

2018
May

MONTHLY REVIEW

Review of Fund Performance and Current Events

politics

The Italian election was held in early March. The populist Five Star Movement and right wing League Party continue to work on forming a coalition government - which will be both anti-Europe and (put simply) an accident waiting to happen...

MARKET UPDATE

"Honestly I think that's ridiculous"

Response from Morgan Stanley's CEO (James Gorman) to the suggestion from legendary investor George Soros that another major global crisis is in store (reported by Bloomberg)

MARKET COMMENTARY

Despite considerable political uncertainty and increased market volatility, equity markets have held steady and are flat (up 0.48%) year to date.

Big risks for markets: Italian politics are a mess - which could have serious consequences for wider Europe. The US is tearing up the Iranian nuclear deal. President Trump is also wrecking havoc with the complex rules based system of international trade. The North Korean talks have a long way to go. Despite these ongoing issues, markets remain resilient. In fact it has been surprising how quickly equity markets bounce back from bad news (like the US imposing import tariffs on foreign steel).

Markets remain positive: While emerging market economies are facing headwinds, the US remains a bright light of growth in the developed world. It is possible that new highs are coming for the S&P500 - investors with a positive outlook argue portfolios should maintain a tilt towards risky assets like shares (source: FNZ and BCA).

Australian Royal Commission: Large financial institutions in Australia have been hammered by the Royal Commission. This is no surprise - companies whose business practices and ethical standards are unacceptable (or illegal) should be punished with significant brand damage, customers moving to competitors and regulatory fines. It will not be business as usual at AMP where some shocking practices were uncovered. Deutsche Bank research argues that AMP will suffer close to \$5 billion of outflows from its wealth management business and a 10% fall in earnings. The regulator has also indicated it may follow up with

both civil and criminal charges for AMP.

Aging workforces are a problem globally. In the 1980s there were only 9 countries with a shrinking workforce (those aged 15 to 64). Now there are 40 - China, Russia and Spain have just joined the group, Thailand and Sri Lanka will join shortly. The problem is not just the shrinking workforce, it is also the ratio of workers to elderly. For example Japan had 17 over 65s for every 100 workers in 1990. In 2020 it is expected to have 48 over 65s for every 100 workers. There are three obvious solutions, all of which require social change: (1) encouraging young immigrants, (2) encouraging more women to enter the work force and (3) encouraging workers to stay in their job beyond 65 (source: *The Economist*). For investors, the healthcare sector is a clear long term beneficiary of the aging trend.

Having more babies is the long term solution to an aging workforce, but this is also a problem. The number of US babies born in 2017 (3.85 million) was the lowest for 30 years. The reason - babies born per thousand women (60.2) is the lowest since records began over 100 years ago (source: *WSJ*). Low fertility rates are common across developed countries, creating a significant long term challenge.

Electric vehicles (EVs) reduce greenhouse gas emissions. But benefits depend on the electricity source. If power is generated by burning coal, emissions saved by swapping EVs for petrol cars are much less than if the electricity source is renewable. Coal reliant states/countries (like Minnesota & China) have much lower impact than high renewables states/countries (like New York & New Zealand).

THE FOCUS | Core-Satellite Portfolios

Why does the active vs passive debate have to be mutually exclusive, why can't we construct a portfolio using the best of both worlds? We can, it's called Core-Satellite and it's simpler than you think. In this first of a two-part series of The Focus, we will explore the portfolio construction approach of Core-Satellite. This time we will focus on the what and why. Next time we will pick up on the how. [Click here to read the full story](#)

UNIT PRICES as at 31 May

Pathfinder Global
Responsibility Fund
\$1.0289

Pathfinder Global Water Fund
\$1.8778

Pathfinder Global Property
Fund
\$1.1048

Pathfinder World Equity Fund
\$1.7626

Pathfinder Commodity Plus
Fund
\$1.0465

OUR PEOPLE

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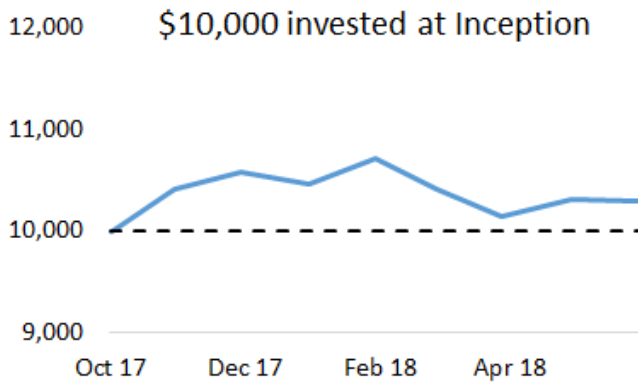
Phone : 09 489 3802

PORTFOLIO UPDATES

GLOBAL RESPONSIBILITY FUND

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

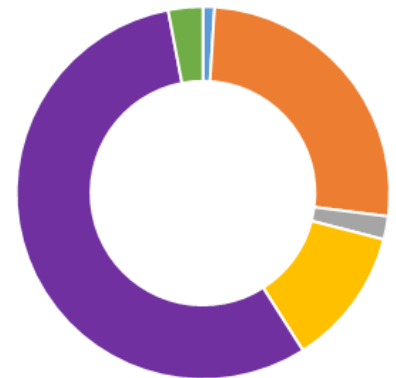
Performance 1 month	Performance since inception	\$10,000 invested at inception is now worth
-0.2%	2.9%	\$10,289



FUND COMMENTARY

The fund had a challenging month, being hurt by its underweight energy position. The fund divested from 10 of its fossil fuel exposures during February 2018, based on a long term view around Arctic drilling, oil sands and renewable energy. Those divested include ExxonMobil, BP, Chevron and ConocoPhillips, all of which are being sued by the New York State Pension Fund for contributions to global warming.

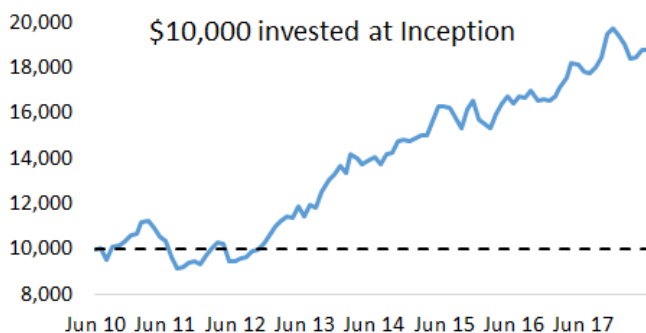
The fund now invests in just three, best in class producers - Equinor from Norway (formerly Statoil), Santos from Australia and Repsol from Spain. These are leaders in managing environmental risks, moving into cleaner forms of carbon fuel or investing in renewable energy. Though the fund remains underweight energy, average share price returns since February from these three companies were 4% more than wider energy stocks.



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.

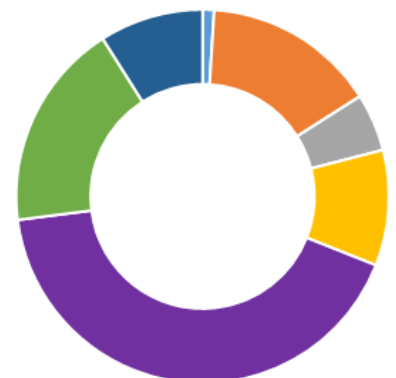
Performance 1 month	Performance 5 years p.a.	\$10,000 invested at inception is now worth
0.1%	9.6%	\$18,778



FUND COMMENTARY

The Water Fund has been certified as a responsible investment by the Responsible Investment Association of Australasia. This covers revenue exclusions from the fund (such as tobacco, thermal coal, gambling etc) and also our focus on companies that score highly on environmental, social and governance (ESG) metrics.

We have recently added to the ethical nature of the fund. After inquiry from several investors we have reviewed all companies for activities in relation to animal welfare. We did not uncover any issues. This is important for a number of investors as conventional global equity funds will include pharmaceutical companies that engage in animal testing and supermarkets that sell packaged meat.



PORTFOLIO UPDATES

GLOBAL PROPERTY FUND

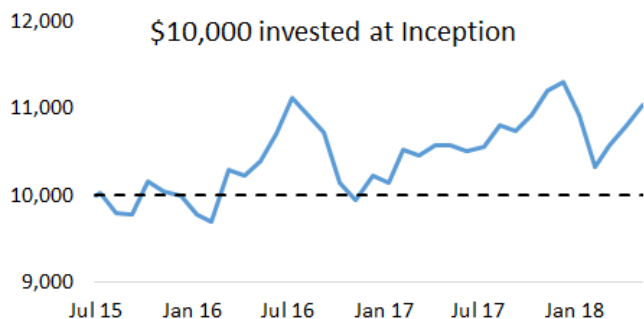
The Global Property Fund is designed to provide socially responsible investment in global listed property stocks. It has a significant allocation to NZ listed property, recognising the preference of NZ investors to overweight the local market. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month	Performance 2 years p.a.	\$10,000 invested at inception is now worth
2.1%	3.1%	\$11,048

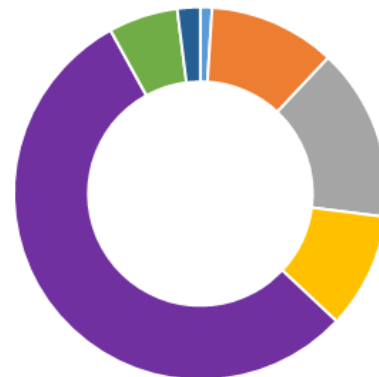
FUND COMMENTARY

A new trend has started for industrial buildings in supply constrained American cities - like apartments, they are now going upward. This is common in Asia, with multi-storied warehouses meaning the vast footprint can be reduced. Four multilevel projects have already begun in the US, and many more are in the design stages.

The Fund is in a good position to benefit from this new trend through Prologis, one of the fund's larger positions. Prologis is an industrial REIT with 683 million sq.-ft of property. It has recently finished refurbishing its 250,000 sq.-ft multi-story building in New York and has two development projects lined up on the West Coast. The company will draw on experience from its Asian division which has successfully built 6 to 12 story industrial buildings in Japan, Singapore and China. "This is a deep trend, and it's not going away," says Rob Kossar, vice chairman and head of Northeast industrial at real estate firm JLL.



- Cash | 1%
- Europe ex UK | 11%
- Asia Pacific ex Japan | 15%
- Japan | 10%
- North America | 55%
- UK | 6%
- Emerging Markets | 2%



WORLD EQUITY FUND

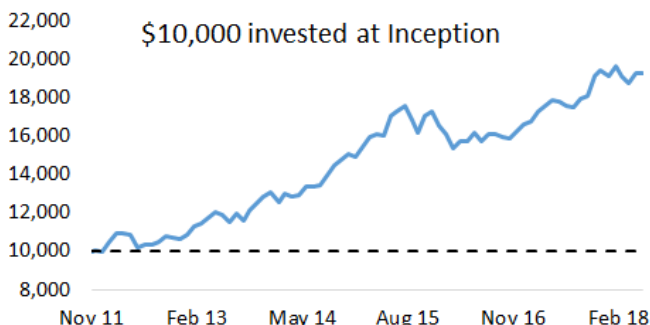
The World Equity Fund is designed to provide diversified socially responsible exposure to global equities (across both developed and emerging markets). The fund invests in ETFs to access global equity sectors and regions, and uses currency hedging to reduce foreign currency exposure.

Performance 1 month	Performance 5 years p.a.	\$10,000 invested at inception is now worth
0.0%	10.2%	\$19,265

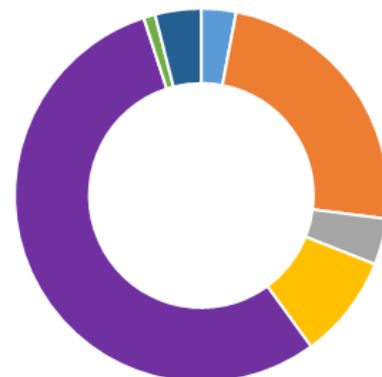
FUND COMMENTARY

We're in a 9 year bull market - the 2nd longest since world war 2 (during which markets have rallied 16.4% p.a in USD terms). The longest bull market in 1945 (from Oct 1990 to March 2000,) saw markets grow by 19.0% p.a.

How long the bull market can run? Let's ask the reverse question - how frequent are recessions? In the 100 years to the end of world war 2, a recession happened in the US once every 2 and a half years. And they were brutal - with the average economic downturn of 22%! Things have been more subdued since world war 2, with a recession every 5.3 years on average and the typical contraction of only 2.3%. If you believe history follows a pattern then you will be interested to know the US has had a recession in every decade since 1850 - except for the current decade... are we overdue? It should calm your nerves to hear a recession is not a certainty - Australia has not had one since 1991...



- Cash | 3%
- Europe ex UK | 24%
- Asia Pacific ex Japan | 4%
- Japan | 9%
- North America | 55%
- UK | 1%
- Emerging Markets | 4%

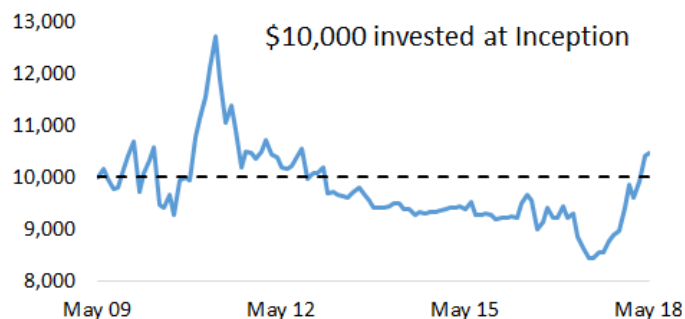


PORTFOLIO UPDATES

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 thermal coal, uranium or the shares of commodity producers. Currency exposures are fully hedged.

Performance 1 month **0.6%** | Performance 5 years p.a. **1.7%** | \$10,000 invested at inception is now worth **\$10,465**

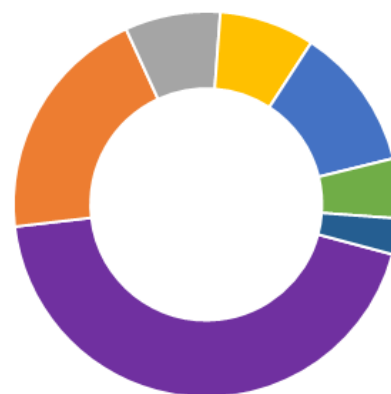


FUND COMMENTARY

Choppy markets saw the fund up 5% mid month, only to be throttled in the last week, finishing up slightly (0.6%). The big story was Crude Oil (currently 44% of the fund). OPEC and Russia (which is not part of OPEC) held talks indicating they would ramp up production again. Current compliance of the supply cuts set out in January 2017 to reduce production by 1.2 million barrels per day (MB/D) are running at 150% - meaning they have reduced output by 1.5 times their target. This news spooked oil markets which sold off 8 days in a row from recent highs of \$72.4 to finish May at, \$67.0. The announcement from OPEC was to increase production by 1.5 MB/D. This would fill some of the output gap left by struggling Venezuela and sanctioned Iran.

Trade tensions and bumper seasons have lead to subdued agricultural prices in recent times. However, prices are expected to turn - northern hemisphere producers are generally positive about the pricing outlook as they head into the current growing season.

- Light Crude | 44%
- Heating Oil | 20%
- Gold | 8%
- Corn | 8%
- Wheat | 12%
- Aluminium | 5%
- Cash | 3%



FUND PERFORMANCE

As at 31 May 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	-0.2%	-1.1%	-2.8%						8.6%
Morningstar Developed Markets Index NR (50% Hedged)	1.0%	1.3%	0.8%						8.9%
Global Water Fund	0.1%	2.0%	-4.7%	3.5%	5.9%	4.8%	9.6%	8.6%	8.7%
PIO Global Water ETF (50% Hedged)	0.5%	3.0%	-2.1%	7.4%	9.2%	3.1%	8.4%	5.9%	10.6%
Global Property Fund	2.1%	6.9%	-1.4%	4.4%	3.1%				9.0%
Morningstar Real Estate Index TR (75% Hedged)	3.9%	9.8%	-2.8%	2.8%	2.9%				11.7%
World Equity Fund	0.0%	0.5%	-1.0%	8.4%	9.1%	4.1%	10.2%		9.4%
Morningstar Global Markets Index NR (50% Hedged)	0.5%	0.7%	0.6%	12.9%	13.8%	8.1%	10.6%		8.2%
Commodity Plus Fund	0.6%	8.9%	16.7%	24.0%	4.1%	3.7%	1.7%	-1.8%	6.8%
Bloomberg Commodity Index TR (100% Hedged)	1.4%	3.4%	6.7%	11.0%	4.1%	-2.8%	-6.6%	-8.0%	11.9%

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

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