

2018  
November

# MONTHLY REVIEW

Review of Fund Performance and Current Events

Jan

Feb

Mar

**BREXIT**

Apr



**Pathfinder**  
INVEST RESPONSIBLY

# MARKET UPDATE

"I do not say that this deal is perfect - it was never going to be... we should not let the search for the perfect Brexit prevent a good Brexit..."

*Theresa May addressing the House of Commons*

## MARKET COMMENTARY

The Brexit process is messy, and is likely to get much messier soon. On December 11 the UK parliament votes on the mammoth 585 page withdrawal deal - chances are they will reject it.

An approved deal will mean an orderly UK exit from the EU - good for trade and financial markets. Rejecting the deal will super-charge uncertainty, with three outcomes identified by Bloomberg:

- ▶ a "chaotic" exit (hard Brexit)
- ▶ a general election
- ▶ a second UK referendum

Each of these spells turbulence for Sterling and UK equities (which is why we minimised our UK equity exposure some time back). Just to be clear on how chaotic it could get, the Bank of England believe a "disorderly" Brexit means falls for GDP (-8%), house prices (-30%) and Sterling (-25%). The only things going up will be inflation (to 6.5%) and unemployment (to 7.5%).

**Glimmer of hope:** On a positive note, the EU has obtained legal advice that the UK can unilaterally reverse Brexit and return to business as usual.

**Global growth:** The IMF and OECD expect 2018 global GDP growth of 3.7% - and only slightly less in 2019, with US growth near 3%, China a little over 6% and the Eurozone close to 2%. Thinking about risks to these forecasts, Deutsche Bank ask "what kinds of shocks could cause a recession, and how likely are those shocks to happen?" There's no clear answer, though we're not expecting a recession in 2019.

**US corporate earnings:** US earnings remained strong over Q3. More than 70% of companies reported higher earnings per share than expected and over 60% reported higher sales than

expected. Earnings growth (+25%) is running at its highest since 2010 (*source: Factset*) and the S&P500's earnings outlook remains strong.

**Share valuations:** After recent equity market turbulence, S&P500 share valuations are now in line with long term averages. For example the forward 12 month P/E ratio is around 15 - which is below its 5-year average and only a little above its 10-year average. After recent share price falls, equity valuations are no longer expensive.

**Trump and tariffs:** Presidents Trump and Xi have agreed a 90 day ceasefire in the trade war. US tariffs on Chinese goods won't now jump from 10% to 25% on 1 January - and China is promising to ramp up purchases of US agricultural, energy and industrial products. Still a lot of detail to be sorted, but negotiators have bought some time to find a resolution.

**Bitcoin:** Since the January peak in prices, virtual currencies have lost over US\$700 billion of value. For Bitcoin, the current price collapse of around 80% rivals its 93% price fall in 2011 and 84% fall over 2013-2015 (*source: Bloomberg*). Smartereum.com have been predicting Bitcoin will hit US\$15,000 by year end - good luck with that!

**No 1 killer:** Air pollution, largely from burning fossil fuels, cuts humanity's average life expectancy by 1.8 years per person - a worse effect on world health than smoking. In parts of India air quality is so poor that life expectancy is 11 years below average (India is the world's 2nd most populous country, with 1.3 billion people). *Source: FNZ and World Bank.*

## THE FOCUS | What's your optimal weight?

Indexing has become mainstream and an increasingly popular way to invest in capital markets. Most portfolios track an index that is weighted based on market capitalisation, however, there is a growing trend in the investment world that this could be suboptimal. So, what is your optimal weight?

[Click here to read the full story](#)

## UNIT PRICES as at 30 November

**Pathfinder Global Responsibility Fund**  
**\$1.0121**

**Pathfinder Global Water Fund**  
**\$1.8280**

**Pathfinder Global Property Fund**  
**\$1.1296**

**Pathfinder World Equity Fund**  
**\$1.7076**

**Pathfinder Commodity Plus Fund**  
**\$0.9550**

## OUR PEOPLE

**John Berry** - Chief Executive Officer

**Paul Brownsey** - Chief Investment Officer

**Karl Geal-Otter** - Investment Analyst

**Bob McCutcheon** - Strategy, Compliance



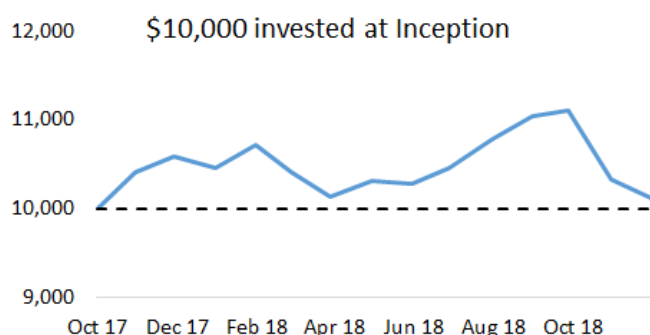
**Phone : 09 489 3802**

# PORTFOLIO UPDATES

## GLOBAL RESPONSIBILITY FUND

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

Performance 1 month <b>-2.0%</b>	Performance since inception <b>1.2%</b>	\$10,000 invested at inception is now worth <b>\$10,121</b>
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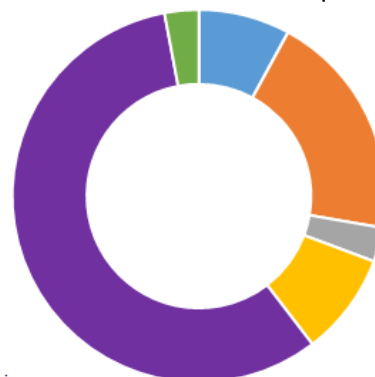


## FUND COMMENTARY

Across all our funds, we have been using a low level of currency hedging as a risk mitigant. Typically the NZD falls significantly when there is a significant "risk off" event that affects global markets. Historically when a large fall in global equities occurs, a coincidental fall in the NZD results in a drawdown that is around half of a fully hedged position. This relationship has broken down significantly in October and November, which we believe actually tells us something positive. This current period of quite extreme volatility isn't the result of a "shock" impact like 2008 or 2001. Take away the trade war posturing which has (rightly) caused economists to put more caution around their forward estimates for growth and earnings, and the environment still looks relatively benign for equities. We continue to invest in markets even as they have struck lower. Earnings growth, even after the latest round of market volatility for the next year is nearly 13% in the US and 6% in Europe.



- Cash\* | 8%
- Europe ex UK | 20%
- Asia Pacific ex Japan | 3%
- Japan | 9%
- North America | 58%
- UK | 3%

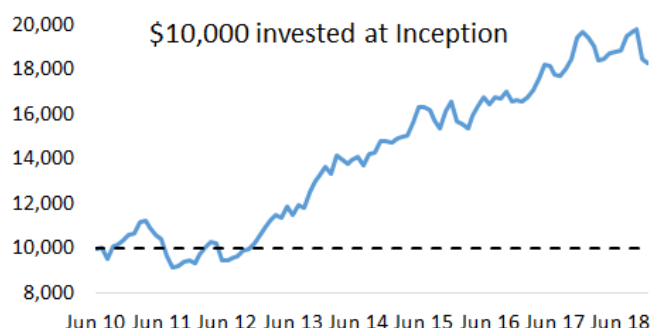


\*Cash includes foreign currency hedging

## 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 <b>-1.1%</b>	Performance 5 years p.a. <b>6.6%</b>	\$10,000 invested at inception is now worth <b>\$18,290</b>
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## FUND COMMENTARY

Returns this month were lower, primarily due to our low currency hedging position which we entered for risk management purposes. Currency subtracted 3.5% from the fund return in November.

We are currently reinvesting our cash position back into markets, particularly in hard hit areas like Asia and industrial stocks.

The overarching investment thesis for the water fund remains strong with increasing pressure - driven by both climate change and population growth/urbanisation for scarce water resources. Technological solutions remain key for ensuring water availability.



- Cash\* | 8%
- Europe ex UK | 19%
- Asia Pacific ex Japan | 2%
- Japan | 5%
- North America | 50%
- UK | 10%
- Emerging Markets | 5%



\*Cash includes foreign currency hedging

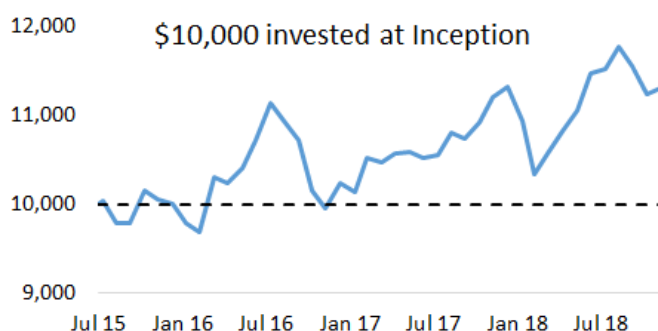


# PORTFOLIO UPDATES

## 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	Performance 3 years p.a.	\$10,000 invested at inception is now worth
0.6%	4.0%	\$11,296

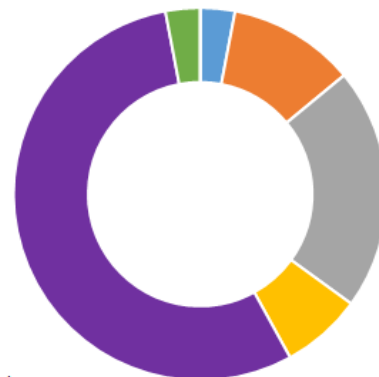


## FUND COMMENTARY

Property REIT's are performing well at the moment as they are seen as a safe haven in times of market volatility. Despite much chatter about higher rates in the US these really are not eventuating at the long end of the yield curve, which is the effective comparison for other assets that are valued relative to interest rates. The 10 year treasury is now trading solidly below 3% after reaching a high of just over 3.2%. As we have discussed recently, REIT's have relatively low exposure to rates - our portfolio has an average funding profile of around 6 years so in the short term REIT's are not heavily exposed to refinancing risk. And in an inflationary environment rentals will increase in line with CPI. Strong domestic activity has good demand for quality property especially in the residential, industrial and specialty sectors (for instance data storage). We see property as a good alternative to the riskier fixed income portfolios - those with long duration or lowly rated issuers.

- Cash\* | 3%
- Europe ex UK | 11%
- Asia Pacific ex Japan | 21%
- Japan | 7%
- North America | 55%
- UK | 3%
- Emerging Markets | 0%

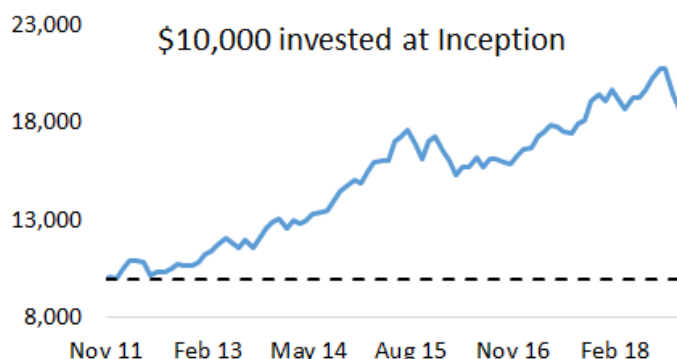
\*Cash includes foreign currency hedging



## 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	Performance 5 years p.a.	\$10,000 invested at inception is now worth
-4.2%	7.7%	\$18,664



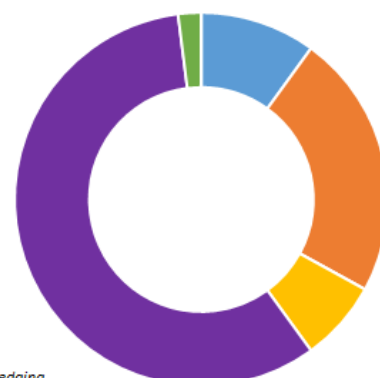
## FUND COMMENTARY

Currency was the largest impact on the WEF this month with returns from the translation of foreign assets into NZD, with the appreciation in the NZD taking 5.2% off the asset return. Our rationale for running a low currency hedge was purely as a risk mitigant should markets fall significantly.

Looking forward we are more sanguine about downside risk here and are reinvesting our cash position at these levels.

- Cash\* | 10%
- Europe ex UK | 23%
- Asia Pacific ex Japan | 0%
- Japan | 7%
- North America | 58%
- UK | 2%
- Emerging Markets | 0%

\*Cash includes foreign currency hedging



# 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 thermal coal, uranium or the shares of commodity producers. Currency exposures are fully hedged.

Performance  
1 month

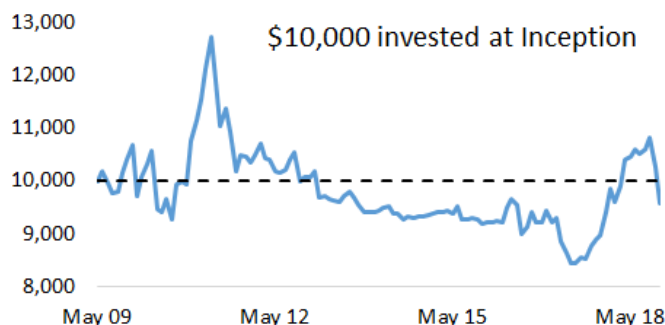
-6.8%

Performance  
5 years p.a.

0.3%

\$10,000 invested at  
inception is now worth

\$9,560



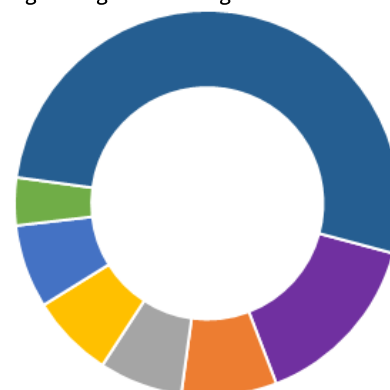
## FUND COMMENTARY

Commodities have performed poorly over recent months - with the fund down 9.8% over 3-months. Oil in particular has been hammered, and is off 33% from its peak in October. Driven down by oversupply, reduced sanctions on Iran, and a U.S. President with a Twitter account - it will be interesting to see the market's reaction to the OPEC+ meeting. OPEC+ met during the first week of December and after 3 days of talks committed to reducing oil supply by 1.2 million barrels/day.

Many commentators remain positive. BCA suggest being overweight commodities relative to equities. Goldman Sachs describe current prices of oil and industrial metals as "an extremely attractive entry point." They forecast industrial metal prices could rise over 15% in the coming months - with strong support also for oil.

The funds commodity exposure was reduced from 100% to 50% at the beginning of November, this helped reduce total downside. However, when compared to the Bloomberg Commodity Index the fund still underperformed with its larger weight to heating and crude oil.

■ Light Crude | 15%  
■ Heating Oil | 8%  
■ Gold | 7%  
■ Corn | 7%  
■ Wheat | 7%  
■ Aluminium | 4%  
■ Cash | 52%



## FUND PERFORMANCE

As at 31 October 2018	1 Month	3 Month	6 Month	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	Volatility
Global Responsibility Fund	-2.0%	-8.3%	-1.6%	-4.3%					10.3%
Morningstar Developed Markets Index NR (50% Hedged)	-1.3%	-7.8%	-1.3%	-0.5%					10.4%
Global Water Fund	-1.1%	-7.1%	-2.6%	-7.2%	4.9%	3.3%	6.6%	9.9%	8.8%
PIO Global Water ETF (50% Hedged)	1.6%	-5.7%	-1.4%	-3.4%	11.9%	5.6%	5.6%	8.9%	10.8%
Global Property Fund	0.6%	-4.0%	2.2%	0.8%	6.6%	4.0%			8.8%
Morningstar Real Estate Index TR (75% Hedged)	2.4%	-2.6%	3.4%	0.9%	7.2%	5.0%			10.0%
World Equity Fund	-4.2%	-10.0%	-3.1%	-4.1%	7.1%	2.6%	7.7%	8.4%	9.6%
Morningstar Global Markets Index NR (50% Hedged)	-1.0%	-7.7%	-2.1%	-1.5%	11.9%	7.9%	8.2%	9.1%	8.7%
Commodity Plus Fund	-6.8%	-9.8%	-8.6%	6.6%	1.9%	1.3%	0.3%	-1.3%	7.8%
Bloomberg Commodity Index TR (100% Hedged)	-0.6%	-0.8%	-8.0%	-1.8%	-0.7%	1.6%	-7.3%	-7.4%	11.8%

**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](http://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.responsibleinvestment.org](http://www.responsibleinvestment.org), together with details about other responsible investment products certified by RIAA.

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