

2018  
September

# MONTHLY REVIEW

Review of Fund Performance and Current Events



**FREE**  
Jamal Khashoggi

*Nobel Peace Prize Laureate and founder of human rights group Women Journalists Without Chains Tawakkol Karman protests in response to the apparent murder of Jamal Khashoggi by the Saudi Government*



**Pathfinder**  
INVEST RESPONSIBLY

# MARKET UPDATE

"the architecture of the world is changing before our very eyes"

*Donald Tusk, President of the European Council*

## MARKET COMMENTARY

The world is changing, with trade wars, divisive politics and Brexit. These stem from powerful undercurrents including shifting global power (US to China), inequitable wealth distribution and global immigration. Add in an economic environment of strong corporate earnings, higher inflation and higher interest rates, and it is a complex (but interesting!) mix.

As a snapshot of markets at the moment, we like Credit Suisse's insightful summary of its clients' views:

- clients are selling growth stocks (note: growth stocks have outperformed value stocks since the GFC)
- while emerging markets stocks are very cheap, there are few catalysts to drive them higher
- 40% believe the US will be the highest performing market for the next 3 months (this expectation is very high - almost the highest in 5 years)
- most see US / China trade tensions getting worse
- other key client trends include increasing questions around inflation and general economic cycle pessimism

While there are challenges, we also need to acknowledge the strength of corporate earnings. For Q3 US earnings growth should be slightly above 20%. While below 25% growth in Q1 and Q2 this year, the expected rate is still a stunning result (*source: Factset*).

**The cost of non-financial risk:** Our investment analysis often focuses on environmental, social and governance (ESG) factors which are essentially 'non-financial' risks. We believe if these are not well managed then they will at

some point become financial costs. A good example is Australia's Royal Commission on financial services conduct. Fitch Ratings says the inquiry fallout will put pressure on bank profits. The sector's ratings outlook is negative as banks face higher funding costs, fines, compliance costs and possible law suits.

**Minimum wage:** The minimum Federal wage in the US is astonishingly low at US\$7.25 an hour (the equivalent of NZ\$11.10). By comparison NZ's minimum wage is \$16.50. Amazon has unilaterally increased the minimum it pays its staff to US\$15 an hour (which is meaningful to more than 250,000 of its employees). Other large US employers like Walmart (paying US\$11 an hour) and Target (US\$12 an hour) are feeling pressure to follow Amazon's lead.

**Oceans:** For decades the concern has been overfishing - more recently significant challenges have surfaced from plastic waste and coral bleaching.

**Ocean warming:** 2016's spike in ocean temperatures killed a third of the Great Barrier Reef's shallow coral. Aside from annihilating a natural wonder, rising sea temperatures destroy vital ecosystems. Coral reefs are only 2% of the ocean floor, yet they're home to a quarter of all marine life (*source FNZ Capital*).

**Ocean plastic:** On a positive note the cleanup of the Great Pacific Garbage Patch (1.8 trillion pieces of rubbish floating between Japan and California) may be a reality. The US\$20m project is currently being tested in San Francisco Bay, and has dozens of booms that can each trap thousands of kgs of garbage a year. It is believed this can clean up half the garbage patch within 5 years (*source FNZ Capital*). Fingers crossed for its success!

## THE FOCUS | Big Changes Ahead for Banking System

The Australian Royal Commission of inquiry in to the finance sector has uncovered some troubling behaviour from major providers of financial services.

John's latest article on [www.stuff.co.nz](http://www.stuff.co.nz) looks at the implications for New Zealand.

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

## UNIT PRICES as at 30 September

**Pathfinder Global Responsibility Fund**  
**\$1.1104**

**Pathfinder Global Water Fund**  
**\$1.9818**

**Pathfinder Global Property Fund**  
**\$1.1549**

**Pathfinder World Equity Fund**  
**\$1.9013**

**Pathfinder Commodity Plus Fund**  
**\$1.0813**

## OUR PEOPLE

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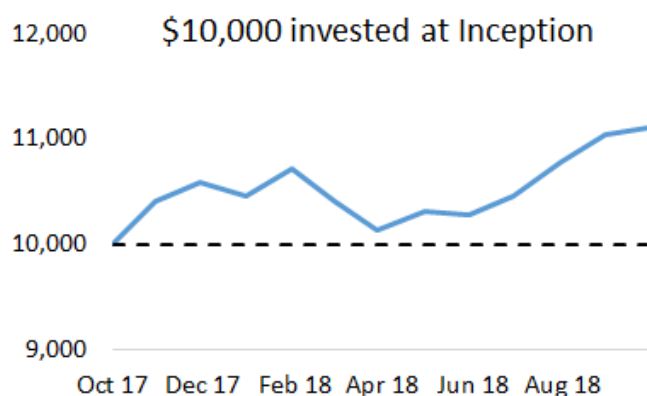


# PORTFOLIO UPDATES

## 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	Performance since inception	\$10,000 invested at inception is now worth
0.6%	11.0%	\$11,104



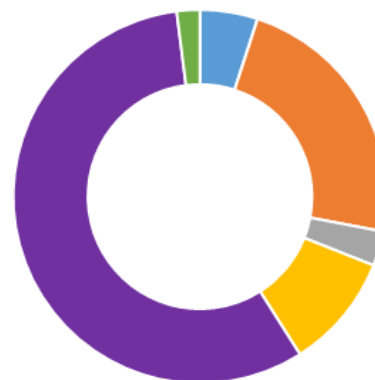
## FUND COMMENTARY

We use ESG (environmental, social and governance factors) as a core part of our investment process. Fortune Magazine recently compared the performance of high ESG scoring US companies to low scoring. The results: (a) high ESG stocks were better performing and (b) high ESG stocks didn't fall as far when the market sells off. From 2014 to September this year the low score ESG stocks had a total return of 38.6%, the S&P500 returned 62.0% and the high scoring ESG stocks returned 64.0%. The result supports the ESG focus on the Global Responsibility Fund.

We regard ESG measurement as another dimension of market risk and expect that companies with higher ESG scores will perform better over a full investment cycle than companies with lower scores. A major part of long term performance comes from avoiding large negative returns during bear markets.



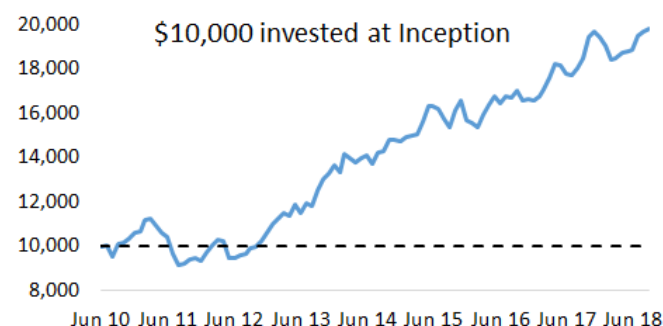
■ Cash | 5%  
 ■ Europe ex UK | 23%  
 ■ Asia Pacific ex Japan | 3%  
 ■ Japan | 10%  
 ■ North America | 57%  
 ■ UK | 2%



## 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	Performance 5 years p.a.	\$10,000 invested at inception is now worth
0.7%	9.6%	\$19,818



## FUND COMMENTARY

Fortune Magazine produces an annual list of global companies working to solve the world's most pressing sustainability issues. The companies have a profit making motive, but also focus on changing the world for the better. They include companies battling disease and emissions, as well as improving food supply, education and clean energy. From a Water Fund perspective number 7 on the list (Xylem) caught our eye which is the fund's 5th largest holding. It uses technology to track leaks in water supply distribution (a major problem globally), treat wastewater more efficiently and help cities cope with severe flooding from climate change.



■ Cash | 5%  
 ■ Europe ex UK | 25%  
 ■ Asia Pacific ex Japan | 3%  
 ■ Japan | 6%  
 ■ North America | 46%  
 ■ UK | 10%  
 ■ Emerging Markets | 5%

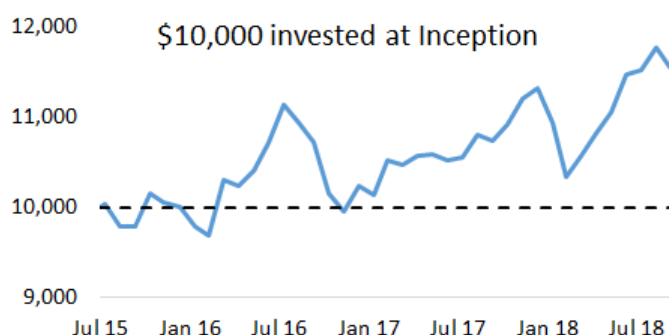


# PORTFOLIO UPDATES

## GLOBAL PROPERTY FUND

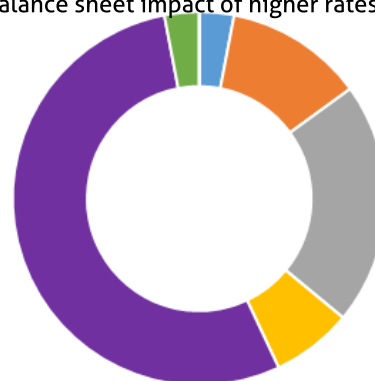
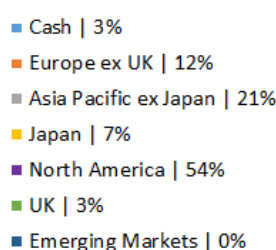
The Global Property Fund is designed to provide socially responsible investment in global listed property stocks. It has a significant allocation to NZ listed property, recognising the preference of NZ investors to overweight the local market. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month <b>-1.8%</b>	Performance 3 years p.a. <b>5.7%</b>	\$10,000 invested at inception is now worth <b>\$11,549</b>
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## FUND COMMENTARY

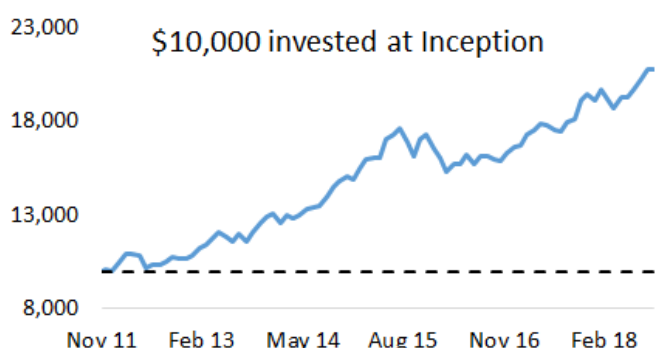
After six solid months of good returns, September saw a reversal. Smaller REIT's fared the worst, large, diversified and specialty REIT's performed better. The main driver for this sell off is increased volatility in fixed income markets. Higher inflation, an increasingly bearish FED and higher deficits are adding uncertainty. As well, the confrontational foreign policy of the US may lead to large holders of US treasuries, especially China, but also Russia and Saudi Arabia, selling some (or more in the case of Russia) of their holdings as a foreign policy tool.. However we see the outlook for REIT's to still be very good. In the US, REIT's are now trading at an average 6% discount to NAV, and solid economic growth is supportive of real estate demand and value. Most REIT's are relatively lowly geared and have financing with an average term in excess of 6 years so will be relatively immune to the balance sheet impact of higher rates.



## WORLD EQUITY FUND

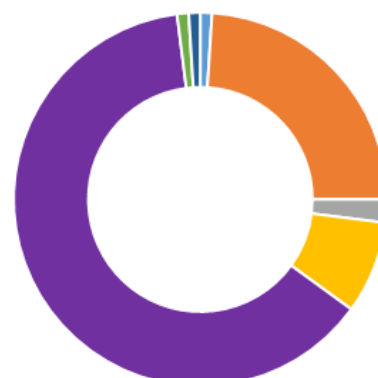
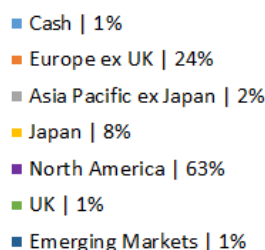
The World Equity Fund is designed to provide diversified socially responsible exposure to global equities (across both developed and emerging markets). The fund invests in ETFs to access global equity sectors and regions, and uses currency hedging to reduce foreign currency exposure.

Performance 1 month <b>0.2%</b>	Performance 5 years p.a. <b>11.4%</b>	\$10,000 invested at inception is now worth <b>\$20,782</b>
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## FUND COMMENTARY

Plotting possible trade war directions is important for forming an equity investment outlook. One possible direction, of immense concern to NZ, is a world split into two trading blocks, one centred around the US, and the other around China. While the US, Canada and Mexico recently signed a NAFTA replacement (the USMCA) this is definitely a deal designed to protect the interests of the US as defined by President Trump. For instance article 32, the so called "ejection seat" clause allows the US to dissolve the USMCA deal if Canada or Mexico negotiate a bilateral trade deal with a "non-market economy" (also known as China). Expect many countries to be caught in the middle as they are forced to choose sides between the US and China.





# 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  
**2.0%**

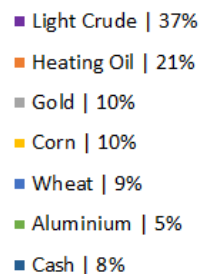
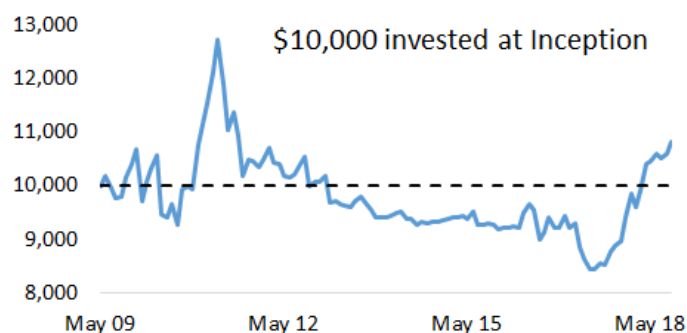
Performance  
5 years p.a.  
**2.3%**

\$10,000 invested at  
inception is now worth  
**\$10,813**

## FUND COMMENTARY

Since early 2017 crude oil has significantly outperformed wider commodity markets. The performance gap has become so significant that a bounce in wider commodity markets is very possible (Source: FNZ). This view is supported by Deutsche Bank, who argue with inflation and wages trending higher, in the US commodity prices should also lift.

What looks to be a state sanctioned murder of a journalist by the Saudi government may have important ramifications for global energy markets. The US Senate has triggered provisions of the Global Magnitsky Human Rights Accountability Act which requires the imposition of sanctions on senior Saudi officials. Even Senator Lindsay Graham - an otherwise reliable Trump ally - is threatening a "bipartisan tsunami" of action if accusations of Saudi complicity are proven. The Saudis are already threatening to use their oil supply as a counter weapon.



## FUND PERFORMANCE

As at 28 September 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	0.6%	6.1%	9.5%						7.6%
Morningstar Developed Markets Index NR (50% Hedged)	0.4%	5.7%	11.1%						7.5%
Global Water Fund	0.7%	5.0%	7.3%	7.3%	8.0%	8.9%	9.6%	11.5%	8.2%
PIO Global Water ETF (50% Hedged)	-0.2%	4.1%	5.7%	9.5%	11.7%	9.6%	8.0%	10.3%	10.4%
Global Property Fund	-1.8%	0.8%	9.2%	7.5%	3.8%	5.7%			8.9%
Morningstar Real Estate Index TR (75% Hedged)	-2.2%	0.5%	7.5%	5.4%	3.0%	6.6%			10.0%
World Equity Fund	0.2%	5.7%	10.9%	14.8%	14.1%	8.8%	11.4%	9.8%	8.9%
Morningstar Global Markets Index NR (50% Hedged)	0.3%	5.1%	9.2%	14.5%	16.9%	12.9%	11.4%	10.6%	8.1%
Commodity Plus Fund	2.0%	2.0%	9.1%	23.3%	7.2%	5.2%	2.3%	0.9%	6.8%
Bloomberg Commodity Index TR (100% Hedged)	1.9%	-2.0%	-1.6%	2.6%	1.1%	-0.1%	-7.2%	-6.5%	11.7%

**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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