10.7 | 8.1 | 10.8 | 9.0 |
| Value Added (%) | 1.1 | (3.0) | (2.8) | 0.9 | (0.0) | 0.4 | 2.5 |

Notes (1) Inception date 2 November 2015 (2) Global Equities return is the MSCI All Countries World Index Total Return Net Index in Australian dollars. Fund return is net of all fees and expenses. **Past performance is not indicative of future performance.**

## Key Contributors to Fund Performance

CARLISLE

**Carlisle Companies Incorporated** (+24%) manufactures energy efficient building material products and solutions. The company has been discussed in several investor reports as well as Nanuk's April webinar due its ongoing improvement in operating performance and exposure to the attractive building efficiency market. These trends drove another record earnings result in July and continued share price appreciation.

**Lear Corporation** (+20%) and **Hyundai Mobis** (+15%) are Tier 1 auto parts suppliers with leverage to increasing vehicle electrification. The stocks of auto suppliers have under-performed significantly in the last year as supply disruptions cut production volumes and increased costs. This has positioned the stocks to out-perform despite the current period of economic deceleration: with auto volumes likely to grow and weakness in other sectors easing supply chain challenges. Hyundai Mobis reported 54% year on year growth in EV drivetrain modules, for which it is the sole supplier to the Hyundai and Kia groups and this business now represents around 17% of revenue.

**CDW Corp.** (+15%) is a leading "value added reseller" of IT hardware, software and solutions. It saw no significant catalysts during July. The company has a consistent track record of mid to high single digit organic growth at returns on capital exceeding 40%, which has made it a relatively slow but steady out-performer.

**SIG Group (+18%)** is a global leader in aseptic packaging solutions, the number two behind private company TetraPak. The company reported a strong Q2 result driven by solid volume growth and its successful implementation of price increases.

**Cognizant Technology** (+1%) provides technology consulting. Its shares underperformed after continued weak staff retention drove both market share losses and a cut to revenue guidance. Improved retention has been a top priority for over a year and while it is not a quick fix, we see encouraging data both from inside and outside the company and the stock remains attractively priced.

**Garmin Ltd** (-1%) offers consumer electronics products for active lifestyles. It fell after cutting 2022 revenue guidance by 10%. We believe this is primarily attributable to a mix of one-off effects such as currency movements, inventory destocking and parts shortages rather than a significant slowdown in demand for Garmin's products, and we believe the company's innovation platform and new automotivebusiness is likely to support future outgrowth of the broader economy that is not reflected in the company's share price.

## New Investments

**Ocado plc** offers end-to-end solutions for e-commerce, with a focus on warehouse automation. It currently serves the grocery market. Ocado claims its solutions cause dramatically less food waste compared to established competitors and its facilities also use land much more efficiently. Coles is an Ocado customer, and two large warehouses using Ocado's technology are due to enter service in Sydney and Melbourne in 2023. Ocado's shares have recently under-performed significantly, in part due to a rights issue to strengthen its balance sheet, offering an attractive point.

**Micron Technology Inc,** is the world's #3 provider of memory semiconductor devices. It is in Nanuk's universe because memory chips are a key component of efficiency driving digital technologies such as the internet of things and vehicle autonomy. Deteriorating conditions in the memory market led Micron's shares to recently fall to slightly above their underlying net asset value. Demand for memory chips is expected to grow at a high single digit rate through 2030, backed by the megatrends cited above. We believe Micron is likely to continue delivering relatively strong returns on capital, meriting a higher valuation, as memory prices will need to remain high enough to incentivise construction of sufficient capacity to meet the strongly rising demand.

## Exited Positions and Other Portfolio Changes

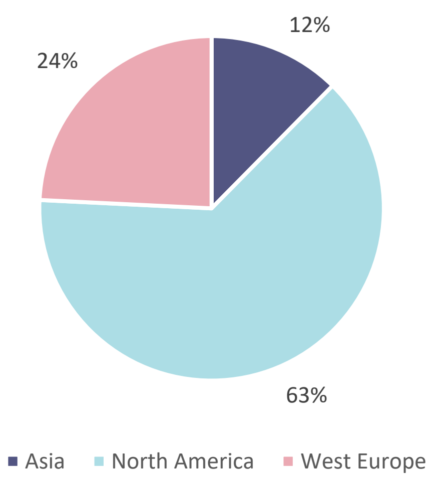
The Fund did not exit any positions during July. The Fund's position in Certara was reduced after strong share price performance discussed in the previous two investor reports.

## Top 10 Holdings

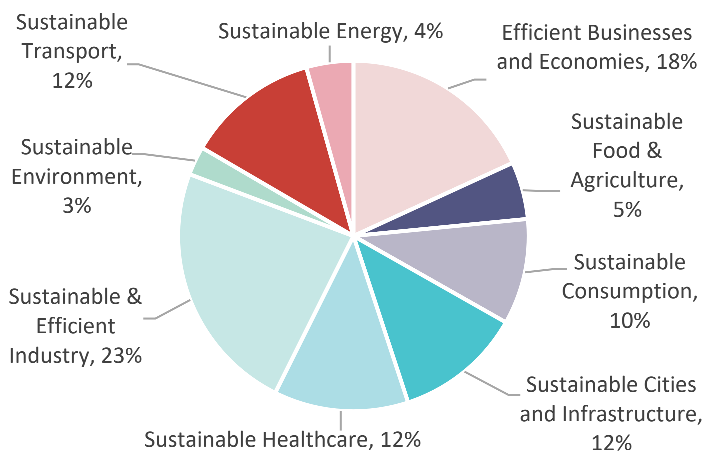
| Security Name | Weight (%) | Country | Sector |
|---|---|---|---|
| WestRock Company | 4.8 | UNITED STATES | Sustainable Consumption |
| Cognizant Technology Solutions Corporation Class A | 4.3 | UNITED STATES | Efficient Businesses and Economies |
| Carlisle Companies Incorporated | 3.9 | UNITED STATES | Sustainable Cities and Infrastructure |
| Microsoft Corporation | 3.5 | UNITED STATES | Efficient Businesses and Economies |
| Garmin Ltd. | 3.2 | UNITED STATES | Sustainable Healthcare |
| CDW Corp. | 3.0 | UNITED STATES | Sustainable & Efficient Industry |
| International Flavors & Fragrances Inc. | 2.9 | UNITED STATES | Sustainable Food & Agriculture |
| Carrier Global Corp. | 2.8 | UNITED STATES | Sustainable Cities and Infrastructure |
| Hyundai Mobis Co., Ltd | 2.7 | SOUTH KOREA | Sustainable Transport |
| Siemens Healthineers AG | 2.6 | GERMANY | Sustainable Healthcare |

## Portfolio Positioning

**Regional Weights (%)**




**Sector Weights (%)**




## Market Commentary

Global equities markets enjoyed a relief rally during July, partially reversing significant declines observed in the second quarter.

The MSCI All Country World Net Total Return Index rose 7.0% in US dollar terms, driven by strong rises in most major markets. The US' S&P 500 Index led with a gain of 9.1%, Europe's Stoxx 50 Index was up 7.3%, and Japan's Nikkei 225 Index was up 5.3%. In sharp contrast, Hong Kong's Hang Seng Index fell 7.8%, reversing its out-performance from the prior month. Bond yields were supportive, with the US and German 10-years respectively down 36 and 52bps respectively.

Notwithstanding the strong recovery in equities markets, economic data continued to deteriorate. In the US, GDP shrank for a second consecutive quarter and the Federal Reserve raised its target rate for overnight borrowing (by 75bps to 2.5%), as did a number of other central banks. In Europe, Russia further cut energy supplies in an effort to undermine resistance to its invasion of Ukraine. European power prices climbed to fresh records, with forward twelve months prices reaching €385/MWh, an order of magnitude above prices last year. In response, European governments increased efforts to conserve energy, with Spain banning air conditioning commercial buildings to below 27°C and Germany switching off lighting of tourist attractions. Geopolitical tensions remain high, not just in Europe, as China ended the month preparing a live fire military exercise around the Taiwanese coast in response to a visit by US House of Representatives Speaker Nancy Pelosi, which violates Beijing's One China policy.

**Notable Industry Developments**

- The US enacted one major industrial policy and appears to set to pass a second
    - President Biden signed the CHIPS and Science Act ("Chips Act"). The act authorises a total of $72 billion in support for the US semiconductor industry, including $39 billion in grants, and $81 billion in increased funding to the US National Science Foundation.
    - Unexpectedly, as soon as the Chips Act was secured, Senate Democrats proposed the Inflation Reduction Act ("IRA"), which would raise $700 billion in revenue and spend $370 billion on energy and climate mitigation efforts - including tax credits for renewable and nuclear energy, EVs, carbon capture, biofuels, building and industrial efficiency; and fund programs to reduce methane emissions (associated with oil & gas extraction) and agricultural emissions. It will also allow a modest expansion of oil & gas drilling.

- The IRA appears to have been successfully kept secret to maintain Republican support required to enact the Chips Act (the IRA can be enacted using "reconciliation", a parliamentary procedure which requires 50 Senate votes instead of the usual 60 and so allows Democrats to pass it alone). At the time of writing, the Senate has just passed the Bill and it remains to pass the majority Democrat House.
- The Act is expected to reduce US carbon emissions by an incremental 20% by 2030, taking them from 24% below their 2005 level under current law, to approximately 39%, according to various third-party analyses. (Note, this includes the increased emissions from additional drilling).
- The IRA would be the largest climate effort in US history. However, its predecessor, the Build Back Better Act, proposed almost $200 billion more in climate related spending and President Biden's goal is a 51% reduction in emissions by 2030, not 39%. The Administration can therefore be expected to work on further mitigation efforts through executive action, albeit these powers are very limited compared to legislation.
- Many US solar stocks rose 20% or more in the days after the IRA's introduction.

- Germany is stepping up its response to the energy crisis
    - €177.5 billion of funding has been approved over 4 years focused on building and industrial efficiency, with the latter including hydrogen.
    - It also announced accelerated plans for renewable deployment, with targets for installed capacity of solar, onshore wind and offshore wind roughly tripling, doubling and quadrupling respectively.
    - In the short-term, Chancellor Olaf Scholz said shut-down of its three operational nuclear plants, which was due to occur by the end of 2022, is under review.
- A "transformation" is proposed for Australia's largest electricity grid
    - The Energy Market Operator published the biennial Integrated System Plan for the National Electricity Market, as is required by law.
    - The Plan does not have legislative force, but given the energy shortages in NSW discussed in our last report, both federal and state leaders are supportive of change.
    - The Plan foresees over $12 billion of investment in renewable generation and a range of 'firming capacity' technologies such as batteries, hydroelectricity and gas.
- Extreme weather events occurred across in the Northern Hemisphere
    - Europe saw numerous temperature records broken. Thousands of heat-wave related deaths are estimated to have occurred across the continent.
    - China also saw multiple records broken, with some localities cutting power to industrial users at peak times to cope with demand.
    - In the US, high temperatures saw Texas' grid under strain once again, with operator ERCOT asking residents to reduce usage and paying generators $5,000/MWh to increase supply.
- Heavy investment in electric vehicle (EV) and battery capacity continues
    - China's EV market hit two symbolic milestones during June – 500,000 EV sales in a month, and 10 million cumulative EV registrations.
    - Volkswagen broke ground on its battery "Gigafactory" in Europe. VW's "PowerCo" unit targets revenues of €20b by 2030 and has been structured to enable an IPO.
    - Ford released details of its $50 billion EV investment plans out to 2026, focused on its battery technology roadmap
    - General Motors signed an $11 billion battery material supply agreement with Korea's Posco Chemical.
    - Spanish utility Iberdrola will join with oil major BP to invest up to €1 billion in EV charging.
- Investment in hydrogen and biochemicals is growing
    - The EU approved plans for €5b of public support for the hydrogen supply chain across the continent.
    - Shell announced Europe's largest green hydrogen facility, with daily production capacity of 60kT, 10 times the current #1. Located in Rotterdam, the facility will be powered by offshore wind and is set to commence production in 2025.
    - Swiss refiner Varo announced that two thirds of its $3.5 billion 2022-26 investment plan will be allocated to 'Sustainable Energies' including biofuels, hydrogen, e-mobility and carbon removal. By 2040 it aims to be Net Zero across scopes 1,2 and 3.
- Nuclear investment
    - South Korea announced plans to build four reactors by 2030 and extend the life of ten existing facilities.

The Nanuk New World Fund is a global equities fund generating its returns from investments in a universe of listed equities exposed to the broad themes of environmental sustainability and resource efficiency. The Fund invests 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.

| | | | |
|---|---|---|---|
| Fund Name | Nanuk New World Fund<br>ASX ticker: NNUK | Currency | AUD |
| Type | Global Equities | Subscriptions | Daily |
| Domicile | Australia | Minimum Subscription | AUD 50,000 Direct<br>(ASX no minimum) |
| Responsible Entity | Equity Trustees Ltd | Redemptions | Daily |
| Administrator & Custodian | Citi | Notice period | 1 Day |
| Inception | 2 November 2015 | Buy-Sell spread | 0.25% |
| Total management costs | 1.1% | AUM (31 July 2022) | AUD 637.3m |
| Platform Access | AMP North, BT (Wrap, Panorama, Asgard), CFS FirstWrap, Hub24, IOOF OnePath, Pursuit & Rhythm Macquarie Wrap, Mason Stevens, Netwealth, OneVue, Powerwrap, Praemium, WealthO2 and Xplore Wealth | | |

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