

June
2019

MONTHLY REVIEW

Review of Fund Performance and Current Events

CareSaver
investing ethically

This week we launched what we believe is New Zealand's most ethical KiwiSaver scheme. Visit www.caresaver.co.nz for more details.



Pathfinder
INVEST RESPONSIBLY

MARKET UPDATE

"We are doing great Economically as a Country, Number One, despite the FED's antiquated policy on rates and tightening..."

President Donald Trump - July 15 2019 - Twitter

MARKET COMMENTARY

Massive news for Pathfinder. For the past 9 months the team has been hard at work creating New Zealand's newest KiwiSaver Scheme. We are immensely proud to launch CareSaver; we call it CareSaver because it's for Kiwis who care about our planet and its people. It's also for Kiwis who care about investing wisely for their retirement.

As with all Pathfinder products the focus is ethical investing. We have added new goals with CareSaver including; reducing carbon intensity (we are 64% lower than the global equity index), at least one female director on the board of NZX listed companies and positive investment themes (including renewable energy, water and forestry).

We are very excited about this product which we will be running as a social enterprise model. We have partnered with 17 awesome charities (that our investors can choose from) and we will donate 20% of our management fee each year.

Speaking of low-carbon investments. Big oil companies are still late to the game when it comes to shifting their businesses towards a sustainable future. Data from the investment research firm CDP shows that major European oil companies are only allocating a fraction of the budgets to low carbon investments, around 7% of capital expenditures last year. This is a disappointing statistic that justifies our zero exposure to the traditional energy sector in the CareSaver portfolios.

Find out more at caresaver.co.nz

It is a bizarre world right now, with investors taking a "glass half-full" world view.

The US economic picture remains mixed, with manufacturing and business sentiment numbers showing weakness, while consumer data and employment remains solid. However, even if there is weakness in data, this makes it more likely that the US Federal Reserve will cut interest rates, and markets are reacting positively in any case. The same can be said for the world's second largest economy. While recent Chinese economic data was also mixed, it seems as though the Peoples Bank of China stands ready and willing to support the economy.

Quarterly US corporate earnings season has begun and investors are watching closely, particularly for trade war related impacts on US corporate profits. The most recent Federal Reserve Beige Book, a compendium of anecdotes from US businesses, also pointed to trade-related pressures on transportation and manufacturing companies. However, it is ironic that a weak earnings season once again may put even more pressure on US Fed Chair Powell to lower interest rates.

So, if (arguably) weak economic data or earnings may not necessarily cause a significant market correction (given both scenarios imply lower interest rates and global central bank support), this bull market could still have a decent time to run.

The elephant in the room (which could derail a world of supportive central banks) is significant inflation - but for now inflation globally remains stubbornly subdued.

UNIT PRICES as at 30 June

Pathfinder Global Responsibility Fund
\$1.0847

Pathfinder Global Water Fund
\$2.1318

Pathfinder Global Property Fund
\$1.2417

Pathfinder World Equity Fund
\$1.8481

Pathfinder Commodity Plus Fund
\$0.9677

OUR PEOPLE

John Berry - Chief Executive Officer

Paul Brownsey - Chief Investment Officer

Karl Geal-Otter - Portfolio Manager

Hamesh Sharma - Portfolio Manager

Bob McCutcheon - Strategy, Compliance

Kate Brownsey - Environmental Science Analyst

Jeanette Kassa - Client Services Manager

THE FOCUS | Cannasouth Breaks NZX IPO Drought

The IPO of medicinal cannabis company Cannasouth has broken a 2-year listing drought for the NZX. Unfortunately, for NZX investors we are not impressed by the latest listing on the market, which we see as a speculative pre-revenue business that was highly priced. To read the full article [click here](#)



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DOES YOUR KIWISAVER PROVIDER CARE ABOUT CLIMATE CHANGE? CARESAVER DOES.

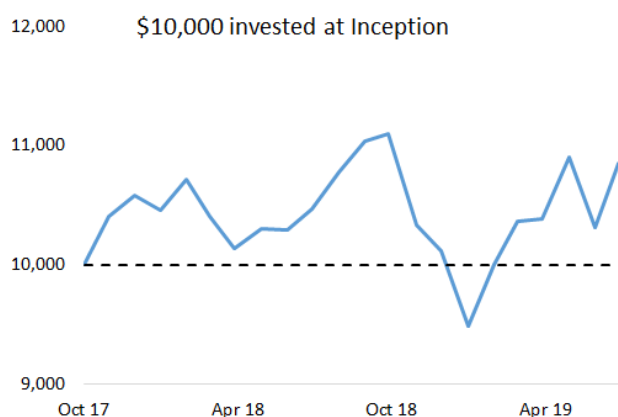
All over the planet, savers are warming to investments that don't warm the globe. At CareSaver, we agree. So we place your savings in companies actively preparing and developing for a low-carbon future. Ensure your savings do good, not bad. Switch to CareSaver now at caresaver.co.nz.

PORTFOLIO UPDATES

GLOBAL RESPONSIBILITY FUND

The socially responsible Global Responsibility Fund is designed to provide diversified equity exposure to developed markets. There are 4 tiers to the responsible investment process: (1) exclusion of corporate activities like tobacco and gambling (2) elimination of high controversy companies (3) investment focus on high environmental, social and governance ratings, and (4) we vote to encourage better ESG practices. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month 5.1%	Performance since inception p.a. 4.8%	\$10,000 invested at inception is now worth \$10,847
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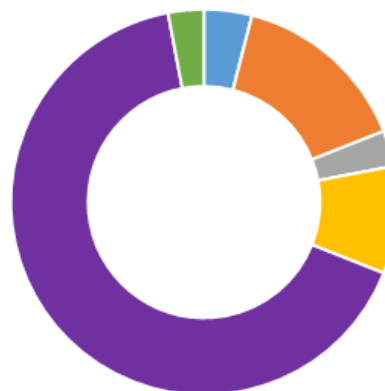
FUND COMMENTARY

With markets trading at historic highs, it is natural to think about the end of what is now the longest bull market since World War 2. Markets are never "different this time", but there are some unique events occurring at the moment which we need to consider. Low interest rates are, in our view, the primary factor sustaining this market. When will this change? Inflation is usually required to move rates and there are few signs of inflation on the horizon. Growth is strong enough to support reasonable company earnings. Even this quarter, lower earnings expectations will likely be an outlier before companies move back to growth. Early reports are not as poor as expected. Company valuations on a forward looking basis are much lower than previous turning points in markets. So we remain cautiously optimistic, we believe the best approach is to remain invested in equity markets but allocate more to defensive sectors (utilities & real estate).



- Cash* | 4%
- Europe ex UK | 15%
- Asia Pacific ex Japan | 3%
- Japan | 9%
- North America | 66%
- UK | 3%

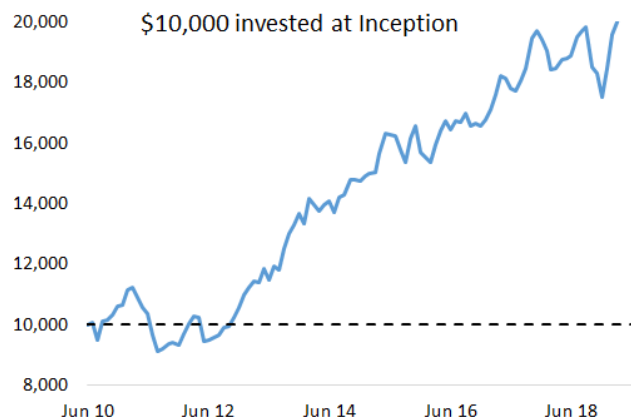
*Cash includes foreign currency hedging



GLOBAL WATER FUND

The Global Water Fund is designed to provide socially responsible investment in the water industry. This includes listed water utility, industrial, tech and materials companies. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month 5.7%	Performance 7 years p.a. 12.3%	\$10,000 invested at inception is now worth \$21,318
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FUND COMMENTARY

The Water Fund celebrated its 9th year during June and finished the first half of the year up 21.8%. We have made a few tweaks and changes to our process over the years, but, the investment thesis remains the same. Clean, fresh water is essential for life, yet less than 0.01% of the World's water is sustainable and accessible. We look to make investments in companies that are solving this global crisis and we believe in the long-term they will make great investments.

The fund remains heavily weighted to the industrial and utility sector; around three-quarters. We have an underweight position to materials compared to the benchmark and have added to our technology positions, including Badger Meter. This is an exciting company using water flow monitoring technology for smart water management, smart buildings and smart industrial management. Utilities, with their high coupons and low volatility continue to make up around 30 % of the fund.



- Cash* | 5%
- Europe ex UK | 22%
- Asia Pacific ex Japan | 2%
- Japan | 6%
- North America | 55%
- UK | 5%
- Emerging Markets | 5%

*Cash includes foreign currency hedging

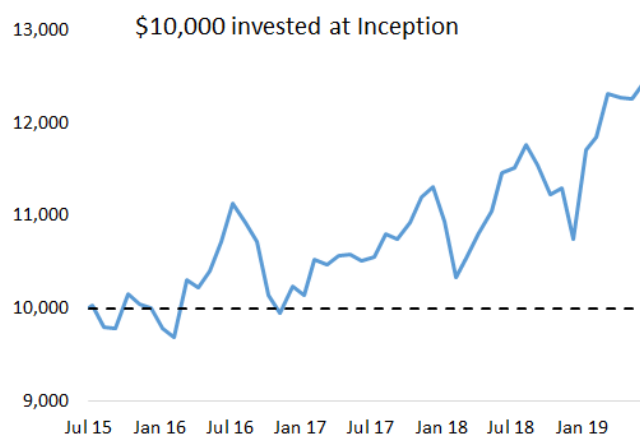


PORTFOLIO UPDATES

GLOBAL PROPERTY FUND

The Global Property Fund is designed to provide socially responsible investment in global listed property stocks. It has a significant allocation to NZ listed property, recognising the preference of NZ investors to overweight the local market. Currency hedging is used to reduce foreign currency exposure.

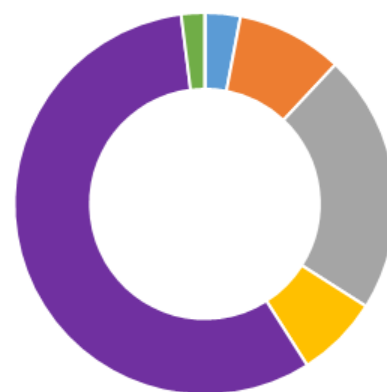
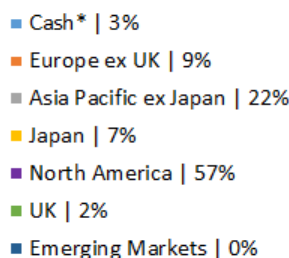
Performance 1 month 1.2%	Performance 3 years p.a. 5.0%	\$10,000 invested at inception is now worth \$12,417
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FUND COMMENTARY

Property continues its impressive 2019 run, with the fund up 15.5% during the first half of the year. A run that has largely been driven by investors searching for yield in the new dovish environment.

We continue to fine tune the themes and exposures in the portfolio. We remain overweight to specialized REITs, as we continue to see long-term tailwinds across the sub-sector. One theme that is on the radar of many investors is traditional retail, and in the case of the property fund, REITs that own retail shopping centers. With the continued shift to online shopping retail REITs, have suffered. Coupled with headwinds from Brexit we now consider UK retail REITs as an unattractive investment and have subsequently sold down our position. We have switched our relatively low UK exposure to a diversified REIT which owns a mix of office, commercial, and retail assets.

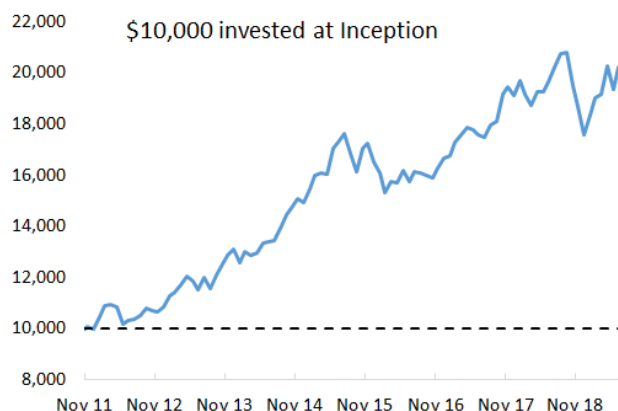


*Cash includes foreign currency hedging

WORLD EQUITY FUND

The World Equity Fund is designed to provide diversified socially responsible exposure to global equities (across both developed and emerging markets). The fund invests in ETFs to access global equity sectors and regions, and uses currency hedging to reduce foreign currency exposure.

Performance 1 month 4.5%	Performance 7 years p.a. 10.1%	\$10,000 invested at inception is now worth \$20,200
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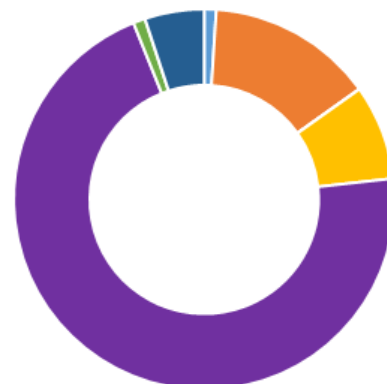
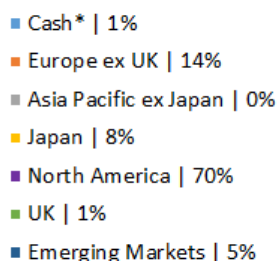


FUND COMMENTARY

Where do we go from here? Probably up.

As we move into another US earnings season (the excessive frequency of these is a story for another day), the market has a backstop and it is called the Federal Reserve. Market expectations are that if there is a poor earnings season (markets typically down) the FED will step in by lowering interest rates, justifying their actions with the poor earnings season. This will then signal to the market that money is cheap and markets will potentially rise.

We reduced our Financial sector exposure recently, the idea behind this move is that the shift to dovish monetary policy will suppress the banks interest rate margins. Despite recent strong earnings results the banks have failed to rally, with the market putting more weight on lower future interest rates than current profit beats. Low interest rates do support the real estate sector and we continue to hold an overweight position.



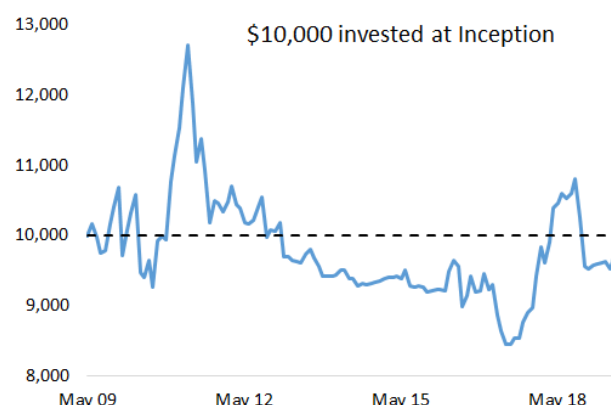
*Cash includes foreign currency

PORTFOLIO UPDATES

COMMODITY PLUS FUND

The Commodity Plus Fund is designed to provide exposure to global commodity markets. The investment process targets the "mean reverting" nature of commodities and can also allocate to cash for downside protection. The fund will not invest in a number of commodities such as thermal coal, uranium, livestock or the shares of commodity producers. Currency exposures are fully hedged.

Performance 1 month 1.5%	Performance 10 years p.a. -0.5%	\$10,000 invested at inception is now worth \$9,677
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FUND COMMENTARY

In terms of our current commodity allocations, gold is now our second highest commodity exposure.

The price of gold has rallied strongly this year and is at 6-year highs. Gold is usually seen as a hedge against inflation or as portfolio insurance in times of uncertainty. Given there is a lack of global inflation, there is an argument that concerns over global growth have pushed investors towards safe-haven assets.

More importantly, history shows that the price of gold is inversely correlated to real interest rates in the US (as US cash is essentially the cost of holding gold). Last year we expected global interest rates would be moving higher but this rate view has now flipped dramatically. Given the return on cash has moved lower in the US, this helps drive investment into gold, while the US dollar has also weakened lately which is also driving the price of US dollar gold higher.

- Light Crude | 11%
- Heating Oil | 5%
- Gold | 6%
- Corn | 6%
- Wheat | 6%
- Aluminium | 4%
- Cash | 64%



FUND PERFORMANCE

As at 28 June 2019	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	9 Years (p.a.)	10 Years (p.a.)	Volatility
Global Responsibility Fund	5.1%	3.7%						12.8%
Morningstar Developed Markets Index NR (50% Hedged)	4.9%	5.8%						12.8%
Global Water Fund	5.7%	13.0%	9.0%	8.6%	12.3%	8.8%		9.7%
PIO Global Water ETF (50% Hedged)	4.7%	13.6%	11.6%	7.0%	10.9%	8.3%		11.4%
Global Property Fund	1.2%	8.4%	5.0%					9.8%
Morningstar Real Estate Index TR (75% Hedged)	1.2%	11.2%	5.2%					11.0%
World Equity Fund	4.5%	2.8%	8.7%	8.6%	10.1%			10.6%
Morningstar Global Markets Index NR (50% Hedged)	4.8%	5.5%	12.7%	9.1%	11.5%			10.0%
Commodity Plus Fund	1.5%	-8.7%	0.4%	0.6%	-0.7%	0.3%	-0.5%	7.8%
Bloomberg Commodity Index TR (100% Hedged)	2.7%	-6.8%	-2.2%	-9.2%	-6.7%	-4.4%	-3.7%	12.0%

Disclaimer: Pathfinder is a fund manager and does not give financial advice. Before making any decision to invest you should (a) consult your financial adviser and (b) read the Product Disclosure Statement. This report is for information purposes only. Opinions constitute Pathfinder's judgment at the time of writing and are subject to change. All returns calculated after fees before tax using the unit price.

Disclosure of interest: All of our staff invest in Pathfinder's funds on the same terms as you.

The Global Water Fund and Global Responsibility Fund have been designated a Certified Responsible Investment by the RIAA (Responsible Investment Association Australasia). See www.responsibleinvestment.org for more details

*The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that the Pathfinder Global Water and Global Responsibility Fund Fund adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product Provider. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and the Pathfinder Global Water Fund's and the Pathfinder Global Responsibility Fund's methodology, performance and stock holdings can be found at www.responsibleinvestments.com.au, together with details about other responsible investment products certified by RIAA.

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