

July
2019

MONTHLY REVIEW

Review of Fund Performance and Current Events



Pro-democracy demonstrators on the streets of Hong Kong

MARKET UPDATE

"Whatever it takes"

Reserve Bank of New Zealand Governor Adrian Orr as he cut the official cash rate (OCR) to a record low of 1%.

MARKET COMMENTARY

NZ's domestic outlook is far from weak, however the RBNZ worries about the global picture. Governor Adrian Orr said the RBNZ is ready to do "whatever it takes" - echoing the famous words of ECB president Mario Draghi in the midst of the European Debt Crisis. Be prepared for an uncharted future - negative interest rates in NZ have not been ruled out.

Trade wars: August has seen the US-China trade dispute deteriorate significantly. The US declared negotiations were progressing too slowly and announced new tariffs on the remaining \$300 billion of imports from China without tariffs.

Retaliation: China didn't stand still - the People's Bank of China let the Chinese Renminbi depreciate below the key 7-per-dollar level for the first time since 2008. Chinese firms also suspended buying US agricultural products. The result - a sharp increase in equity market volatility and investor uncertainty.

Market volatility: Tensions have escalated, and there are growing risks around the potential impact on global economic growth. With no sign of a solution, volatility is likely to remain elevated. We have little exposure to China through our global funds and are also underweight emerging markets.

Other worries: Investors fret about a possible snap election in the UK, slowing growth in Europe and

unrest in Hong Kong. Despite the negativity, corporate earnings continue to grow. There's also the prospect of even lower interest rates - NZ cut by a surprise 0.5%, to a record OCR low of 1.0%.

Renewables: Good news on the renewable energy front. Britain just had its first week (since its coal power plants started in 1882) without any coal generated electricity - it now relies on gas, wind and nuclear (*The Economist*).

Emissions: Not so great is CO2 emissions globally, which rose 1.7% last year (to a new record high). Emission declines in Europe were offset by increases in the US, China and India. The US produces twice as much CO2 per person as China and 9 times as much per person as India - showing how things will get worse as populous third world countries continue modernising (*Fortune Magazine*).

Challenges to nature: The diversity of life on earth is endangered. A recent study highlighted how a million animal species and plants are threatened with extinction. Why? A significant reason is that three quarters of land on earth and two thirds of marine environments have been "significantly altered" by human activity - for example the last 30 years has seen urban areas double in size, a massive increase to humanity's physical footprint (*The Economist*).

THE FOCUS | Why are Australian banks investing in nuclear weapons companies?

New Zealanders have strong and clear opinions about where our money is invested, and not supporting the manufacture of nuclear weapons is right at the top of the list. Our country has a long and proud anti-nuclear weapon history.

Read Paul's full article by clicking here.

UNIT PRICES as at 31 July

Pathfinder Global
Responsibility Fund
\$1.1023

Pathfinder Global Water Fund
\$2.1447

Pathfinder Global Property
Fund
\$1.2551

Pathfinder World Equity Fund
\$1.8859

Pathfinder Commodity Plus
Fund
\$0.9578

OUR PEOPLE

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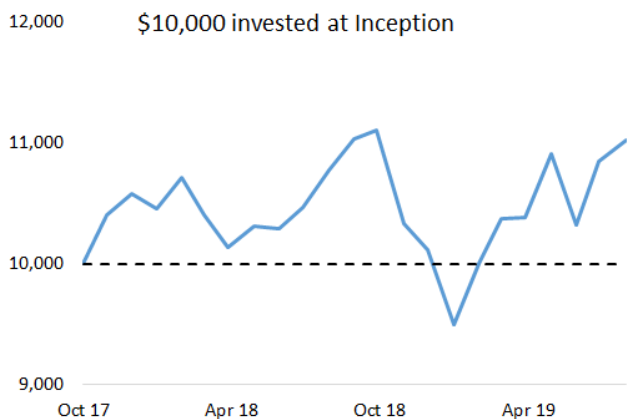
PORTFOLIO UPDATES

GLOBAL RESPONSIBILITY FUND

The socially responsible Global Responsibility Fund is designed to provide diversified equity exposure to developed markets. There are 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.

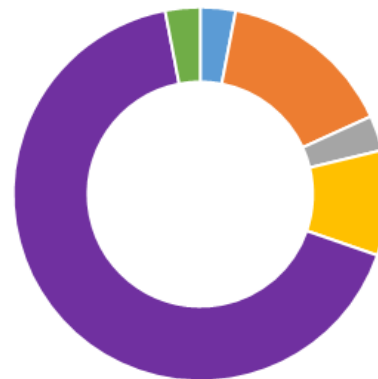
Performance 1 month 1.6%	Performance since inception p.a. 5.5%	\$10,000 invested at inception is now worth \$11,023
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\$10,000 invested at Inception



FUND COMMENTARY

Event risk remains high for global investors. With continuing trade tensions, unrest in Hong Kong, emerging market upheaval (Argentina, Russia), tensions with Iran and further North Korean missile launches all present some event risk. Easy monetary policy moves by several central banks clearly signals discomfort with future economic growth prospects. Despite all that, equity markets remain relatively well bid, with any pull back generally not lasting. When the history of this bull market is written, the key aspect will be the extra-ordinary easy monetary policy from Central Banks. Even a traditionally hawkish bank like the RBNZ has signalled a lower and longer rate path. While macro events and slowing growth are clear risks, continuing corporate profitability and a risk free rate comparison that is close to zero underpin equity performance. Currently an extraordinary US\$15 trillion of bonds are trading below 0%. 100% of government bonds in Germany and the Netherlands now trade at negative yields.



*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 0.6%	Performance 7 years p.a. 12.2%	\$10,000 invested at inception is now worth \$21,447
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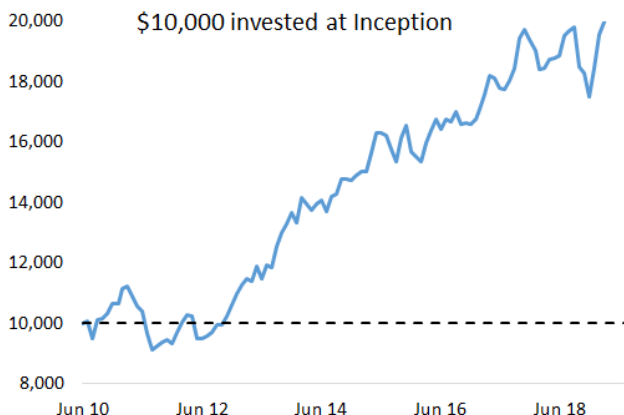
FUND COMMENTARY

Sentiment globally has definitely become more defensive as central banks around the world continue to either lower policy rates or signal future falls. While the intention of this may just be to ensure inflation does not fall into negative rates, the implication many commentators are taking from this is that there is a significant growth shock or downgrade anticipated by those central banks. This view is at odds with data from most economies where employment remains strong, consumer demand remains positive and industrial production is generally expansionary. Lower rates without significantly lower growth and company earnings should continue to be very supportive of equities, especially those that are more rate sensitive like utilities. Utilities have stable cashflows that are relatively insensitive to changes in economic growth and usually have a dividend yield superior to fixed income securities. Currently the water fund holds around 40% of the portfolio in utilities so is well positioned for the current environment.



*Cash includes foreign currency hedging

\$10,000 invested at Inception



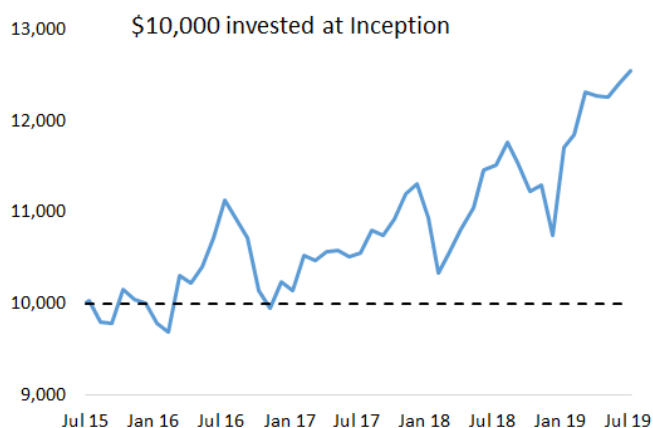
PORTFOLIO UPDATES

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

1.1% | **4.1%** | **\$12,551**



FUND COMMENTARY

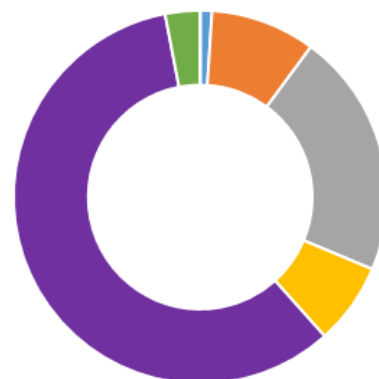
Location, Location, Location! Interest Rates, Interest Rates, Interest Rates!

What's the most important thing for property at the moment? News hit the desk last week that you can now take a 10 year mortgage in Denmark where the bank will pay you for the business. Crazy! In the world of negative interest rates, Denmark is offering 10 year mortgages at -0.5%, 20 years at 0.0% and 30 years at 0.50%.

The Fund continues its positive year. With volatility growing in the market the defensive nature of property is making it an attractive market alternative. Real Estate Investment Trusts (or REITs, the business structures of the companies in the Fund) are required to pay 90% of profits as dividends. This results in an attractive dividend yield for property stocks (3.8%) vs the equity market (2.7%). The Fund does not pay distributions, instead the dividend income increases the fund's unit price and we then invest that money back into our best property ideas.

- Cash* | 1%
- Europe ex UK | 9%
- Asia Pacific ex Japan | 21%
- Japan | 7%
- North America | 58%
- UK | 3%
- Emerging Markets | 0%

*Cash includes foreign currency hedging

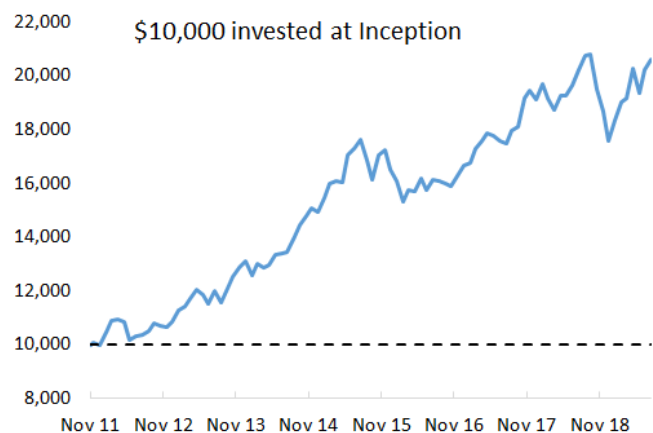


WORLD EQUITY FUND

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 7 years p.a. | \$10,000 invested at inception is now worth

2.0% | **10.3%** | **\$20,613**

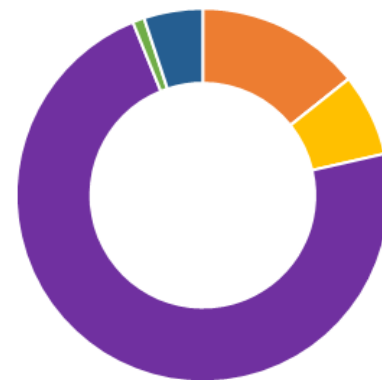


FUND COMMENTARY

Global markets remain significantly correlated to perceptions about the trade impasse between the US and China/Rest of the World. Significant market moves continue to be highly correlated to tweets from President Trump, and other "policy" announcements from the White House. China appears now to have reached a policy position it is not prepared to go past. Letting the Renminbi weaken past 7.00 to the USD is a clear signal from Chinese authorities that they will use currency weakness as a weapon to push back against US tariffs. Letting the exchange rate fall means that Chinese manufacturers receive the same revenue (in local terms) as prior to the trade war. More importantly it will encourage US manufacturers to outsource production (and jobs) to China. But trade tensions and currency weakness will generally be negative for emerging markets - we have no exposure to them currently. Valuations are still not extreme, so absent any large shocks, we expect stocks to continue a slow - but volatile - grind up.

- Cash* | 0%
- Europe ex UK | 14%
- Asia Pacific ex Japan | 0%
- Japan | 7%
- North America | 71%
- UK | 1%
- Emerging Markets | 5%

*Cash includes foreign currency

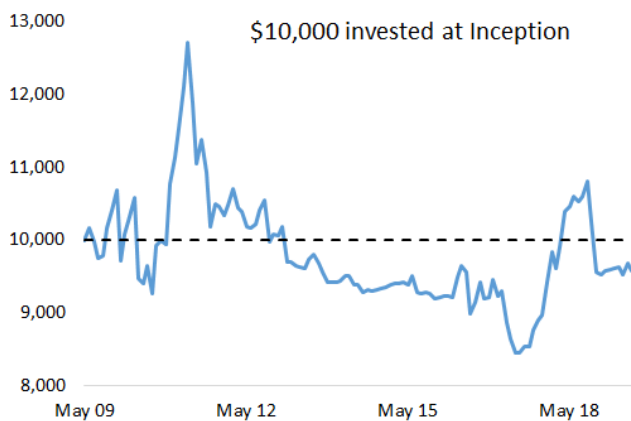


PORTFOLIO UPDATES

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 **-1.0%** | Performance 10 years p.a. **-0.4%** | \$10,000 invested at inception is now worth **\$9,578**



FUND COMMENTARY

Crude oil which remains the largest commodity exposure had a volatile month, almost touching \$61 dollars and falling as low as \$55. The price action is getting caught up in the back and forth political swings by US and China, swings that are now hurting global growth. The World Bank has recently lowered its 2019 global GDP projections to 2.6% and sees global trade having its weakest year since the GFC.

In the agricultural space China has halted buying agricultural products from the US. A significant blow for US produces in what has already been a tough year. For every winner Trump highlights in the trade war there is a loser just down the road. The weakness in agriculture prices has contributed to the fund reducing its commodity exposure for the coming month.

The bigger winner from all of this volatility has been gold, which has surpassed \$1,500 ounce for the first time since 2013. Although, I bet your gold-bug friend as already told you this!

- Light Crude | 16%
- Heating Oil | 7%
- Gold | 9%
- Corn | 8%
- Wheat | 8%
- Aluminium | 4%
- Cash | 47%



FUND PERFORMANCE

As at 31 July 2019	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	9 Years (p.a.)	10 Years (p.a.)	Volatility
Global Responsibility Fund	1.6%	2.3%						12.5%
Morningstar Developed Markets Index NR (50% Hedged)	1.4%	4.6%						12.5%
Global Water Fund	0.6%	9.9%	8.6%	9.4%	12.2%	8.8%		9.5%
PIO Global Water ETF (50% Hedged)	1.2%	11.7%	11.1%	7.9%	11.0%	7.7%		11.3%
Global Property Fund	1.1%	9.0%	4.1%					9.7%
Morningstar Real Estate Index TR (75% Hedged)	1.3%	11.9%	4.3%					10.8%
World Equity Fund	2.0%	1.9%	8.5%	8.9%	10.3%			10.6%
Morningstar Global Markets Index NR (50% Hedged)	1.1%	4.0%	11.6%	9.4%	11.6%			10.0%
Commodity Plus Fund	-1.0%	-9.0%	2.1%	0.6%	-0.9%	-0.1%	-0.4%	7.8%
Bloomberg Commodity Index TR (100% Hedged)	-0.7%	-5.4%	-0.7%	-8.3%	-7.6%	-5.2%	-4.1%	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 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.responsibleinvestments.com.au, together with details about other responsible investment products certified by RIAA.

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