

2018
December

MONTHLY REVIEW

Review of Fund Performance and Current Events



Hope our readers have enjoyed the summer break. Global markets and economic events haven't taken a holiday - Brexit turmoil, trade wars and US politics have been leading market volatility.

MARKET UPDATE

"Voters are angry but they don't want their savings in monopoly money"

Marko Papic, Chief Strategist at BCA on why countries will retain the Euro as their currency despite rising nationalism (supplied by FNZ)

MARKET COMMENTARY

Market turmoil: Market moves (both up and down) have been extreme in recent months. In the US, the S&P500 hit an all time high on 20 Sept but then fell 20% in a little under 100 days. That's the fastest fall of that magnitude for 20 years (1998 saw a similar sized fall in just 45 days). The market since recovered half its losses. Market volatility was high in 2018 after 2017 had been one of the least volatile ever. Expect volatility to stay high with ongoing Brexit uncertainty, trade wars and US political turmoil.

NZ did relatively OK: NZ's market was a standout for 2018. The US fell 6%, the Australian market fell 7%, meanwhile NZ gained 5%. Once again a reminder to diversify geographic exposures.

Battling the next recession There are increasing concerns of the US leading the world into recession this year or in 2020. Recession is painful, but also an unavoidable part of the economic cycle. The worry is the lack of policy tools for central banks globally to fight any recession. Usually they reduce interest rates to stimulate growth - yet rates are already so low in the Eurozone and Japan they cannot cut further. The US has only limited capacity to cut. QE could be reengaged - although doubts remain on how effective it is. The final backstop now floated by economists is creating money and simply giving it directly to taxpayers for them to spend. We hope we don't see that day - this idea looks both radical and desperate.

Clothing and climate change: The UN believes the textile industry generates more greenhouse gas emissions than worldwide maritime shipping and aviation combined. Changing fashion is part of the problem - consumers now

replace clothing faster than ever. Add to that waste - in the US 85% of discarded clothing ends up in landfill. Part of the solution is making clothing from sustainable materials - but it is not always an easy answer. Sustainable shoes can cost up to 7 times more to make (Source: Fortune Magazine). Adidas has made a new shoe range from recycled plastic bottles (each shoe requires 11 bottles which is turned to thread).

Seeding the future: The Svalbard Seed Bank (located between Norway and the North Pole) was built in permafrost in 2008 to store crop seeds from around the world in case of disaster. While the vault is fine, the access tunnel has flooded after permafrost melted - attributed to climate change. Equipment is having to be installed around the tunnel to refreeze the soil (source: The Economist).

Ethical dilemmas: Autonomous vehicles must be programmed to make moral decisions. For an unavoidable crash, should software aim to save the driver or passengers? What about people in the car vs occupants of other cars and pedestrians? Results from an MIT global survey reveal the top 4 to be saved (in order) are someone with a pram, a girl, a boy and a pregnant woman. Saving female executives came ahead of male executives, but saving male doctors was higher priority than saving female doctors. And at the bottom of the list - dogs, criminals and then cats. Here at Pathfinder, Bailey, Sparky and Grady (all canines) were reasonably happy with the result, while feline Bella was understandably upset. Joking aside, these judgment calls pose serious ethical issues for emerging technologies (source: Nature, The Economist).

THE FOCUS | Johnson and Johnson

An example of how governance and social risks can have a material impact on the performance of a company. Traditional finance metrics don't measure some of the real risks that a company is exposed to - the recent news around J&J's iconic baby powder is a good reminder of this.

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

UNIT PRICES as at 31 December

Pathfinder Global
Responsibility Fund
\$0.9493

Pathfinder Global Water Fund
\$1.7501

Pathfinder Global Property
Fund
\$1.0750

Pathfinder World Equity Fund
\$1.6068

Pathfinder Commodity Plus
Fund
\$0.9517

OUR PEOPLE

John Berry - Chief Executive Officer

Paul Brownsey - Chief Investment Officer

Karl Geal-Otter - Investment Analyst

Bob McCutcheon - Strategy, Compliance



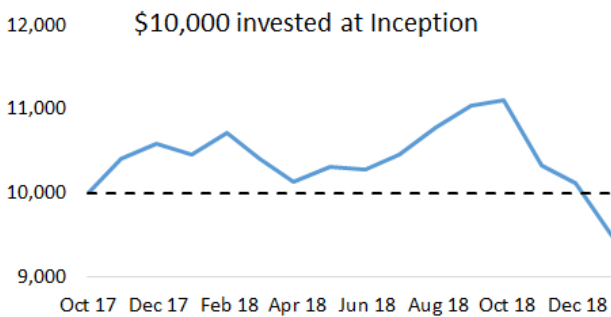
Phone : 09 489 3802

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.

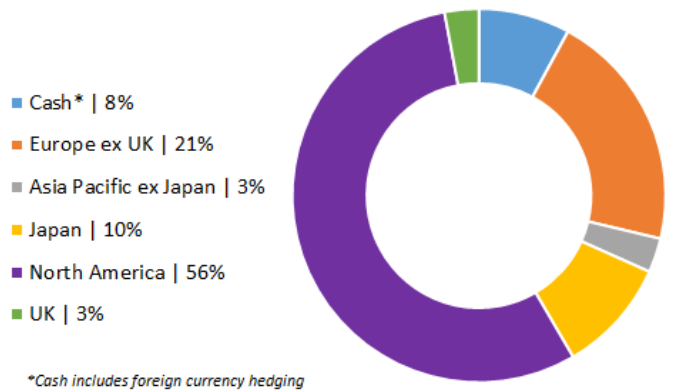
Performance 1 month -6.2%	Performance since inception -5.1%	\$10,000 invested at inception is now worth \$9,493
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FUND COMMENTARY

We are often asked how Environmental, Social and Governance (ESG) investing applies to different countries. For example if we only want the highest ESG ratings, a portfolio would have a large overweight to Scandinavia where standards are typically high. Money would seldom be invested in emerging markets (where companies can have poor governance, disgraceful environmental records and more frequently engagement in "shady" (corrupt) practices. Our thinking is that local conditions must be accounted for - and higher standards must be expected from wealthier countries like the US and Europe.

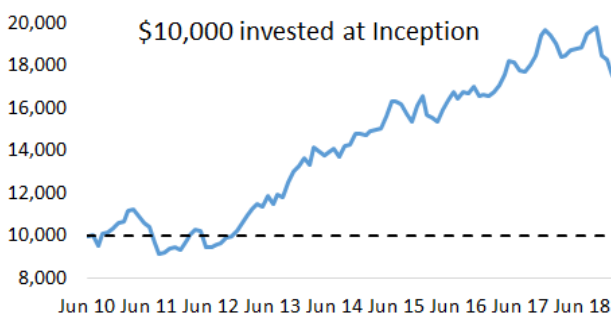
Equity markets have recovered well in January with many commentators assuming the fear of slower economic and earnings growth is now priced in. As well, some positive noise now about the resolution of the US/China trade dispute.



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.

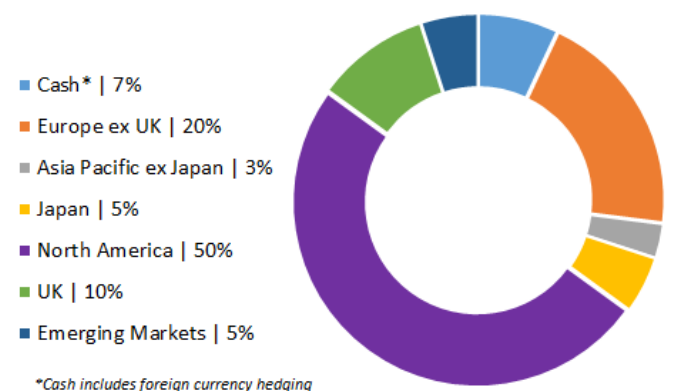
Performance 1 month -4.3%	Performance 5 years p.a. 5.1%	\$10,000 invested at inception is now worth \$17,501
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FUND COMMENTARY

Israel is experiencing the worst 5 year drought in a century. The water level for the historic Sea of Galilee is down significantly, and small islands have been emerging. This was once Israel's largest drinking water resource - but now desalination and treating wastewater provides over half of water consumed by households, farms and industry (source: *The Economist*). The world has a water crisis, but sensible resource management and the use of technology can provide solutions.

Long term we believe that water availability and the effects on society of climate change will be one of the largest influences faced by investors.

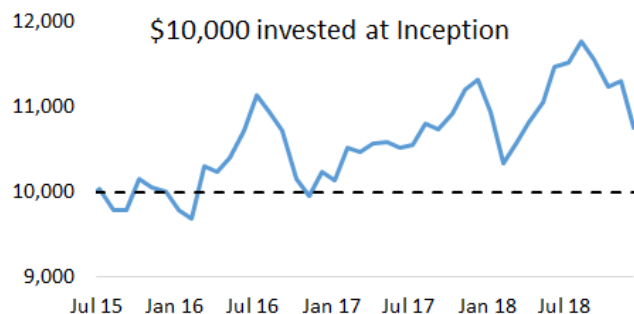


PORTFOLIO UPDATES

GLOBAL PROPERTY FUND

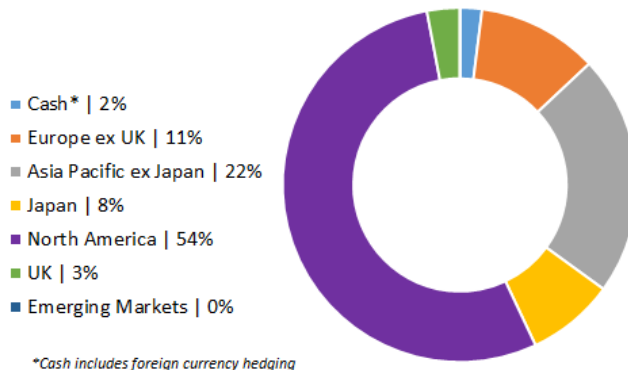
The Global Property Fund is designed to provide socially responsible investment in global listed property stocks. It has a significant allocation to NZ listed property, recognising the preference of NZ investors to overweight the local market. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month	Performance 3 years p.a.	\$10,000 invested at inception is now worth
-4.8%	2.5%	\$10,750



FUND COMMENTARY

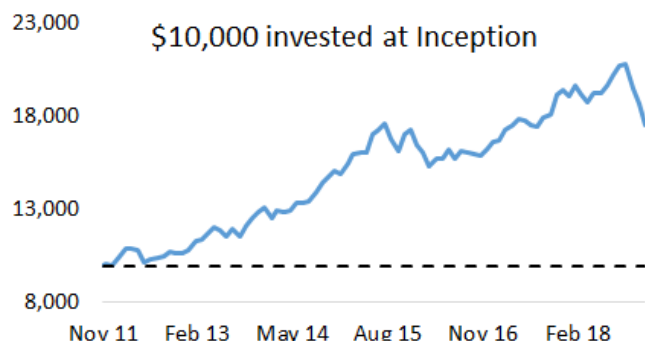
Listed property stocks (office, retail, industrial, healthcare, storage etc) give a very different return profile to residential property. Yet most investors have an interest in residential property, so we've included results from The Economist's house price index of 22 vibrant cities from round the world. Since the GFC these prices have risen twice as fast as the national average. Dublin's the top 5-year performer (+78%) followed by Berlin, Vancouver, Auckland (+56%) and Sydney. Only 2 of 22 cities saw lower 5 year house prices (Singapore and Milan). The 3 most expensive in terms of income relative to prices are Hong Kong, Auckland and Paris - not a list we want NZ appearing on. In 2018 Q4 property stocks were a lot better behaved than wider equities - we expect this trend to continue. A rapid change in outlook for central bank tightening around the world should help property stocks outperform as we enter 2019. The market expects only one or two US rate hikes instead of the previous 4.



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.

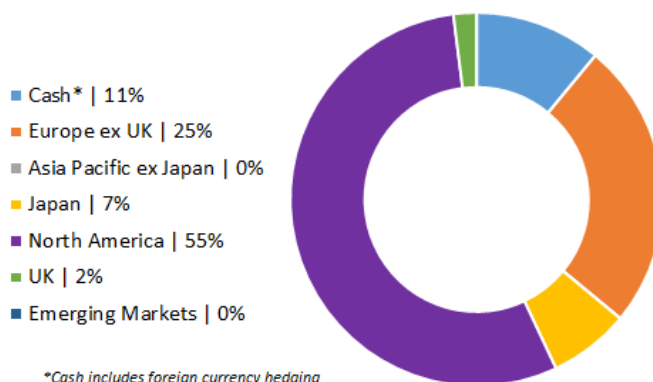
Performance 1 month	Performance 5 years p.a.	\$10,000 invested at inception is now worth
-5.9%	6.0%	\$17,563



FUND COMMENTARY

The S&P500 had its first down calendar year after 9 years of gains. But this does have a silver lining - lower share prices combining with higher corporate earnings means that market multiples (such as PE ratios) are near 5 year lows. A lot of fear and bad news is already priced into markets (source: Deutsche Bank). Looking at 20 years of data, Morgan Stanley sees US equities and global equities as both relatively cheap.

Fewer rate hikes should now be supportive of equities, though there are still some concerns for investors. The US led global trade war, fears of a slowdown in China, increasing debt levels particularly in the US, a slowdown in Europe and the US government shut down are all concerns, but markets now face these from a significantly better valuation space.



PORTFOLIO UPDATES

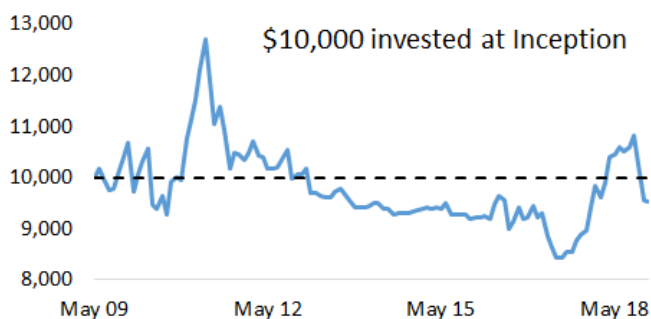
COMMODITY PLUS FUND

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
-0.4%

Performance
5 years p.a.
0.2%

\$10,000 invested at
inception is now worth
\$9,517



FUND COMMENTARY

Commodity prices have been hit badly - oil for example is down a third on its October high. Despite the sell off Goldman Sachs remains positive on commodities - in fact their research lists an oil rebound as one of their top 10 trade ideas for 2019. Overall they see stronger oil, gold and industrial metals prices this coming year, looking for a near term bounce of up to 20%.

Continued innovation in US oil production has output at historic highs, and some commentators crowing that the end of middle east market dominance is at an end. While impressive, the US production gains do not mean that. Much of the US production is relatively short term in nature - US oil fields tend to peak early and tail off quickly, and the marginal production cost is much higher than for instance Saudi Arabia. global demand is growing strongly, the US Energy Information Administration recently predicted global demand in excess of 100 million barrels per day for the first time ever.

- Light Crude | 4%
- Heating Oil | 1%
- Gold | 2%
- Corn | 1%
- Wheat | 1%
- Aluminium | 1%
- Cash | 90%



FUND PERFORMANCE

As at 31 December 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	-6.2%	-14.5%	-9.3%	-9.2%					11.4%
Morningstar Developed Markets Index NR (50% Hedged)	-6.6%	-14.2%	-9.3%	-6.6%					11.9%
Global Water Fund	-4.3%	-11.7%	-7.3%	-9.9%	2.8%	3.7%	5.1%	9.4%	9.0%
PIO Global Water ETF (50% Hedged)	-4.9%	-10.1%	-6.4%	-7.0%	7.9%	5.3%	3.7%	8.7%	10.9%
Global Property Fund	-4.8%	-6.9%	-6.2%	-5.0%	2.5%	2.5%			9.1%
Morningstar Real Estate Index TR (75% Hedged)	-5.4%	-5.8%	-5.3%	-4.4%	2.1%	3.2%			10.4%
World Equity Fund	-5.9%	-15.5%	-10.6%	-8.2%	2.7%	2.1%	6.0%	7.2%	9.9%
Morningstar Global Markets Index NR (50% Hedged)	-6.0%	-13.5%	-9.0%	-7.1%	6.7%	7.0%	6.6%	7.9%	9.1%
Commodity Plus Fund	-0.4%	-12.0%	-10.2%	1.0%	0.4%	1.1%	0.2%	-1.2%	7.8%
Bloomberg Commodity Index TR (100% Hedged)	-6.9%	-9.4%	-11.2%	-11.2%	-5.0%	0.3%	-8.8%	-7.8%	12.1%

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.responsibleinvestment.org, together with details about other responsible investment products certified by RIAA.

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