January 2020

MONTHLY REVIEW

Review of Fund Performance and Current Events

Coronavirus has struck in the middle of Chinese New Year (Year of the Rat), a period of peak travel for China.

Pathfinder
INVEST RESPONSIBLY

MARKET UPDATE

"The detection of a small number of cases may indicate more widespread transmission in other countries; in short we may only be seeing the tip of the iceberg".
Tedros Ghebreyesus, Director General of the World Health Organization on Coronavirus

MARKET COMMENTARY

Early in the month markets were basking in the after-glow of the partial US-China trade deal and continued encouraging signs of stabilisation in global growth. The latest US ISM manufacturing survey surprised significantly on the upside by moving back into expansion.

The US Federal Reserve and other central banks' narrative of lower interest rates and liquidity support appears to be outweighing unquantifiable worries about trade war uncertainty, geopolitical uncertainty and fiscal policy uncertainty.

Late in the month global markets gave back some gains as news of the Coronavirus outbreak spread.

There would never have been a good place or a good time for the Coronavirus epidemic to occur. But it is concerning for the world economic outlook that the Coronavirus should choose to hit a super-power such as China at this vulnerable stage in the world economic cycle, and at a time when so many Chinese are traveling to celebrate the Chinese New Year.

In 2003, when the Chinese economy was growing by around 11% a year, it is estimated that the outbreak of SARS might have reduced Chinese GDP by 2% in the quarter. Unlike 2003, when China's economy was still relatively small, China's economy now accounts for around 15% of the world's GDP.

It is too early to tell if there will be a sustained market or economic impact, but in the short term China-exposed stocks and travel/tourism-related companies have been hardest hit. Further stocks with ties to China such as miners and primary industries such as milk exporters to China have been under pressure, particularly on reports of ports/factories closing down in China to prevent the virus spreading.

Our base assumption is that volatility will remain elevated in the short term, but this will not be a medium term issue. Particularly as there is a potential for Chinese authorities to intervene and stimulate the economy further if the situation deteriorates.

At the same time, the focus of markets is on earnings season in the US as companies announce their profits for the fourth quarter of 2019. Investors continue to digest mixed company earnings announcements overseas. To date, 45% of the companies in the S&P 500 have reported actual results for the 4th quarter 2019. In terms of earnings, the percentage of companies reporting actual earnings above estimates (69%) is below the five-year average. In terms of sales, the percentage of companies (65%) reporting actual sales above estimates is above the five-year average. Looking ahead into 2020, it should be easier for US corporations to publish stronger results given they will be compared to a relatively "weak" 2019 year, as the impact of the Trump Administration's tax cuts are no longer influencing earnings numbers.

Later in the year there will be a presidential election in the US, with many market commentators believing Trump will likely be re-elected. There is likely to be market volatility as we get closer to the election and front-runners emerge. The US election will be an increasing focus and risk for markets if a hard-left candidate wins the Democrat nomination.

Overall, we think 2020 will be another year of positive returns for equity markets, but at a more modest rate than 2019 – we are clearly late in the cycle. Valuations in many areas look stretched and we continue to favour stocks in our top investment themes such as water; an ageing population; and data.

THE FOCUS | No room for complacency in 2020

Markets are basking in the after-glow of the partial US-China trade deal and continued encouraging signs of stabilisation in the global growth slowdown. While we're starting 2020 with less concerns than last year, as is always the case, there's never any room for complacency as a number of market risks linger.
See Hamesh's recent story, published in Good Returns here.

UNIT PRICES as at 31 Jan

Pathfinder Global Responsibility Fund
$1.2074

Pathfinder Global Water Fund
$2.4119

Pathfinder Global Property Fund
$1.3165

Pathfinder World Equity Fund
$2.044

Pathfinder Commodity Plus Fund
$0.9042

OUR PEOPLE

John Berry	Chief Executive Officer
Paul Brownsey	Chief Investment Officer
Hamesh Sharma	Portfolio Manager
Bob McCutcheon	Strategy, Compliance
Lizzy Sun	Senior Compliance Officer
Kate Brownsey	Environmental Science Analyst
Simon Leach	Business Development
Jeanette Kassa	Client Services

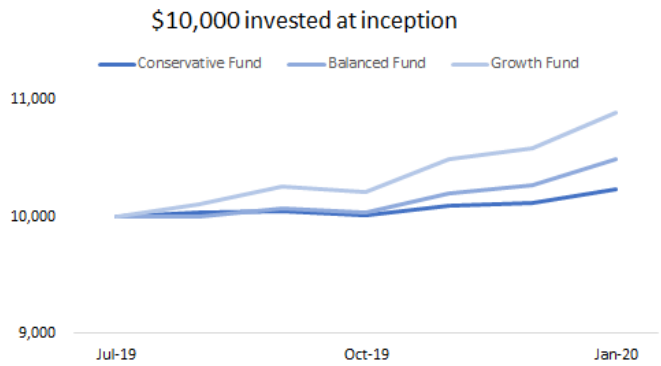
Phone : 09 489 3802

PORTFOLIO UPDATES

CARESAVER KIWISAVER

CareSaver was launched on July 31 2019, and we aspire for it to be New Zealand's most ethical KiwiSaver scheme. We avoid investments in industries we believe are harmful to society and the environment, and seek out companies to invest in that have high Environmental, Social and Governance standards. We typically invest in around 180 individual companies and also invest in non-public opportunities that meet our ESG critieria, and have high expected growth. We believe a carefully constructed portfolio using ethical considerations will provide superior long term performance. Check out CareSaver at www.caresaver.co.nz

Conservative since July 31 2019	Balanced Since July 31 2019	Growth Since July 31 2019
+2.4%	+4.9%	+8.9%



FUND COMMENTARY

Our three CareSaver funds now have 6-months of track record, and it has been a pretty healthy comparison versus the bank schemes especially in Growth.

Over that period, our Growth scheme has returned 8.8%, Balanced 4.9% and Conservative 2.3%. We believe our ESG-centred investment approach will provide superior, long term returns when compared to funds that ignore this extra dimension of investment risk.

Like some of our active management KiwiSaver peers, we have an overweight exposure towards Australasian equity markets (roughly 20% of our portfolio is allocated to Australian and New Zealand stocks). We have this "home bias" as we believe we can add greater value by picking stock investments in Australasia compared to globally. Our overweight positioning paid off in January as the Australian shares had a stellar month, with the most widely followed Australian stock market index adding a gain of close to 5%.

CareSaver has several unique properties. It is the only KiwiSaver scheme that entirely avoids companies engaged in the exploration and extraction of fossil fuels. We are also the only KiwiSaver scheme that actually measures the carbon intensity and carbon transition risk of our portfolio.

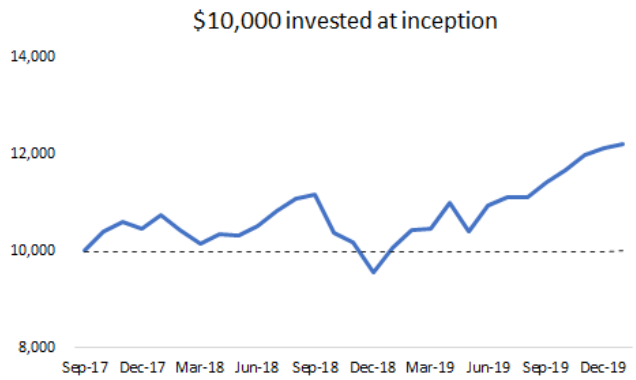
Further, we are also avoiding companies involved in animal testing. It is rare that a genuine need exists for animal testing - there are many alternatives for animal trials, and many forward thinking biotech and cosmetic companies have already moved beyond traditional animal testing.

CareSaver is also set up as a social enterprise - we donate 20% of our gross revenue to charities selected by our members.

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	Performance 1 year	$10,000 invested at inception is now worth
+0.8%	+21.3%	$12,211



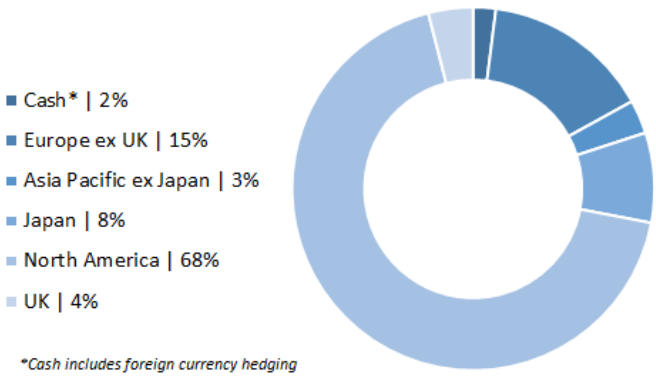
FUND COMMENTARY

CERTIFIED BY RIAA

US markets have rallied back to all-time highs and we remain heavily weighted towards North America.

Investors continue to digest mixed company earnings announcements overseas. To date, positive earnings surprises versus market expectations have been recorded by companies in the Information Technology and Consumer Discretionary sectors, partially offset by negative earnings surprises reported by companies in the Industrials sector.

US housing data is on the up, the US consumer is spending, the labour market remains tight, and importantly the Federal Reserve remains supportive. This backdrop should continue to support the US equity market, although an uncertainty to watch in 2020 is the US presidential election. A far left democratic winner would be a negative for stocks and with the primary elections underway volatility could pick up as we move through the year.



**Cash includes foreign currency hedging*

Pathfinder INVEST RESPONSIBLY

PORTFOLIO UPDATES

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.

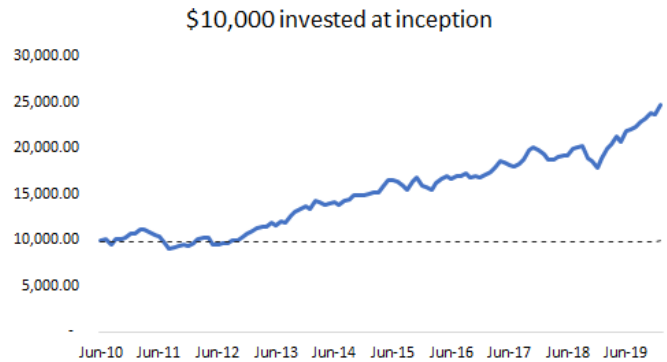
Performance 1 month	Performance 7 years p.a.	$10,000 invested at inception is now worth
+4.3%	+12.2%	$24,742

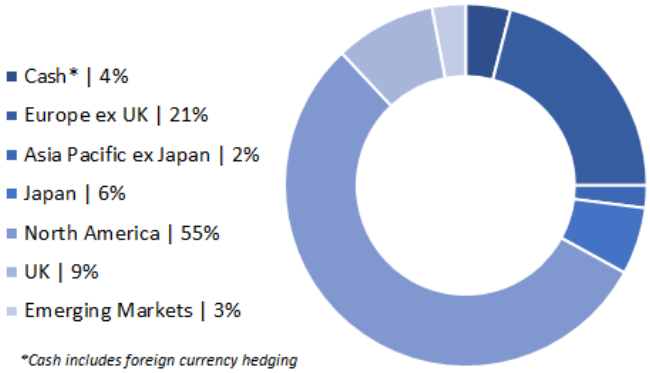
FUND COMMENTARY

The Water Fund had a very strong month in January both in absolute and relative terms.

Our large positioning towards the US continued to boost returns. While utility water stocks took a breather, industrial and healthcare water related businesses has a solid start to 2020.

Our allocation to Europe also boosted performance, while being underweight emerging markets and Asia-Pacific region assisted returns as the Asian region has been hit hardest by Coronavirus related fears.





**Cash includes foreign currency hedging*

GLOBAL PROPERTY FUND

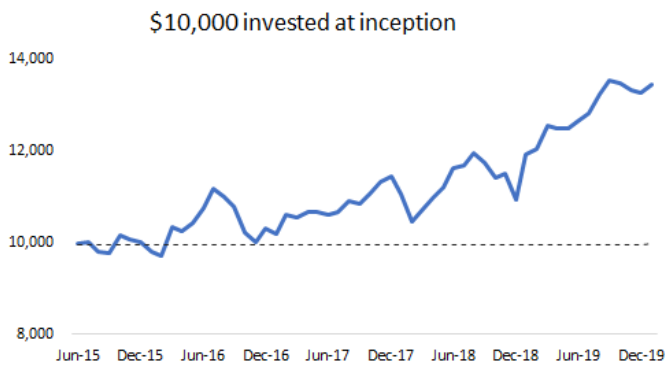
The Global Property Fund is designed to provide socially responsible investment in global listed property stocks. It has a significant allocation to NZ listed property, recognising the preference of NZ investors to overweight the local market. Currency hedging is used to reduce foreign currency exposure.

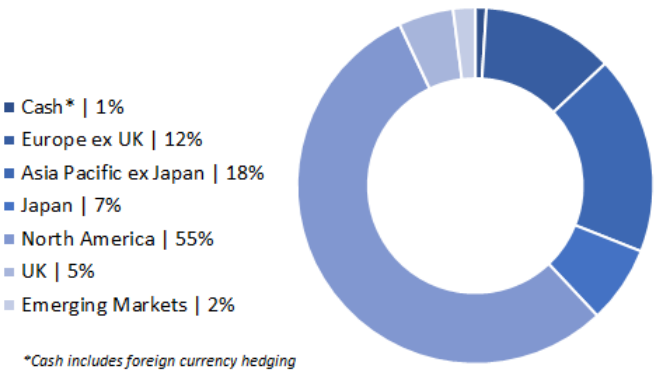
Performance 1 month	Performance 3 years p.a.	$10,000 invested at inception is now worth
+1.5%	+9.7%	$13,462

FUND COMMENTARY

The property fund was higher in January, as yields fell significantly in North America. the ten year US Treasury yield fell almost 40 bps below 1.60% which is well below the current US inflation rate. Property stocks are generally trading well though some sectors are struggling. Traditional retail REIT's remain under pressure as mall consolidation continues and anchor tenants become harder to fund.If interest rates remain low, the sector is likely to remain supported.

As highlighted in prior monthly's, we also own a number of specialist REIT's, behind which we see secular tailwinds for many years. Data storage, specialty health care and residential property companies are key sectors which we remain positive towards.





**Cash includes foreign currency hedging*

Pathfinder INVEST RESPONSIBLY

PORTFOLIO UPDATES

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
+3.5%	+10.8%	$20,930

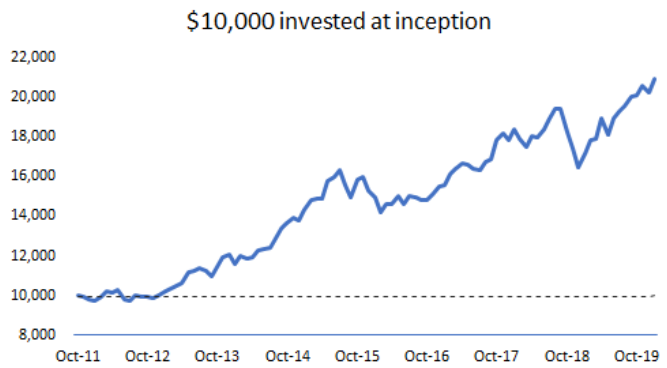
FUND COMMENTARY

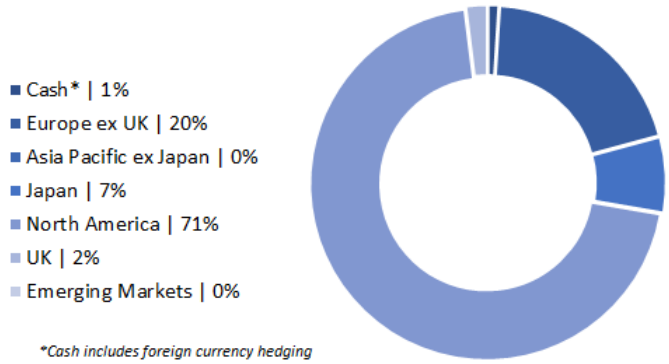
In a reversal of the trend over the last few months, New Zealand dollar weakness saw the fund generate significant out-performance over January given we are under-hedged on our US dollar exposure.

Volatility has lifted after Coronavirus fears hit markets.

China-exposed sectors have been hit in developed markets, and Asian equity markets have come under significantly greater selling pressure.

As we continue to have 0% invested in the Asia-Pacific (Ex-Japan) region, our country positioning also saw us significantly outperform towards the end of January. We remain comfortable with our underweight in emerging markets and Asia and our high allocations to technology, utilities and real estate.





**Cash includes foreign currency hedging*

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.

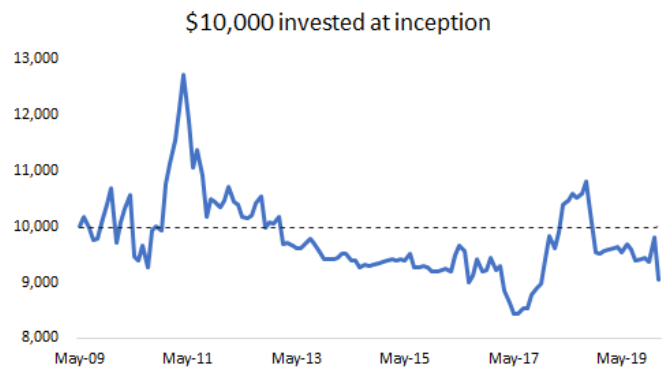
Performance 1 month	Performance 10 years p.a.	$10,000 invested at inception is now worth
-7.9%	-0.7%	$9,041

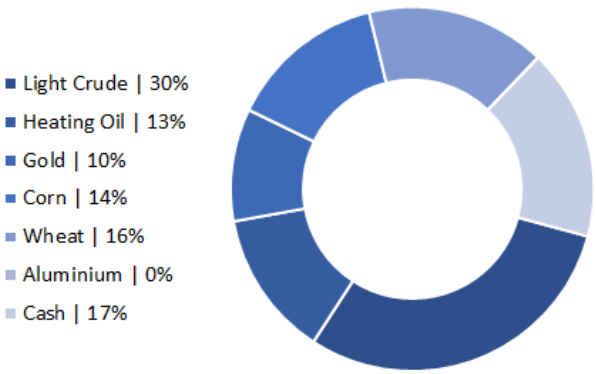
FUND COMMENTARY

The rally in Crude Oil at the start of the year was short lived - as oil spiked with rising geopolitical tensions between the US and Iran.

West Texas Crude dropped below $50 a barrel for the first time in over a year. Fears that the coronavirus poses a risk to Chinese and hence global growth and oil demand are putting pressure on the oil price. Further, with impacts on travel, the airline industry is a large consumer of oil which is likely also impacting on sentiment. OPEC and Russia are reportedly considering an emergency production cut.

While many industries or regions have the potential to be hard hit b the effects of Coronavirus, commodities have been the worst affected by far. Iron ore, oil, industrial metals and the energy sector of global equity markets have all been hit hard, with commodities in particular down more than 15% since mid January.





Pathfinder
INVEST RESPONSIBLY

PORTFOLIO UPDATES

ETHICAL TRANS-TASMAN FUND

The Fund is a high conviction portfolio of up to 30 stocks, reflecting top stock ideas across Australia and New Zealand. A mix of top down (macro-economic) and bottom up (company specific) analysis to create a high conviction portfolio which we believe will provide superior medium term risk adjusted returns.

The Ethical Trans-Tasman Fund is currently offered for subscription not to the public or retail investors but to wholesale investors only.

Performance 1 month	Performance since inception	$10,000 invested at inception is now worth
+1.7%	+7.5%	$10,752

FUND COMMENTARY

Another solid month saw the fund hit a return of +7.5% for its first 4-months since inception of Oct 2019.

We agree that stock valuations in many areas look stretched and continue to favour stocks exposed to our top investment themes such as a rising Asian middle class; water; an ageing population; the explosion of data; and software as a service. We would like to reiterate that we are medium-term investors and some of our best ideas are ones we have supported for many years.

Travel-related stocks, including airlines, casinos and hotels, have been the worst-hit as Coronavirus impacts are most direct (Our holding in Tourism Holdings has suffered). Both the ASX and NZX have been volatile on the back of Coronavirus news, given the heavy reliance of both economies to China as a major trade partner. There is clearly a large amount of uncertainty, and it is very early to tell what the impact of Coronavirus will be.

RESPONSIBLE INVESTMENT FUND

The socially responsible Responsible Investment 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, fossil fuels 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 not used.

The Responsible Investment Fund is currently offered for subscription not to the public or retail investors but to wholesale investors only.

Performance 1 month	Performance 1 Year	$10,000 invested at inception is now worth
+3.0%	+26.7%	$13,291

FUND COMMENTARY

The Responsible Investment Fund is fully un-hedged at all times so made strong gains in January as the Kiwi Dollar reversed its trend .

The fund remains fully invested using an equal weighting strategy which gives a natural bias to value stocks and mid-cap stocks.

Currently the technology sector is outperforming as it remains relatively well insulated from Coronavirus volatility. The fund has high exposure to technology stocks and chip manufacturers.

FUND PERFORMANCE

Fund performance as at 31 January 2020	1 Month	6 Month	1 Year	3 Year p.a.	5 Year p.a.	7 Year p.a.	10 Year p.a.	Since Inception	Inception Date	Volatility
Global Responsibility Fund	0.8%	9.9%	21.3%					8.9%	02/10/17	11.3%
Morningstar Developed Markets Index NR (50% Hedge	1.3%	8.8%	21.3%					11.0%		11.2%
Global Water Fund	4.3%	12.5%	31.1%	13.2%	10.4%	12.2%		9.9%	30/06/10	10.2%
NASDAQ OMX Global Water Index (50% Hedged)	3.3%	13.3%	30.4%	17.5%	9.9%	11.3%		10.1%		10.8%
Global Property Fund	1.5%	5.0%	13.0%	9.7%				6.8%	22/07/15	9.1%
FTSE/NAREIT Developed TR Index (75% Hedged)	1.9%	7.6%	12.9%	9.6%				5.1%		9.3%
World Equity Fund	3.5%	8.5%	22.2%	10.3%	7.9%	10.8%		9.4%	14/11/11	10.4%
Morningstar Global Markets Index NR (50% Hedged)	0.8%	8.4%	19.6%	13.1%	9.8%	11.0%		11.6%		10.0%
Commodity Plus Fund	-7.9%	-5.6%	-5.6%	-0.7%	-0.7%	-1.7%	-0.7%	-0.9%	31/05/09	10.2%
Bloomberg Commodity Index TR (100% Hedged)	-7.4%	-4.4%	-5.4%	-3.5%	-4.7%	-8.0%	-4.7%	-4.1%		9.6%
Ethical Trans Tasman Fund (Wholesale only)	1.7%	7.2%						7.5%	30/09/19	
NZX/ASX50	3.3%	6.0%						5.0%		
Responsible Investment Fund (Wholesale only)	3.0%	11.7%	26.7%					10.9%	04/05/17	11.4%
Morningstar Developed Markets NR Index (NZD)	3.4%	9.8%	25.4%					12.3%		11.5%
CareSaver Growth Fund	2.8%	8.9%						8.9%	31/07/19	
CareSaver Balanced Fund	2.2%	4.9%						4.9%	31/07/19	
CareSaver Conservative Fund	1.2%	2.4%						2.4%	31/07/19	

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.

1. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

^Volatility is on a rolling 3 year basis, for funds with less than 3-years of history the calculation is from inception. All returns are shown after fees and at 0% PIR.

Pathfinder INVEST RESPONSIBLY