# Nanuk New World Fund

NANUK ASSET MANAGEMENT
Investing Sustainably, Managing Responsibly

*A long only global equities fund generating returns from investments in a universe of listed equities exposed to the broad themes of environmental sustainability and resource efficiency*

## December 2021 Monthly Fund Update

### Performance Summary

The Fund returned 2.8% during December, outperforming traditional global equities indices such as the MSCI All Country World Net Total Return Index, by 1.4% and outperforming the Fund's environmental equities Reference Index, the FTSE Environmental Opportunities All Share Total Return Index, by 2.1%.

The Fund's outperformance was primarily attributable to stock specific returns, led by network equipment leader Ciena Corporation. Other significant contributions came from a range of sectors including technology consulting (Cognizant and Alten), building materials (Carlisle Companies), sustainable textiles (Lenzing) and automotive component suppliers (Hyundai Mobis and TomTom). Key contributors and recent changes to the portfolio are discussed further below. The Fund also benefitted modestly from the underperformance of large capitalisation growth stocks, to which the Fund has some exposure through positions in Microsoft and Amazon but remains underweight compared to the broader market.

The Fund returned 7.4% over the final quarter of 2021 and 32.2% over the 2021 calendar year, outperforming the MSCI All Country World Net Total Return Index by 1.4% and 6.4% respectively, and outperforming the Fund's environmental equities Reference Index, the FTSE Environmental Opportunities All Share Total Return Index by 4.3% over the year. The Fund lagged the EOAS Index by 2.1% during the fourth quarter, mainly due to the performance of Tesla which represents around 10% of the index and which rose 36%.

The Fund's annual out-performance was largely attributable to stock selection, pleasingly from a diverse range of sectors and primarily from positions that performed well for the reasons anticipated – good quality, well managed businesses that re-rated as the market recognised their ability to improve returns as they benefit from favourable industry trends. Sector allocation had a limited, but slightly positive, impact. The Fund benefited from overweight exposure to outperforming sectors such as Electronic Technology but was negatively impacted by underweight exposure to others such as Financial and Energy.

Entering 2022 we continue to see large divergences in stock and sector performance amid ongoing uncertainty about the trajectory along which the global economy will recover and evolve. We saw good opportunities in 2021 associated with strong business franchises that benefitted in the post COVID economic recovery. Companies that have benefitted from improving industry dynamics (such as easing supply chain disruptions or accelerating capital investment) and companies that have seen returns improve as a result of company specific factors also did well.

2021 was a significant year for commitments to addressing climate change. Sustainability trends also remain strong, although expectations of immediate and dramatic change are being tempered by the realities of US politics and the long timeframes over which headline policy initiatives are translated to meaningful regulatory outcomes. In this environment we continue to look towards less prominent areas of sustainable solutions where improvements in growth and company performance may be misunderstood or underappreciated and seek to identify companies where potential improvement in returns, either through company specific actions or improving industry trends, and ideally both, is likely to lead to stock outperformance. An example is the paper packaging industry, in which the Fund has several holdings, where the gradual but accelerating shift away from plastic packaging is leading to structurally higher growth in an historically low growth industry. If this continues, profitability is likely to grow commensurately for companies currently trading on double digit free cash flow yields.

2021 also saw a significant reversal of the extraordinary performance of higher growth, early-stage and in many cases loss-making technology companies against which the Fund underperformed in late 2021. Since the peak of speculative interest and SPAC listings in February 2021 many of these stocks have dramatically underperformed, a trend we believe is likely to continue during 2022 as failures to achieve ambitious plans expose unjustifiably high valuations. Higher quality, profitable, growth stocks have continued to perform well and, based on our views on valuation and the implied return potential, the Fund has maintained lower than average exposure to higher growth stocks throughout the year. It is notable, however, that the continued decline in share prices within many areas of sustainable technology has seen an increasing number of higher growth opportunities emerging and should this trend continue it is likely that the Fund's exposure to higher growth stocks will continue to rise in 2022.

| | 1 Month | YTD | 1 Year | 2 Years p.a. | 3 Years p.a. | 5 Years p.a. | SI p.a.[1] |
|---|---|---|---|---|---|---|---|
| **Fund Return (%)** | **2.8** | **32.2** | **32.2** | **18.1** | **22.3** | **16.4** | **15.4** |
| Global Equities[2] (%) | 1.4 | 25.8 | 25.8 | 15.4 | 19.1 | 14.3 | 12.0 |
| Value Added (%) | 1.4 | 6.4 | 6.4 | 2.7 | 3.2 | 2.1 | 3.4 |
| Environmental Equities[3] (%) | 0.7 | 27.8 | 27.8 | 27.6 | 29.0 | 20.4 | 17.7 |
| Value Added (%) | 2.1 | 4.3 | 4.3 | (9.5) | (6.7) | (4.0) | (2.3) |

*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 (3) Environmental Equities refers to the FTSE Environmental Opportunities All Share Total Return Index which is identified as the reference index for the Fund, providing a reasonable, yet approximate, reference index for the Fund's area of focus. Past performance is not indicative of future performance.*

## Key Contributors to Fund Performance

**Ciena Corporation** (+28%) makes data network equipment. Ciena is a technology leader which had suffered from deferrals in network and data centre capex due to COVID. Its shares rose on a record backlog and a stronger than expected medium term growth outlook revealed at its quarterly earnings update.

**TomTom** (+21%) is a leader in global mapping and navigation services. It is a likely beneficiary of growth in electric vehicles (for which attachment rates of in-car navigation are higher) and autonomous driving technology (which is reliant on highly accurate and up to date mapping). TomTom announced a multi-year agreement with Volkswagen Group to provide its navigation technology and traffic data service for inclusion in a new integrated navigation product being co-developed with Volkswagen's automotive software group.

**Cognizant Technology Solutions** (+14%) provides technology consulting. As noted in our April report, Cognizant has underperformed its peers in recent years and has a new leadership team tasked with righting the ship. In mid-November this new team held its first Investor Day, laying out a logical three-year plan to return to high single digit growth. Additionally, its closest peer, Accenture, also a holding of the Fund, reported a strong quarterly result during the month.

**Accton Technology Corp** (-9%) is a Taiwanese network equipment manufacturer. Accton downgraded its sales guidance for 2022 due to continued component shortages flowing from COVID related supply chain issues in the semiconductor industry. Accton's revenue growth target is roughly twice Ciena's, which makes securing incremental component supply more difficult and its core product (100G switches) relies on components in particularly short supply.

## New Investments

**Alteryx, Inc.** sells enterprise analytics software. Its products automate data preparation and analysis in a "no/low code" environment accessible to a wide range of users. We expect Alteryx's 2022 revenue and profits will be materially above consensus expectations.

**Hain Celestial Group** makes natural and organic food and personal products. The company is undergoing a significant multi-year turnaround under new management with a track record of success in turnaround situations. The Fund profited from a position in the company during the initial period of the turnaround during which the company substantially rationalised its product portfolio but exited the position in May 2021 after strong share price performance and lack of certainty that the company could achieve meaningful sales growth. In September, the company held an Investor

Day outlining a new strategy ("Hain 3.0") to attain high single digit sales growth that we believe is likely to deliver continued double-digit earnings growth.

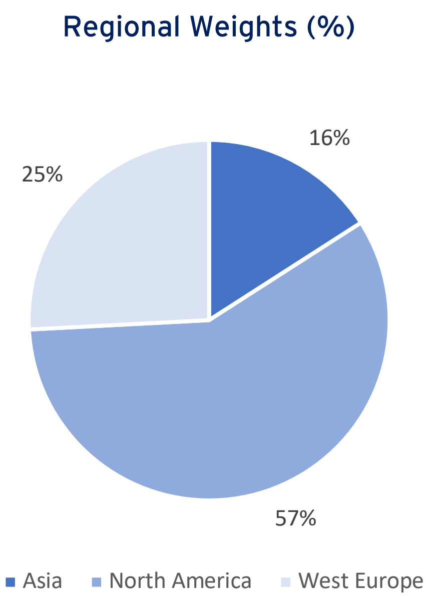
## Exited Positions and Other Portfolio Changes

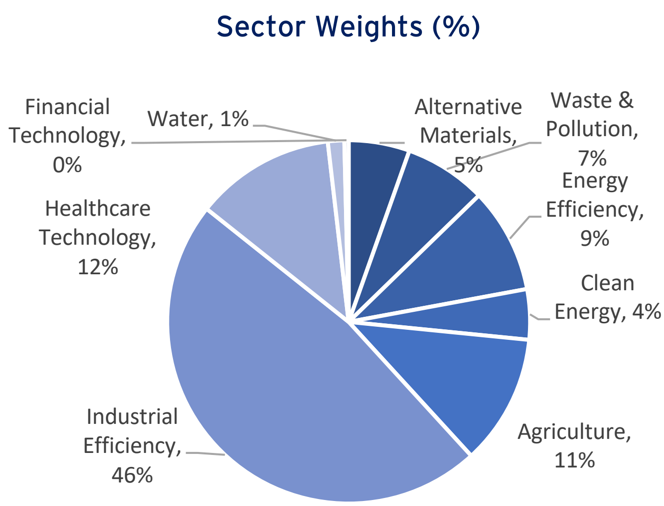
The Fund exited it position in **Garmin** following strong performance and on concerns that normalisation of consumer spending patterns would lead to slower growth. The Fund's position in HVAC leader **Carrier Global Corp.** was reduced and has subsequently been exited. The Fund's investment in Carrier performed well, aided by a cyclical recovery in its core market which now appears complete. The Fund's position in automotive supplier **Gentherm**, a likely longer-term beneficiary of vehicle electrification, was reduced as our confidence declined in the ability of the company to benefit significantly from the near-term growth in electric vehicle sales.

## Top 10 Holdings

| Security Name | Weight (%) | Country | Sector |
|---|---|---|---|
| Cognizant Technology Solutions Corporation Class A | 4.3 | UNITED STATES | Industrial Efficiency |
| Ciena Corporation | 3.8 | UNITED STATES | Industrial Efficiency |
| Carlisle Companies Incorporated | 3.5 | UNITED STATES | Energy Efficiency |
| Wolters Kluwer NV | 3.4 | NETHERLANDS | Healthcare Technology |
| Alteryx, Inc. Class A | 3.3 | UNITED STATES | Industrial Efficiency |
| Siemens Healthineers AG | 2.7 | GERMANY | Healthcare Technology |
| International Flavors & Fragrances Inc. | 2.7 | UNITED STATES | Agriculture |
| Accton Technology Corp. | 2.7 | TAIWAN | Industrial Efficiency |
| Alten SA | 2.6 | FRANCE | Industrial Efficiency |
| Pearson PLC | 2.6 | UNITED KINGDOM | Industrial Efficiency |

## Portfolio Positioning



## Market Commentary

Global equities finished 2021 on a high, with the MSCI All Country World Net Total Return Index rising by 4.0% in US dollar terms in December. North American and Western European equities markets continued to out-perform Asian markets. Europe's Stoxx 50 Index was up 5.8%, the US' S&P 500 Index rose 4.4%, Japan's Nikkei 225 Index rose 3.5% (and 1.6% in US dollar terms) and Hong Kong's Hang Seng Index fell 0.3%. US government bond yields rose during the month and growth and smaller capitalisation stocks underperformed.

Environmental equities, as represented by the Fund's Reference Index, the FTSE Environmental Opportunities All Share Total Return Index, underperformed the broader equity market, rising 3.3%. The underperformance was primarily attributable to Tesla (not a holding of the Fund), which declined 8% during the month amid the announcement of a recall of 475,000 vehicles and the deactivation of a feature allowing drivers to play video games while driving after the regulator said it is dangerous and consequently illegal.

## Notable Industry Developments

- Nebraska became the first Republican-governed state in the US to set a net-zero 2050 target for its power sector after a vote by the board of its largest utility, Nebraska Public Power. The state's other two utilities already had a net-zero target. All three are publicly owned, with board members elected by the public.
- California's Utility Commission proposed lowering incentives for distributed (i.e rooftop) solar generation. These include imposing monthly fees for grid connection and paying wholesale electricity prices for excess generation fed to the grid instead of retail prices which are over four times as high. The proposals are being contested: SunRun, the leading US residential solar installer and a previous holding of the Fund, called them "discriminatory", "self-defeating" and a "disaster"; and even argued that they were in violation of the law. In reality, residential solar systems in the US remain expensive compared to most developed markets and a more cost-effective regulatory regime is overdue, even if installers don't like it.
- Toyota published an updated electric vehicle strategy. It included investment of US$35 billion on electric vehicles through 2030, with a target of 30 electric models, up from a prior target of 15 by 2025. A further US$35 billion will be spent on hybrid and fuel-cell vehicles. The Fund holds a position in leading Japanese automotive supplier Denso Corporation which is a key supplier to Toyota and stands to benefit from this accelerated investment program.
- Intel, in which the Fund holds a position, announced it would IPO Mobileye, its autonomous driving business, during 2022. Intel acquired Mobileye for $14 billion in 2018. As mentioned in previous reports, we believe the value of Mobileye, which is the dominant leader in automotive vision systems to support active safety and autonomous driving technology, is significant and has not been well recognised by the market.
- Ford is working to double EV production capacity by 2023, to 600,000 vehicles, following initial orders for its first EV models: the Mustang SUV, F-150 pickup, and Transit truck.
- China's Ministry of Finance announced subsidies for "New Energy Vehicles", which include EVs, will decline by 30% in 2022 and cease in 2023.
- The US enacted a law restricting imports from China's Xinjiang province, citing human rights abuses in the province. The bill passed both chambers of Congress unanimously. Xinjiang is a key production centre for the solar industry, particularly polysilicon. Companies can gain an exemption from the ban if they can satisfy the US Trade Commission they are not involved in abuses. China responded by imposing travel restrictions on four low-level America officials.

*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 themes of environmental sustainability and resource efficiency. 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.*

| | | | |
|---|---|---|---|
| Fund Name | Nanuk New World Fund | Currency | AUD |
| Type | Global Equity | Subscriptions | Daily |
| Domicile | Australia | Minimum Subscription | AUD 50,000 |
| 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 | 1.2% | AUM *(31 Dec 2021)* | AUD 609.8m |
| Platform Access | AMP North, BT (Wrap, Panorama, Asgard), CFS FirstWrap, Hub24, IOOF OnePath, Pursuit & Rhythm Macquarie Wrap, Mason Stevens, Netwealth, OneVue, Powerwrap, Praemium, WealthO2, Xplore Wealth and ASX mFunds (NUK01) | | |


| **Investment Manager** | **Administrator** |
|---|---|
| Nanuk Asset Management Pty Ltd<br>Level 23, Australia Square, 264 George Street<br>Sydney NSW 2000, Australia<br>Tel: +61 2 9258 1600<br>Fax: +61 2 9258 1699<br>Email: contact@nanukasset.com<br>www.nanukasset.com | Citigroup Pty Ltd<br>GPO Box 764<br>Melbourne VIC 3001<br>Fax: 1300 714 621 |