2018
June

MONTHLY REVIEW

Review of Fund Performance and Current Events

What direction are we headed next? There is always plenty of positive and negative commentators in the media. But, as we head into a period of synchronized global growth could a trade war change the direction of markets - only time will tell.

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MARKET UPDATE

"... markets should worry much more about overheating and inflation than about a recession..." *Torsten Slok, Deutsche Bank Strategist, June 2018*

MARKET COMMENTARY

The world, according to Deutsche Bank researchers, remains in a pretty good place. Global growth of 3.9% is expected this year, slightly ahead 2017. This is made up of marginally higher emerging markets growth (5.1%) and flat developed markets growth (2.3%). The numbers don't sound especially high, but in a post-GFC world this is a very solid outcome.

A positive view: While Deutsche remain positive, they also expect 2018 to mark the peak of this cycle's growth. For the US, China and Europe they see growth continuing but no longer accelerating.

The contrary view: Jonathan Pain, a particularly insightful market commentator, holds a more worrying view. He sees current markets being driven by three key influences (1) strength in corporate earnings (a positive), (2) rising inflation (a negative) and (3) rising trade tensions (also a negative). In his view, these factors will put the US market on a collision course with reality in the next few months - and that doesn't sound good.

So who's right? Will the rate of growth peak, but with growth continuing, or is the bull market very close to its end? Answering this question largely depends on your view of how the trade tensions between the US and China will play out. If there is a spiral of new trade barriers from the US and counter-measures from China and elsewhere, then it could be hard to find anywhere to hide in equities. However if the US and China make a lot of noise but begrudgingly agree a solution before it gets out of hand, then markets will be sanguine. Because both the US and China will each act in their own self interest - and an all out trade war is not in their self interest - we favour the later option (a solution is agreed before this gets totally out of control). But getting to this resolution may take some time.

A resolution won't happen quickly: Like most commentators, Credit Suisse see the trade war as the "central driver of recent risk sentiment." They don't expect a quick resolution to trade tensions for 3 reasons (1) Trump makes "lofty demands" and also likes to move the goal posts, (2) China has a high tolerance for economic pain and a long term vision it can stick to and (3) with midterm elections coming up in the US, Trump is incentivised to keep this issue alive and in the limelight. So watch this space, it could be ugly for some months.

The end of QE in Europe? Head of the European Central Bank (Mario Draghi) sees the Euro economy as strong enough to live without QE. Stimulus will be coming to an end - The EUR 2.4 trillion program of buying bonds will be cut from EUR30 billion a month for Q3 to EUR15 billion a month for Q4. And, then it ends. This didn't unsettle markets - although the forward guidance that rates will need to stay at the current ultra low levels through to at least the end of summer 2019 was unexpected. This sent the Euro currency lower.

Plastic waste: With all the publicity in NZ around plastic bags it is interesting to see that 90% of all plastic waste in the ocean is thought to come from only 10 rivers. 8 of these rivers are in Asia and 2 in Africa. Plastic doesn't biodegrade so creates a long term problem. And don't get us started on how plastics break into smaller micro-fragments, and enter the food chain... bad for wildlife and future generations...

THE FOCUS | Stress testing

When constructing a portfolio it's critical to understand key risks and how the portfolio will react in stressed market conditions. This is more than how each stock will respond - it requires understanding how stocks could combine together. What could a GFC re-reun, an emerging markets currency collapse or a natural disaster in a developed country do to the portfolio? Welcome to stress testing - a complex but critical tool for testing portfolio risk. Click here to read the full story

UNIT PRICES as at 30 June

Pathfinder Global Responsibility Fund
$1.0465

Pathfinder Global Water Fund
$1.8873

Pathfinder Global Property Fund
$1.1459

Pathfinder World Equity Fund
$1.7981

Pathfinder Commodity Plus Fund
$1.0601

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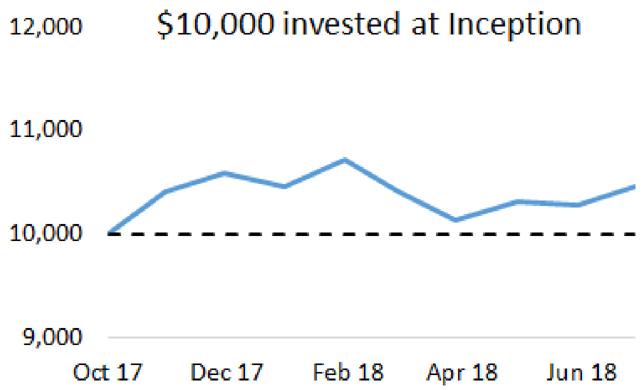
PORTFOLIO UPDATES

GLOBAL RESPONSIBILITY FUND

The socially responsible Global Responsibility Fund is designed to provide diversified equity exposure to developed markets. There are 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	Performance since inception	$10,000 invested at inception is now worth
1.7%	4.7%	$10,465



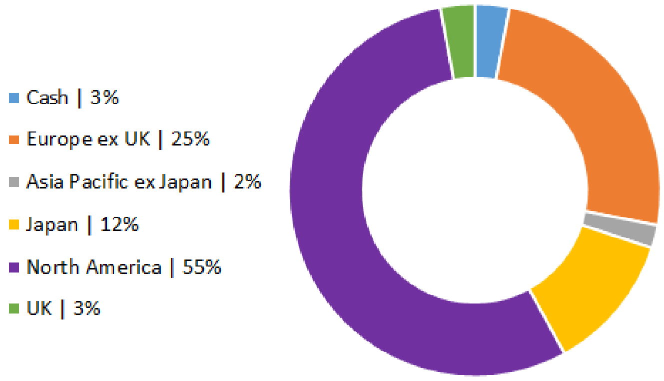
FUND COMMENTARY

CERTIFIED BY RIAA

The Fund was up 1.7% over June, exactly in line with global equity markets. Returns from the US market continue to be stronger than Europe, which has hurt the Fund (the Fund is overweight Europe and underweight the US). However positions within the US such as financials have been higher than benchmark.

Managing currency has been particularly importantly lately with the NZ dollar falling below US$0.70. By reducing currency hedging, the Fund has been able to reduce its NZ dollar exposure and benefit from the stronger US dollar.

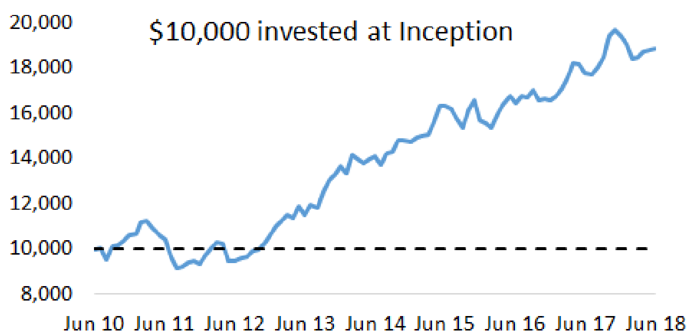
The Fund remains with overweights to Europe and Japan and underweights to the US and UK. Uncertainty over how Brexit will play out is likely to hurt UK equities, the UK economy and Sterling. We prefer to largely sit on the sidelines. While we remain underweight the US, the Fund is closer to a market weighting than in previous months.



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	Performance 5 years p.a.	$10,000 invested at inception is now worth
0.5%	10.5%	$18,873



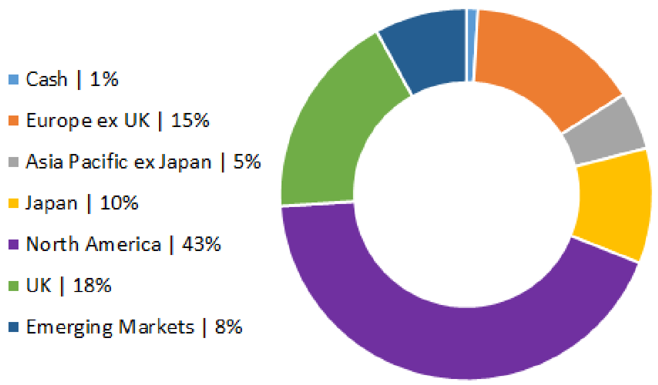
FUND COMMENTARY

CERTIFIED BY RIAA

The quality and availability of water globally continues to be a key concern of the United Nations and communities across both the developed and emerging worlds. Dutch research firm Sustainalytics identify water as one of the critical responsible investment trends for 2018 - here's an excerpt from their report:

"Water scarcity has become a large consideration on the investment agenda. It is one of the biggest risks to food, apparel industries and urban infrastructure. Areas like Cape Town, the state of California, Sao Paulo and Beijing are already under huge water stress."

The Fund was up 0.5% over June. It remains close to fully invested in equities and in terms of sector exposures it has large overweights to industrial and utility stocks.



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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 2 years p.a.	$10,000 invested at inception is now worth
3.7%	3.4%	$11,459

FUND COMMENTARY

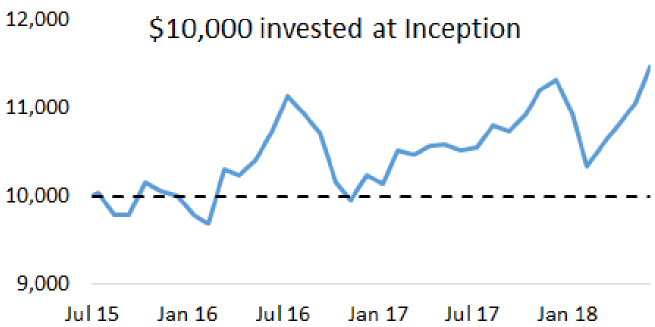
Another strong month for the Property Fund, which was up 3.7% for June. The Fund is up 9.0% over one year.

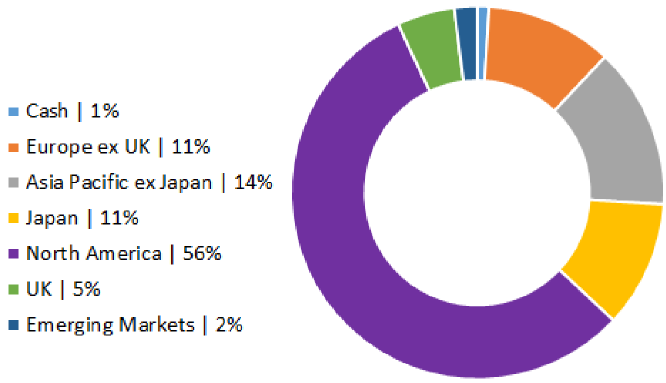
Property stocks globally were hurt late in 2017 as investors adjusted to expectations of higher interest rates. But this year these stocks have rebounded as investors now accept:

- interest rates increases will be measured and well signaled

- a rising interest rate environment is not necessarily bad for property companies. Their rental income can go up with inflation while a large portion of debt will be fixed (not floating) rate.

The Fund continues to hold around 6% in NZ property stocks - spread between Precinct, Argosy, Property for Industry, Goodman Property and Kiwi Property. Currency hedging is currently at 75%.





WORLD EQUITY FUND

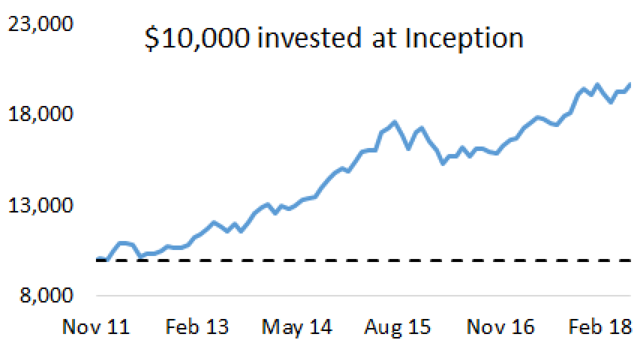
The World Equity Fund is designed to provide diversified socially responsible exposure to global equities (across both developed and emerging markets). The fund invests in ETFs to access global equity sectors and regions, and uses currency hedging to reduce foreign currency exposure.

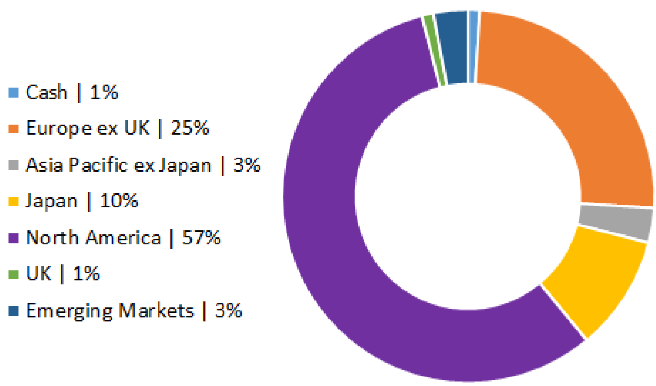
Performance 1 month	Performance 5 years p.a.	$10,000 invested at inception is now worth
2.0%	11.2%	$19,654

FUND COMMENTARY

Over recent months we have significantly reduced our exposure to Emerging Markets. Two trends have typically worked against EM in previous business cycles. Higher US interest rates (or fears thereof) often draw capital out of EM markets as investors seek the higher and less risky returns available in the US. With higher US rates, EM currencies tend to weaken making the carry trade (borrow in low rate economy like US/Europe/Japan - invest in high yield EM stocks and bonds) much more risky. And secondly, any trade war impact usually falls more heavily on EM economies. They tend to have less diversity, less political clout and a much greater reliance on commoditised exports that are often the first casualty in a trade war.

We still are running a relatively defensive portfolio, and over the next two quarters may start to add more specific downside protection through the purchase of options.





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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	Performance 5 years p.a.	$10,000 invested at inception is now worth
1.3%	2.0%	$10,601

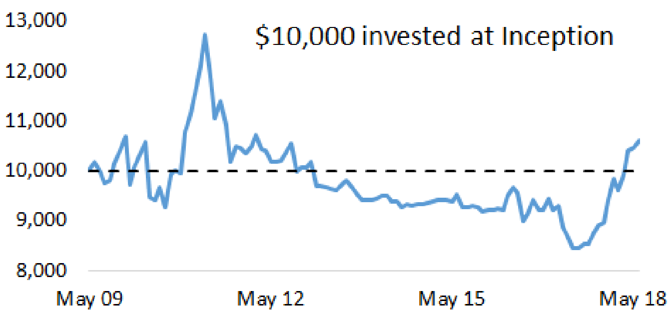
FUND COMMENTARY

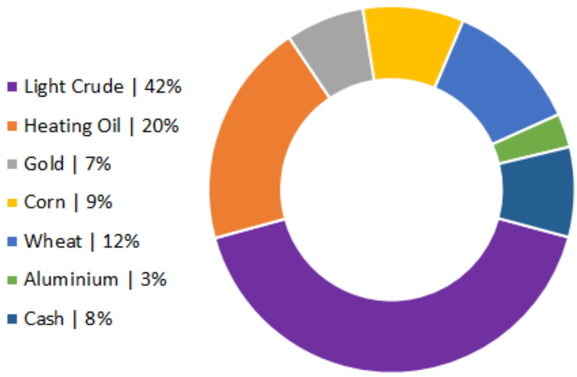
The cogs of the commodity engine kept on grinding during June. The fund outperformed the Bloomberg Commodity Index by a solid 4.8%.

The Bloomberg index suffered from its 10% weighting to soybeans which fell 15% over June. Soybeans have been the single largest US agricultural export to China (US$12 billion p.a.). China has allegedly stopped all purchases from the US. - an obvious trade retailiation target given Trump's strong support in soybean producing states.

The Fund has agricultural exposure of 12% to wheat and corn. These also fell but not as sharply as soybeans (down 8% and 10% respectively).

Crude oil crept higher again. OPEC's latest meeting confirmed a production increase of 1 million barrels per day, much less than was expect (prices then rallied 4%). Many OPEC members are already producing at capacity so the announcement may not cap prices. This could mean energy prices remain strong for a while.





FUND PERFORMANCE

As at 29 June 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	1.7%	3.2%	0.1%						8.2%
Morningstar Developed Markets Index NR (50% Hedged)	1.7%	5.1%	3.0%						8.4%
Global Water Fund	0.5%	2.2%	-2.8%	6.1%	7.1%	5.0%	10.5%	8.9%	8.6%
PIO Global Water ETF (50% Hedged)	0.2%	1.5%	-0.6%	11.6%	10.7%	3.3%	9.1%	6.4%	10.6%
Global Property Fund	3.7%	8.4%	1.3%	9.0%	3.4%				9.1%
Morningstar Real Estate Index TR (75% Hedged)	5.2%	11.0%	3.2%	6.6%	3.1%				11.9%
World Equity Fund	2.0%	4.9%	2.8%	12.0%	11.7%	4.4%	11.2%		9.3%
Morningstar Global Markets Index NR (50% Hedged)	1.2%	3.9%	2.1%	15.6%	16.4%	8.4%	11.2%		8.1%
Commodity Plus Fund	1.3%	7.0%	12.5%	25.6%	5.3%	3.7%	2.0%	-0.6%	6.8%
Bloomberg Commodity Index TR (100% Hedged)	-3.5%	0.4%	0.0%	7.3%	0.2%	-4.5%	-6.4%	-7.8%	11.9%

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.responsiblereturns.com.au, together with details about other responsible investment products certified by RIAA.

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