

2019  
March

# MONTHLY REVIEW

Review of Fund Performance and Current Events

*The Brexit process is a shambles with no clear consensus on any aspect of either the exit, the timing or the process to get there.*

# MARKET UPDATE

"The norms of British politics have collapsed, just when they are most needed"

*The Economist Magazine*

## MARKET COMMENTARY

No one expected a simple "yes / no" referendum on Brexit to end in such chaos. With an array of options to break the impasse being voted down over the last month, time extensions seem inevitable.

Prime Minister May's determination and unbreakable resilience has turned from an asset into an impediment. Labour leader Jeremy Corbyn remains non-committal and seems more interested in forcing an election than helping the Conservatives with a resolution. It is a mess - and for this reason we have remained underweight to UK equities and Sterling while we watch it play out.

**Hipster Anti-Trust Theory:** Tech players globally are under the spotlight for their practices and impact on their markets. The likes of Amazon, Facebook and Google can crush or buy competitors to retain their market control. It is widely recognised that traditional anti-competition rules (which focus on the impact for consumers of monopolistic behaviour) are just not working. The big tech companies drive down prices and seem to benefit consumers. What is now widely known as the "Hipster Anti-Trust Theory" is a change of focus from the effect on

consumers to the effect on competitors. New regulation won't be welcomed by the large global tech giants, but is looking increasingly likely (*source: Fortune Magazine*).

**Lobbying is alive and well:** You'd expect the oil and gas industry to be the most prolific at lobbying US politicians. But in fact it is the large tech companies - the 5 largest spenders are Google, Amazon, Facebook, Oracle and Microsoft - their combined spend exceeds the entire oil and gas industry lobbying! (*source: Fortune Magazine*).

**Will AI take my job?** Who knows what industry is next under threat from artificial intelligence. Callaway, a leading golf club maker, has traditionally had a slow and labour intensive approach to designing a new club usually involving 5 to 7 hand made prototypes. Their fancy new AI designed club line - called "Epic Flash" involved algorithms making an astonishing 15,000 virtual prototypes - and it has become the only golf driver ever to score 20 out of 20 in the *Golf Digest* ratings. AI proved itself to deliver not only a fast result, but also a near perfect one... These step changes will become increasingly common... and scary for workers...

## THE FOCUS | Stock Market Movers Podcast

John recently featured on the Stock Market Movers Podcast, with Jeremy from Australian Trading Management. They discussed responsible investing, recent market moves, the fund management industry and even got time to speak about Facebook and VW.

To listen to the full podcast click: [here](#)

## UNIT PRICES as at 29 March

**Pathfinder Global Responsibility Fund**  
**\$1.0389**

**Pathfinder Global Water Fund**  
**\$1.9976**

**Pathfinder Global Property Fund**  
**\$1.2319**

**Pathfinder World Equity Fund**  
**\$1.7526**

**Pathfinder Commodity Plus Fund**  
**\$0.9617**

## OUR PEOPLE

**John Berry** - Chief Executive Officer

**Paul Brownsey** - Chief Investment Officer

**Karl Geal-Otter** - Portfolio Manager

**Hamesh Sharma** - Portfolio Manager

**Bob McCutcheon** - Strategy, Compliance

**Kate Brownsey** - Environmental Science Analyst



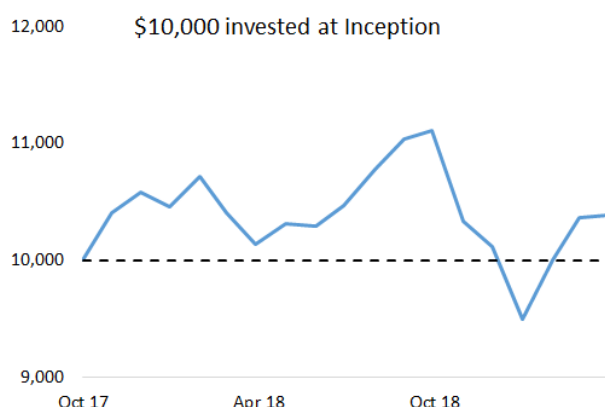
**Phone : 09 489 3802**

# 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.

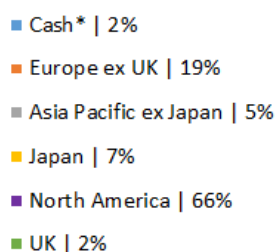
Performance 1 month <b>0.2%</b>	Performance since inception <b>3.9%</b>	\$10,000 invested at inception is now worth <b>\$10,389</b>
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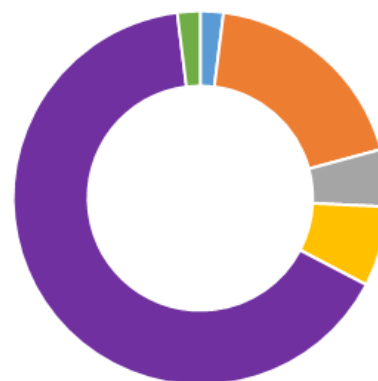
## FUND COMMENTARY

Not a particularly volatile for equities in March, but the month was notable as it became apparent that monetary policy around the world will remain dovish for the foreseeable future. The Fed has moved from an outlook that envisaged several rate hikes, to one where at least two downward moves are expected.

Low rates and soft monetary policy are generally positive for equities - as long as corporate earnings don't take a hit at the same time. That is not the case, while earnings are slowing now they should rebound in late 2019. Corporate balance sheets are in pretty good shape.



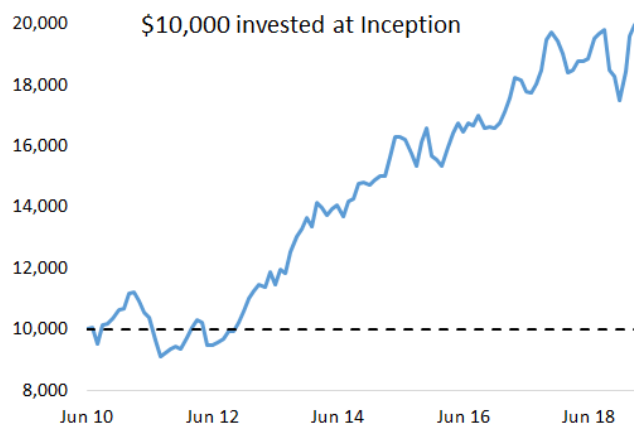
\*Cash includes foreign currency hedging



## 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.

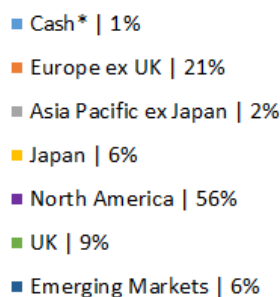
Performance 1 month <b>2.0%</b>	Performance 7 years p.a. <b>9.9%</b>	\$10,000 invested at inception is now worth <b>\$19,976</b>
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## FUND COMMENTARY

Globally, living standards and the human population are both growing. This means more water is needed, just as concerns around climate change re-write the patterns of water supply. On average, in the developed world we need between 20 and 50 liters per person each day for drinking, cooking and cleaning. Companies involved in the water industry have a clear benefit to society - and the opportunity to deliver good returns for shareholders.

Population growth, urbanisation, rising living standards and the effects of climate change are causing greater levels of water stress in more parts of the World. The problem is not restricted to less developed countries - parts of the USA and Australia are also badly affected.



\*Cash includes foreign currency hedging

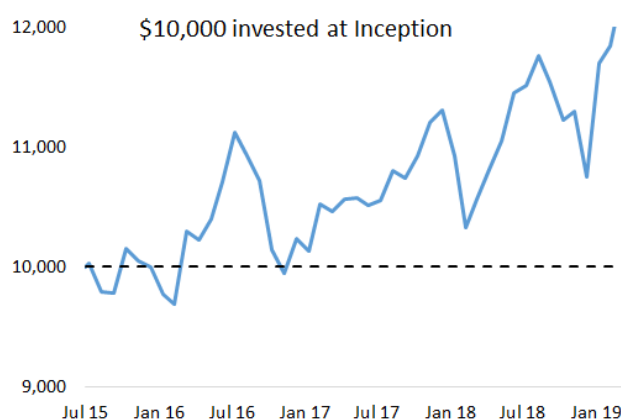


# PORTFOLIO UPDATES

## 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>4.0%</b>	Performance 3 years p.a. <b>6.1%</b>	\$10,000 invested at inception is now worth <b>\$12,319</b>
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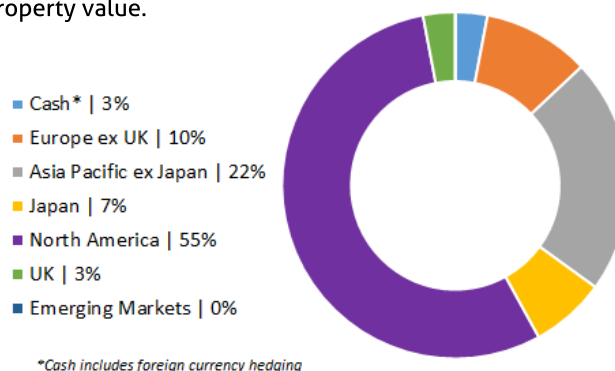


## FUND COMMENTARY

Pathfinder Global Property Fund is now available on Sharesies! The team at Sharesies have a fantastic platform enabling investors of any age, with any size balance to hop on to the investment ladder. Check them out at [www.sharesies.nz](http://www.sharesies.nz)

Property continues its strong run, with the US providing the backbone of March's return, contributing 2.3% and adding 70bp of alpha. Globally, central banks solidified their new dovish stance, with the US on hold for the rest of the year and indicating their next move could be lower, the RBNZ predictably followed their US counterparts thinking.

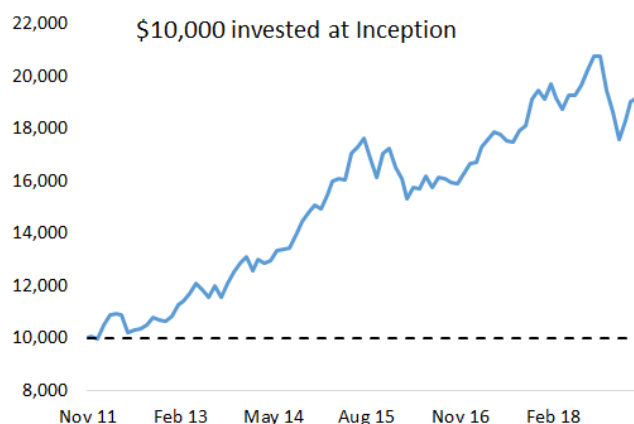
Interest rates play a key part in property value: (1) property is a leveraged asset class that requires borrowing debt, low interest rates equals lower cost. (2) lower interest rates also decreases cap rates, which makes up an important metric in property valuation at a very high level, lower cap rates equals higher property value.



## WORLD EQUITY FUND

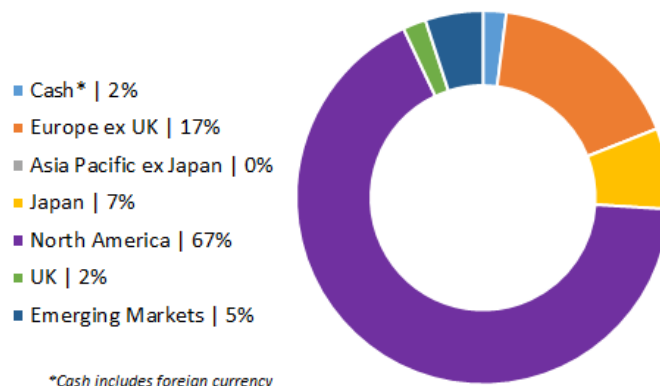
The World Equity Fund is designed to provide diversified socially responsible exposure to global equities (across both developed and emerging markets). The fund invests in ETFs to access global equity sectors and regions, and uses currency hedging to reduce foreign currency exposure.

Performance 1 month <b>0.7%</b>	Performance 7 years p.a. <b>7.3%</b>	\$10,000 invested at inception is now worth <b>\$19,156</b>
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## FUND COMMENTARY

Expectations of easier monetary policy in the US, Europe and NZ were notable changes in the investment outlook in March. This is consistent with the now mainstream view that global growth will slow over 2019. While certainly slower than the last 5 years, this is no recession call. GDP in the US should still be around 2.4% in 2019. The bigger story is the lack of inflationary pressure. Despite developed market economies having historic low unemployment rates these have not been accompanied by an up-tick in employment related inflation - an unusual occurrence as labour prices typically rise when demand is strong. Economists have no clear answer to why this time is different (so far at least), but in the meantime low inflation means low rates which will be supportive of equity valuations.



# 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

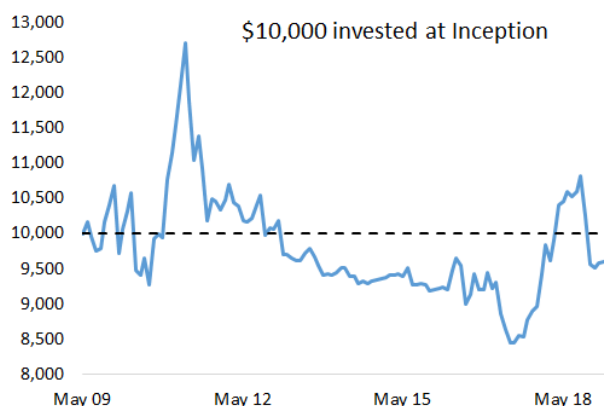
0.3%

Performance  
9 years p.a.

-1.0%

\$10,000 invested at  
inception is now worth

\$9,617

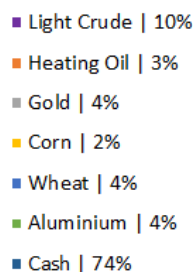


## FUND COMMENTARY

Commodity exposure remained low for the fund over March (26%), with a bias to energy remaining. Crude broke through \$60 on the last day of the month, a number it hasn't reached since falling through \$60 mid-November 2018.

An Interesting political dynamic has crept in to the oil market. As the US continues its pursuit of full sanctions on Iranian oil exports, it has become evident that they will be unlikely to reach their target. In a stroke of serendipity for President Trump, this could benefit is very vocal campaign for lower oil prices, and subsequent lower gasoline prices - something he needs heading into campaign mode for next year's elections.

Corn, the humble grain from South America is no longer just for eating, 40% of US production is now used to make ethanol - a key ingredient in biofuel.



## FUND PERFORMANCE

As at 29 March 2019	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	0.2%	9.4%	-6.4%	2.5%					11.7%
Morningstar Developed Markets Index NR (50% Hedged)	1.1%	11.6%	-4.3%	6.4%					12.2%
Global Water Fund	2.0%	14.1%	0.8%	8.2%	6.6%	7.8%	7.4%	9.9%	9.1%
PIO Global Water ETF (50% Hedged)	2.0%	15.5%	3.8%	9.8%	11.8%	10.5%	6.2%	9.1%	11.1%
Global Property Fund	4.0%	14.6%	6.7%	16.5%	8.5%	6.1%			10.1%
Morningstar Real Estate Index TR (75% Hedged)	3.9%	14.9%	8.2%	16.4%	8.1%	5.8%			11.3%
World Equity Fund	0.7%	9.1%	-7.8%	2.2%	4.4%	6.8%	8.3%	7.3%	10.0%
Morningstar Global Markets Index NR (50% Hedged)	1.0%	11.2%	-3.8%	5.1%	9.2%	10.9%	9.1%	8.6%	9.5%
Commodity Plus Fund	0.3%	1.1%	-11.1%	-2.9%	4.2%	1.5%	0.2%	-1.2%	7.8%
Bloomberg Commodity Index TR (100% Hedged)	-0.2%	6.3%	-3.7%	-5.3%	-0.9%	2.2%	-8.9%	-7.1%	12.0%

**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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