

August  
2019

# MONTHLY REVIEW

Review of Fund Performance and Current Events

*A roller coaster month for international equities, volatility spiked as markets fell and recovered. Benefitting from a falling kiwi dollar which softened the blow for unhedged New Zealand investors.*

# MARKET UPDATE

"The stakes are so high, we have to get it right, and if that takes a decade, so be it"

*Larry Kudlow, economic adviser to Trump on the US-China dispute.*

## MARKET COMMENTARY

Market volatility returned in August, triggered by US/China trade war tensions with new tariffs and import restrictions. Geopolitical tensions globally also fueled investor nervousness - especially tensions in Hong Kong and the ongoing (and increasingly chaotic) Brexit saga.

**September is calmer** with a number of positive developments: 1) US and China agreed to meet in October for another round of trade negotiations, 2) Hong Kong is set to withdraw the extradition bill that sparked violent protests, 3) political rivals in Italy agreed to form a coalition government and 4) the UK Parliament voted to prevent a no-deal Brexit. These are all positives for stock market sentiment.

**But volatility will remain** elevated given there is no solution in sight for the trade & technology tensions between the US & China. Larry Kudlow (an economic adviser to President Trump), downplayed expectations for a trade war resolution, saying "*the stakes are so high, we have to get it right, and if that takes a decade, so be it*". China is able to play a 'long game' given they are not under the same democratic political pressure as the Trump administration.

**NZ was a stand out** during the August volatility - behaving like a global safe-haven and outperforming major markets. The NZX 50 surged to a new all time high, breaking the 11,000 index level. Part of NZ's allure for local and offshore investors is our defensive and high dividend yield stocks, with power and infrastructure companies rallying particularly strongly.

**Meridian, Spark and Infratil** have been stand-out performers in our new KiwiSaver scheme, CareSaver.

Meridian Energy is our largest NZX exposure, and fits well with our renewable energy investment theme. Spark is transforming itself into a tech savvy market leader, and its sustainable and attractive dividend yield has attracted investors in the lower interest rate environment. Infratil is involved in several sectors we view positively, such as tourism, aged care and data centres.

**Looking ahead**, the next key event is the US Fed's policy gathering on Sept 17-18. Fed Chairman (Jerome Powell) recently said US policymakers would continue to use their tools to bolster growth. Fed officials are focused on whether falling business spending and slumping manufacturing are spreading to other parts of the US economy.

**Defining corporate purpose** is a critically important challenge of our time. The Business Round Table (nearly 200 of the most influential US companies) has changed its view - its purpose is no longer solely about profits for shareholders, but also customers, employees, suppliers and communities. In fact they place shareholders behind other stakeholders - will this drive behavioural or structural change by these large US companies?

**The world's plastic problem** grows in urgency and needs solutions - which can be both changes in consumer behaviour and the development of new planet-friendly materials. The Great Pacific Garbage Patch is twice the size of Texas. The scale of waste is no surprise - since plastic was invented in 1907 it is estimated only 9% of the billions of tonnes created has been recycled - with the remainder in landfill or littering our environment.

## UNIT PRICES as at 30 August

**Pathfinder Global Responsibility Fund**  
**\$1.1001**

**Pathfinder Global Water Fund**  
**\$2.1741**

**Pathfinder Global Property Fund**  
**\$1.2961**

**Pathfinder World Equity Fund**  
**\$1.9085**

**Pathfinder Commodity Plus Fund**  
**\$0.9399**

## OUR PEOPLE

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



Phone : 09 489 3802

## THE FOCUS | Taking the carbon out of KiwiSaver

NZ punches above its weight when it comes to renewable energy, and our CareSaver KiwiSaver Scheme has achieved a carbon exposure of ~74% below the benchmark.

Read Hamesh's full article by clicking here.

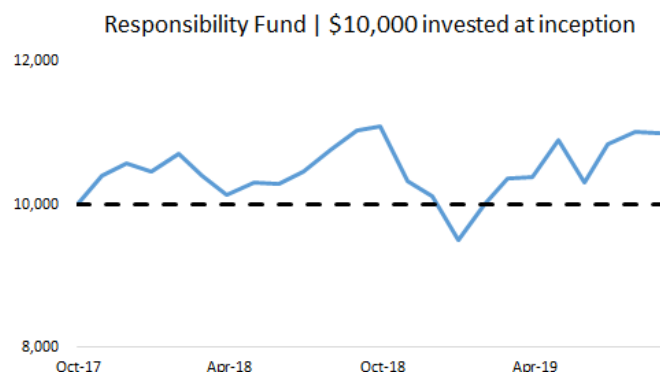


# PORTFOLIO UPDATES

## 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 <b>-0.2%</b>	Performance since inception p.a. <b>4.9%</b>	\$10,000 invested at inception is now worth <b>\$11,001</b>
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## FUND COMMENTARY

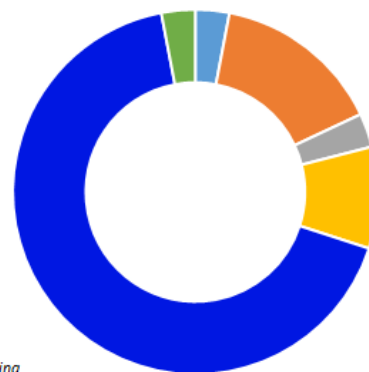
August saw large swings in markets as investors reacted sharply to news-flow, mostly around the Sino-US trade war and implications for global growth. Markets remained in "risk off" mode for most of the month as the retaliatory battle between the US and China intensified.

However, the end of August and beginning of September has seen "risk-on" sentiment return (meaning increased appetite for riskier investments). We are likely late in the current market cycle, but in the absence of a full-blown trade war or inflation shock, with interest rates around the world moving lower there may still be some time left in the current bull-market. China decided to add further stimulus to its economy with a third cut in bank reserve requirements this year, while the US Fed is also expected to cut rates mid-month. A global economic recession remains a risk, and despite weakness in global manufacturing data, service sector surveys in both Europe and the US remain positive – as did the latest US payrolls report.



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

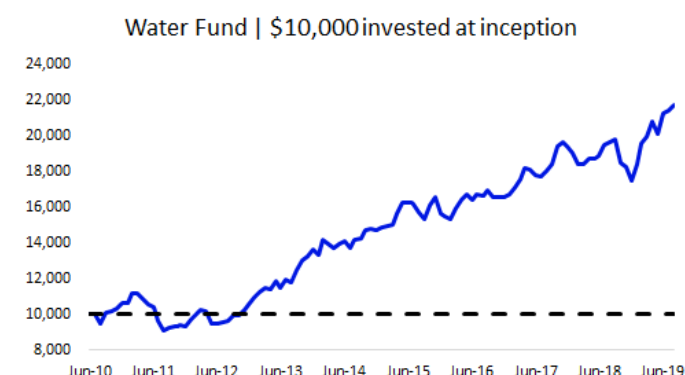
\*Cash includes foreign currency hedging



## 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 <b>1.4%</b>	Performance 7 years p.a. <b>12.3%</b>	\$10,000 invested at inception is now worth <b>\$21,741</b>
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## FUND COMMENTARY

A positive month against a volatile market backdrop for the defensive natured Water fund.

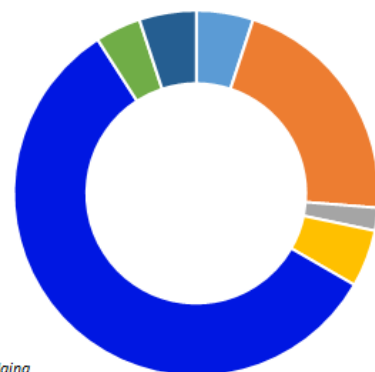
Like the other funds, the Water fund holds an under-hedged position against USD. When the NZD/USD is falling - like it was in August - the fund benefits from this under-hedged position as it holds USD assets.

Back in June we reduced the equity exposure to UK based utilities, we felt there could be political risk around privatisation of these regulated entities if there was a change of government. Replacing the reduced positions, we bought 3 slightly more growth orientated businesses including a US based business called Itron. Itron specialises in water measurement instruments used by water utilities to improve efficiency and monitor their complex water plants. Itron reported earnings in August with a fantastic result of 87 cents/share vs market expectations of 46 cents. The Share price jumped following the news and is now up 16% from our purchase price in June.



- Cash\* | 5%
- Europe ex UK | 21%
- Asia Pacific ex Japan | 2%
- Japan | 5%
- North America | 57%
- UK | 4%
- 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.

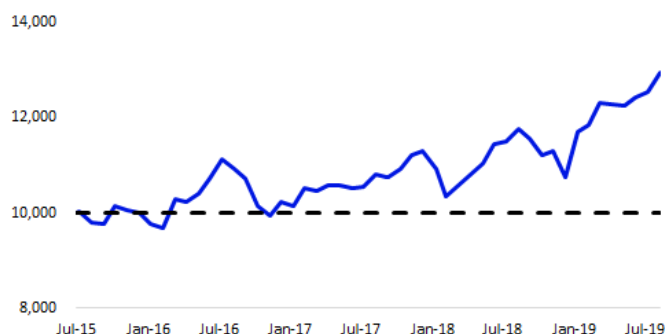
Performance 1 month <b>3.3%</b>	Performance 3 years p.a. <b>5.9%</b>	\$10,000 invested at inception is now worth <b>\$12,961</b>
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### FUND COMMENTARY

Continuing its strong performance, the fund (and property as an asset class) keeps its strong year alive as interest rates dip and investors search for higher yielding assets.

The Hong Kong saga continues to play out in the small nation fighting for democracy. Anecdotally we hear there has been a significant slow down in retail to the tune of 15-20%. The fund holds positions in several Hong Kong listed real estate investment trusts (REITs) including Link REIT which owns retail centers and car parks. We have sold down our Hong Kong exposures, to around 25% of the target weights. We see the Hong Kong saga as a continued risk to their local share market and will watch developments closely - there is a high likelihood it will get uglier before the political situation improves.

Property Fund | \$10,000 invested at inception



\*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 <b>1.2%</b>	Performance 7 years p.a. <b>10.3%</b>	\$10,000 invested at inception is now worth <b>\$20,860</b>
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### FUND COMMENTARY

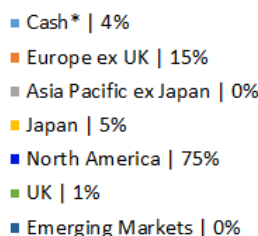
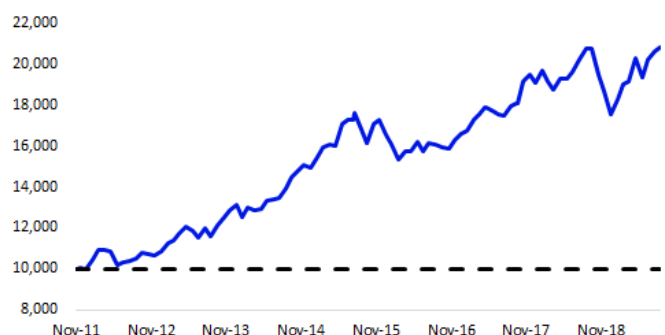
The World Equity Fund had a strong month in August, its positive return was well ahead of the market benchmark (which was down at -0.2%).

A number of factors contributed to its outperformance, including our very light exposure to Emerging Markets - we have been out of EM for around 6 months now. Given trade wars and the tense geopolitical situation in Hong Kong, we have divested out of the region (as shown below).

We continue to have a large bias towards holding US stocks. In saying that, given general market uncertainty, we remain tilted towards defensive sectors and technology stocks.

Finally, the New Zealand dollar entered into a free-fall over the month, falling from 66 cents versus the US dollar to 63 cents (briefly entering 62 cent territory). We were under-hedged on our US currency exposure which meant a falling NZ dollar added to August performance.

World Equity Fund | \$10,000 invested at inception



\*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 <b>-1.9%</b>	Performance 10 years p.a. <b>-0.4%</b>	\$10,000 invested at inception is now worth <b>\$9,399</b>
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## FUND COMMENTARY

Volatility surged in August which saw gold continue to receive buying support as a safe-haven. Gold prices (in USD terms) hit their highest levels since 2013, of over \$1,500 an ounce. In saying that, news at the start of September that the US and China will again engage in another round of trade talks next month has seen the gold price ease as "risk-on" sentiment tentatively prevailed in markets. (Gold is seen as a safe haven asset and so benefits from "risk off" or defensive market positioning).

Most other commodity prices remain in a relative bear market, with the downward trend across the commodity space resulting in our 85% allocation to cash (the Commodity Plus Fund allocates between cash and commodities based on a set of momentum rules based on the price performance of commodities over the last 12-months. When commodity prices trend upwards the fund will allocate towards commodities, and towards cash when commodity prices are falling).

The price of crude oil has been gyrating in a narrow range of late, largely in response to mixed news-flow around the outlook for global growth.

Commodity Fund | \$10,000 invested at inception



- Light Crude | 3%
- Heating Oil | 4%
- Gold | 2%
- Corn | 4%
- Wheat | 1%
- Aluminium | 1%
- Cash | 85%



## FUND PERFORMANCE

As at 30 August 2019	1 Month	6 Month	1 Year	3 Year p.a.	5 Year p.a.	7 Year p.a.	Since Inception p.a.	Volatility <sup>^</sup>
Global Responsibility Fund	-0.2%	6.1%	-0.3%				4.9%	12.2%
Morningstar Developed Markets Index NR (50% Hedged)	0.1%	7.3%	2.0%				8.3%	12.2%
Global Water Fund	1.4%	9.6%	0.6%	9.2%	8.9%	12.3%	8.8%	9.8%
PIO Global Water ETF (50% Hedged)	1.0%	6.3%	1.6%	10.2%	5.9%	9.3%	6.7%	11.1%
Global Property Fund	3.3%	9.4%	10.2%	5.9%			6.3%	9.2%
FTSE/NAREIT Developed TR Index (75% Hedged)	3.1%	8.4%	10.6%	6.8%			6.9%	10.1%
World Equity Fund	1.2%	9.6%	0.6%	9.0%	8.4%	10.3%	9.7%	10.2%
Morningstar Global Markets Index NR (50% Hedged)	-0.2%	6.3%	1.6%	11.6%	8.6%	11.1%	10.6%	10.1%
Commodity Plus Fund	-1.9%	-2.0%	-11.3%	1.0%	0.2%	-1.4%	-0.6%	8.9%
Bloomberg Commodity Index TR (100% Hedged)	-2.3%	-4.3%	-5.9%	-0.9%	-8.6%	-8.1%	-4.1%	8.1%

**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](http://www.responsibleinvestment.org) for more details

<sup>^</sup>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](http://www.responsibleinvestments.com.au), together with details about other responsible investment products certified by RIAA.

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