

September
2019

MONTHLY REVIEW

Review of Fund Performance and Current Events



At the end of September, most countries around the world saw student lead demonstrations against climate change.

MARKET UPDATE

"We have become a far greater Economic Power than ever before, and we are using that power for WORLD PEACE!"

-Donald Trump, President of the United States of America

MARKET COMMENTARY

Before moving onto market commentary, an energy sector news headline caught our attention.

The energy sector is notorious for booms and busts, but oil and gas stocks' weighting (of 4%) in the major US market index (S&P 500) has not been this low since as far back as 1979. Energy giant Exxon Mobil dropped out of the S&P 500's top 10 stocks for the first time in nine decades. We think that this in part reflects increasing advances made by renewable-energy sources like wind, solar, and electric batteries. Renewable energy (which includes hydro) now accounts for about one third of global generation capacity. Further, ESG investors are much more likely to avoid fossil fuels as an industry in portfolios.

Major corporations are also getting involved. Amazon CEO Jeff Bezos — announced his company would reach a goal of carbon neutrality by 2040, a decade ahead of the Paris Agreement goal. 80% of Amazon will be operating on renewable energy by as early as 2024, with initiatives such as electric delivery vehicles leading the charge.

Markets were higher in September, but October has been volatile so far. The primary driver of weakness has been concerns around slowing global economic growth.

The closely followed US ISM manufacturing index slumped to 47.8 in September (a number below 50 signals a contraction in activity), the lowest since mid-2009. While we can take some heart from the fact that manufacturing now directly accounts for only 10% of measured US GDP, it is still a closely watched indicator when it comes to assessing the strength of the US economy.

Related data weakness has been a theme, with China industrial production

figures coming in at 4%, the lowest level since 2002.

Data readings & economic indicators have also been poor out of Germany (particularly given its reliance on trade), with the world's 4th largest economy now technically in recession.

There are tangible signs that the trade-induced slowdown in the global economy is finally filtering through to the United States, which increases the pressure on negotiating a trade truce. Delegates from the US & China have struck a partial deal at recent talks, covering agricultural purchases, currency and some aspects of intellectual property protections, and averting a threatened tariff hike, but President Donald Trump said more needed to be negotiated. While the news will likely see a relief rally in the near term, we see the trade battle between the US and China as a long term issue.

Closer to home, the RBA and RBNZ are on path towards a cash rate of zero, or even the bizarre possibility of negative rates, with the Reserve Bank of Australia cutting its cash rate to 0.75%. Low interest rates globally remain supportive of markets, and good news is the fact that the US labour market is still holding up reasonably well. The September jobs figures were a Goldilocks set of numbers. The jobs gain was close to expectations and even though the unemployment rate hit a 50-year low of 3.5%, annual growth in average hourly earnings slowed back to only 2.9%. Last year's concern of rising US wages is, for now, at least a distant memory. It is likely that US Fed chairman Powell will cut rates later this month.

We remain generally defensively positioned, particularly as these stocks also benefit in an environment of lower rates.

THE FOCUS | Not all high yielding stocks are equal.

Too often, investors seem to ignore weak business fundamentals and uncertainty and cling to the hope of an "attractive" dividend pay-out when justifying a stock investment. We discuss a few NZ examples.

Read Hamesh's full article by clicking here.

UNIT PRICES as at 30 Sept

**Pathfinder Global
Responsibility Fund**
\$1.1328

Pathfinder Global Water Fund
\$2.2365

**Pathfinder Global Property
Fund**
\$1.3245

Pathfinder World Equity Fund
\$1.9543

**Pathfinder Commodity Plus
Fund**
\$0.9414

OUR PEOPLE

John Berry	Chief Executive Officer
Paul Brownsey	Chief Investment Officer
Hamesh Sharma	Portfolio Manager
Karl Geal-Otter	Portfolio Manager
Bob McCutcheon	Strategy, Compliance
Lizzy Sun	Senior Compliance Officer
Kate Brownsey	Environmental Science Analyst
Simon Leach	Business Development
Jeanette Kassa	Client Services



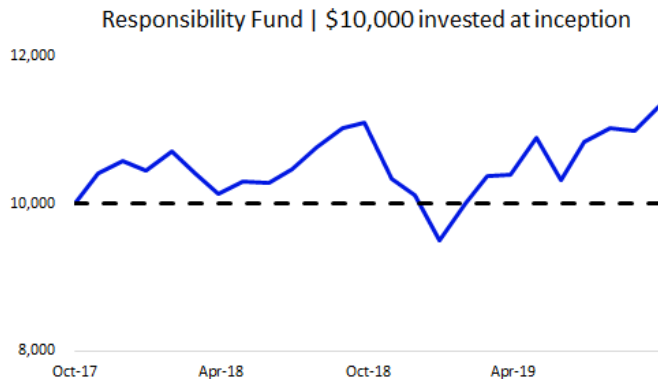
Phone : 09 489 3802

PORTFOLIO UPDATES

GLOBAL RESPONSIBILITY FUND

The socially responsible Global Responsibility Fund is designed to provide diversified equity exposure to developed markets. There are 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 3.0%	Performance since inception p.a. 6.2%	\$10,000 invested at inception is now worth \$11,328
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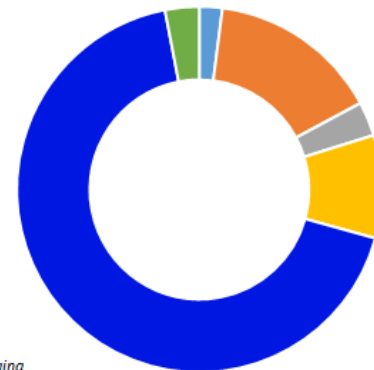
FUND COMMENTARY

Most of our funds and especially the GRF have a very strong "value" bias. In the latter stages of this, the longest bull market since WW2, the "growth" stocks have significantly outperformed value over the last few years. An easy way to plot this is by looking at the MSCI growth and value indexes for the world stock markets. Over the last 2 years growth has returned 10.3% p.a., and value 3.7% p.a. We expect a reversion to a more normal situation where broad value exposure outperforms as markets become less trend driven and more volatile.

We are currently tracking the carbon intensity of our portfolio - this is around 60% less than the "average" portfolio. We sold some high carbon companies earlier this year such as Next Era Energy. Despite their public facing website showing only pictures of wind and solar farms they are one of the highest carbon emitting companies (#11) in the US - emitting around 42 million tons of CO2 per each year from their large-gas fired electricity business. On an emissions/per revenue basis they are around 13 times worse than the average company in the global index.



- Cash* | 2%
- Europe ex UK | 15%
- Asia Pacific ex Japan | 3%
- Japan | 9%
- North America | 67%
- UK | 3%

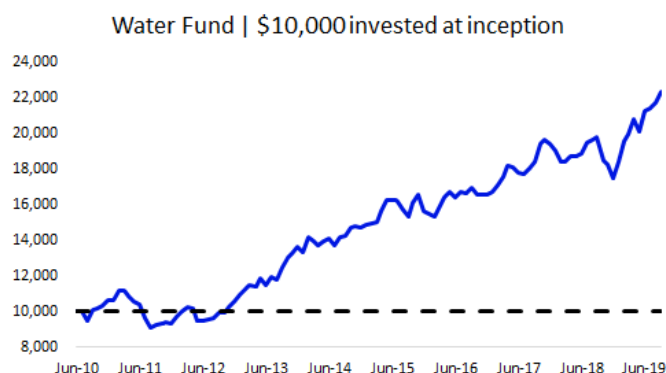


*Cash includes foreign currency hedging

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 2.9%	Performance 7 years p.a. 12.3%	\$10,000 invested at inception is now worth \$22,365
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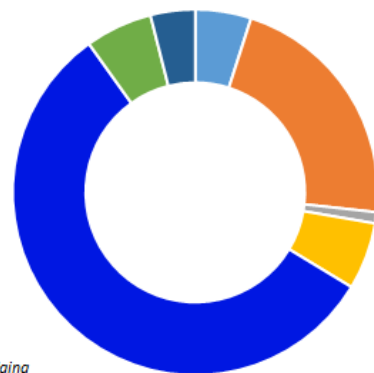
FUND COMMENTARY

The water fund to outperformed during a volatile period, as the defensive characteristics of water utilities continue to attract fund flows. We believe the water fund is an ideal satellite fund for a balanced portfolio. It is relatively defensive in nature due to its mix of high quality utility companies and infrastructure related industrial companies. With an outlook over the next year or longer for low and perhaps even lower interest rates, the utility sector with its large relative value yield advantage to bonds should continue to perform well.

The investment thesis we built this fund on back in 2010 has not changed. If anything the trends powering this fund have got stronger. Water scarcity driven by mega-trends like climate change, rising population, rising living standards, urbanisation and the need for infrastructure investment are more compelling now than ever before. McKinsey estimates that every year at least 0.6% of global GDP needs to be spent on water infrastructure just to keep up with population growth.



- Cash* | 5%
- Europe ex UK | 22%
- Asia Pacific ex Japan | 1%
- Japan | 6%
- North America | 57%
- UK | 6%
- Emerging Markets | 4%



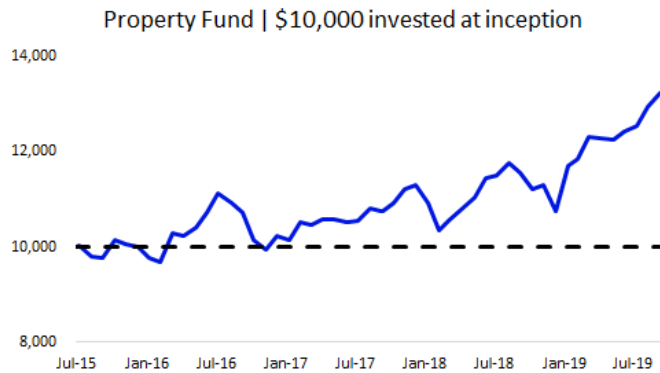
*Cash includes foreign currency hedging

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 2.2%	Performance 3 years p.a. 7.3%	\$10,000 invested at inception is now worth \$13,245
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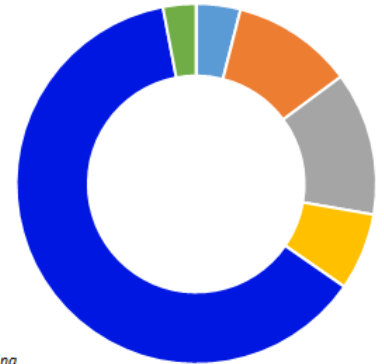
FUND COMMENTARY

The property sector continues to perform well in global markets. Over the past 12-months the property sector in the US has been the top performing at over 30%. This has been driven by investors seeking better yielding investments in a low rate environment.

On a sub-sector level - this is the type of property investment; office, residential, retail etc - we continue to overweight specialized REITs. These were a strong performer for us during September adding 22bp of alpha. An area where we have been underweight but are looking to dip back into is retail REIT's. During the month we lagged the benchmark by just 19bp, however this was only due to our under allocation to stocks versus cash, on a stock selection basis we added 15bp. What this means is that the stocks we did pick outperformed, but the under allocation meant we didn't participate in all the upside. We are happy with this outcome, it shows we have picked good stocks and as the tides turn in the retail REIT sector we can begin allocating more capital to those names.

- Cash* | 4%
- Europe ex UK | 11%
- Asia Pacific ex Japan | 13%
- Japan | 7%
- North America | 63%
- UK | 3%
- Emerging Markets | 0%

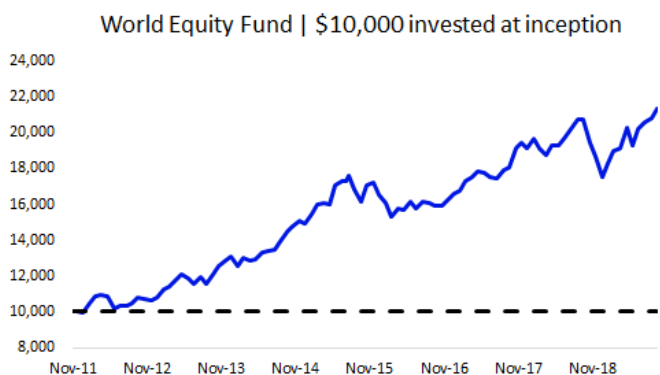
*Cash includes foreign currency hedging



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 2.4%	Performance 7 years p.a. 10.3%	\$10,000 invested at inception is now worth \$21,361
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FUND COMMENTARY

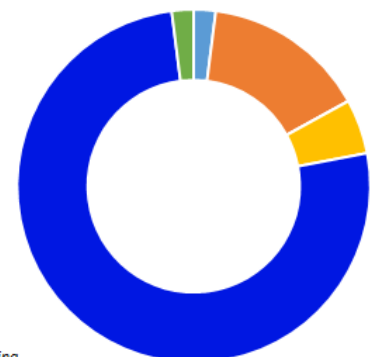
The Fund remains out of Emerging Markets (EM), and Asia ex Japan, we see the current trade war and global economic slow down as a significant headwind for EM over the coming months. A strong USD also has an impact on EM countries and companies which typically have a lot of their borrowings denominated in USD, as the USD strengthens those payments become more expensive for the EM borrower.

On a US sector basis we still see value in our over-weight to utilities and REITs, which have been the two best performing sectors over the last 12 months (both up over 25%). Adding our ESG overlay has also had a positive impact by largely avoiding the energy sector - we have missed a 18% decline over the past 12 months.

We remain light on our currency hedging, unlike EM countries a strong USD increases the value of our US assets adding to the fund when we are under-hedged. This can also be used to mitigate risk in a falling market, that typically coincides with a strong USD.

- Cash* | 2%
- Europe ex UK | 15%
- Asia Pacific ex Japan | 0%
- Japan | 5%
- North America | 76%
- UK | 2%
- Emerging Markets | 0%

*Cash includes foreign currency hedging



PORTFOLIO UPDATES

COMMODITY PLUS FUND

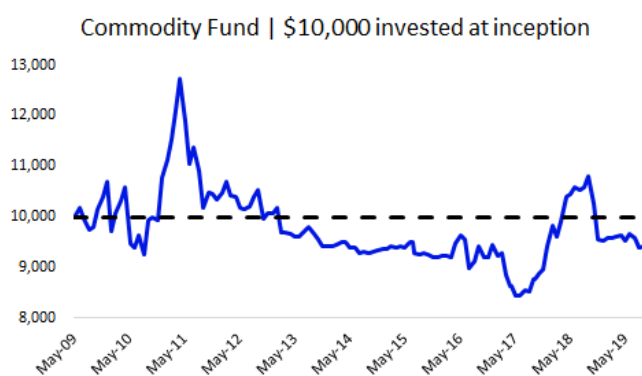
The Commodity Plus Fund is designed to provide exposure to global commodity markets. The investment process targets the "mean reverting" nature of commodities and can also allocate to cash for downside protection. The fund will not invest in a number of commodities such as thermal coal, uranium, livestock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

Performance 1 month **0.2%** | Performance 10 years p.a. **-0.4%** | \$10,000 invested at inception is now worth **\$9,414**

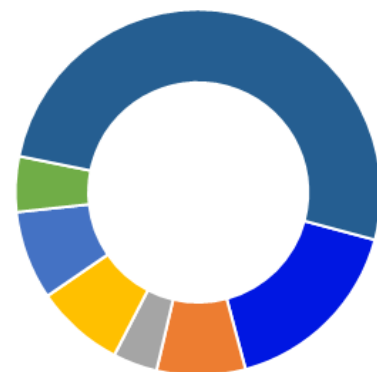
FUND COMMENTARY

An interesting month in global commodity markets. The bombing of the Saudi Arabian oil refinery sent shock-waves through the oil market. The strike which briefly left Saudi's production cut in half, saw the price of oil spike to \$63 a barrel, as fears that the world's largest supplier would be unable to supply the markets for months. The price spike was short lived as the Saudi Energy Minister quickly came out claiming the facility would be operation within the month. Crude ended the month at \$54, essentially where it started the month.

The world remains awash in oil and even a potentially significant disruption like that in Saudi Arabia did not have any lasting impact. The trade war and perceptions of slowing growth - globally but importantly for commodities, in China) are having an impact on demand..



- Light Crude | 17%
- Heating Oil | 8%
- Gold | 4%
- Corn | 8%
- Wheat | 8%
- Aluminium | 5%
- Cash | 52%



FUND PERFORMANCE

As at 30 September 2019	1 Month	6 Month	1 Year	3 Year p.a.	5 Year p.a.	7 Year p.a.	Since Inception p.a.	Volatility [^]
Global Responsibility Fund	3.0%	9.0%	2.0%				6.2%	12.1%
Morningstar Developed Markets Index NR (50% Hedged)	2.4%	8.7%	4.0%				9.2%	12.0%
Global Water Fund	2.9%	11.5%	2.8%	9.6%	9.4%	12.3%	9.0%	9.9%
PIO Global Water ETF (50% Hedged)	1.6%	7.8%	3.7%	10.6%	6.6%	9.4%	6.8%	11.1%
Global Property Fund	2.2%	7.5%	14.7%	7.3%			6.7%	9.1%
FTSE/NAREIT Developed TR Index (75% Hedged)	2.6%	7.4%	15.8%	8.1%			7.4%	10.1%
World Equity Fund	2.4%	11.5%	2.8%	10.2%	8.1%	10.3%	10.0%	10.2%
Morningstar Global Markets Index NR (50% Hedged)	2.4%	7.8%	3.7%	12.3%	9.2%	11.2%	10.8%	10.1%
Commodity Plus Fund	0.2%	-2.1%	-12.9%	0.0%	0.3%	-1.6%	-0.6%	8.9%
Bloomberg Commodity Index TR (100% Hedged)	1.2%	-3.0%	-6.6%	-1.5%	-7.2%	-8.2%	-3.9%	7.9%

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 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.

1. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

[^]Volatility is on a rolling 3 year basis, for funds with less than 3-years of history the calculation is from inception.