2019
February

MONTHLY REVIEW

Review of Fund Performance and Current Events

NASA and the National Oceanic and Atmospheric Administration released data showing 2018 was the fourth warmest year since 1880. The past 5 years have been the 5 warmest on record, and 18 of the 19 warmest recorded years have occurred since 2000.

Pathfinder
INVEST RESPONSIBLY

MARKET UPDATE

" Earth's global surface temperatures in 2018 were the fourth warmest since 1880 "

https://earthobservatory.nasa.gov/images/144510/2018-was-the-fourth-warmest-year-continuing-long-warming-trend

MARKET COMMENTARY

Warming: Our planet is warming. According to NASA and the National Oceanic and Atmospheric Administration, 2018 was not far off 1 degree Celsius warmer than the average temperature for 1951 to 1980. 2018 was cooler than 2016, 2017, and 2015 - but the past 5 years are the warmest since modern records have been kept. It's much more than a coincidence, this is seriously alarming.

Poles are warming: NASA uses 6,300 land and sea based measuring stations for global coverage. The strongest warming trends are at the north and south poles, where sea ice continued to melt over 2018 - adding to risks around sea level rise.

95% since 2000: It is astonishing that 18 of the 19 warmest years on record (95%) have occurred since 2000. Higher temperatures are a contributor to longer fire seasons, coastal flooding, heatwaves, changes in ecosystems, water availability and heavier rainfall. It's bad news.

Silver lining? The long term effects of climate change are very bad news - if there is a positive, it's that governments (from both the developed and emerging worlds) are taking climate change seriously. This is influencing policy thinking, cooperation between countries, behavioral change and the ongoing search for innovative solutions.

Market moves: Moving attention from climate to markets, 2019 started strongly over both January and February. After a crushing 4th quarter in 2018, markets have rebounded - patient investors who rode out the volatility have been rewarded. For more detail, see each of our fund pages below.

Winning a trade war: Fallout from the US/China trade friction is hurting the US economy, with retaliatory tariffs on US goods hitting exports. At the same time last year's tax cuts boosted domestic demand and sent imports up. The result - 2018's U.S. trade deficit ballooned to its worst in 10 years at US$621 billion, despite President Trump's focus on reducing the trade gap.

China slows: As China grows, its grow slows. 2018 GDP growth slowed to 6.6%, and China's 2019 GDP target is now 6.0% to 6.5% - the slowest growth in 28 years. But it's not all bad given that China's economy is more than 3 times larger (in real terms) than it was 28 years ago. This growth has lifted an extraordinary number of people out of poverty.

THE FOCUS | Latest Global Warming Trends

The impact of a warming world on the way we live is perhaps the biggest issue facing society. Some of the best science based information comes from NASA's Earth Observatory which publishes data and research from the many scientists and resources within NASA. **In February they released a report (click here to read) summarising their 2018 measurements which is sobering reading. The interactive graph on this page is a stunning depiction of our warming planet.**

UNIT PRICES as at 28 February

Pathfinder Global Responsibility Fund	$1.0369
Pathfinder Global Water Fund	$1.9585
Pathfinder Global Property Fund	$1.1849
Pathfinder World Equity Fund	$1.7409
Pathfinder Commodity Plus Fund	$0.9590

OUR PEOPLE

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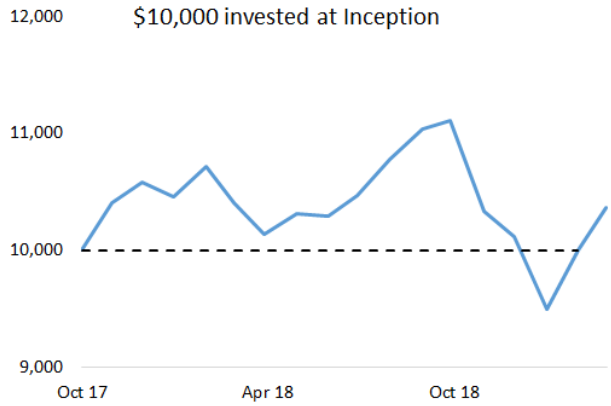
PORTFOLIO UPDATES

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	Performance since inception	$10,000 invested at inception is now worth
3.6%	3.7%	$10,369

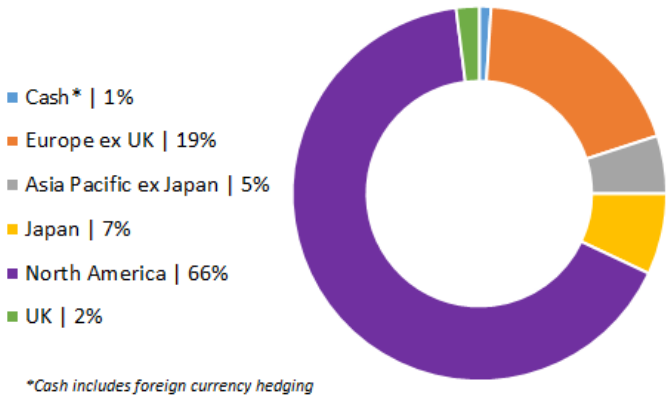


FUND COMMENTARY

Global markets continued their rally in February led for a change by Europe and Japan rather than the US. Over the next year we still expect the US to outperform the rest of the developed world - this is despite slightly higher valuations. The outlook for both economic growth and corporate earnings outlook are significantly more positive in the US than Europe though still much lower than expectations as recently as six months ago.

Our style in the GRF is very much a value oriented approach which has been hard work over the last 2 years as growth stocks have dominated returns (15.2%p.a. for growth versus 5.5%p.a. for value).

The current environment should be more supportive for value investing.

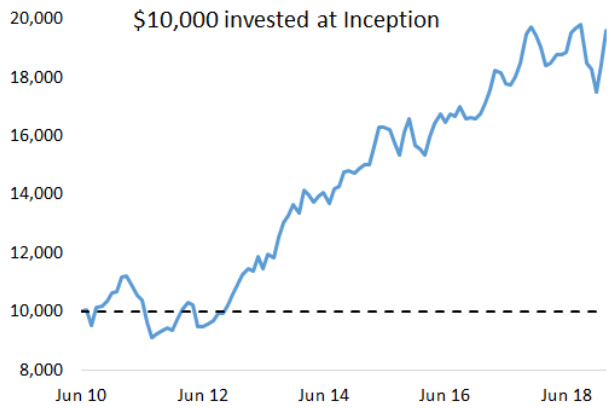


**Cash includes foreign currency hedging*

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	Performance 7 years p.a.	$10,000 invested at inception is now worth
6.1%	10.0%	$19,585

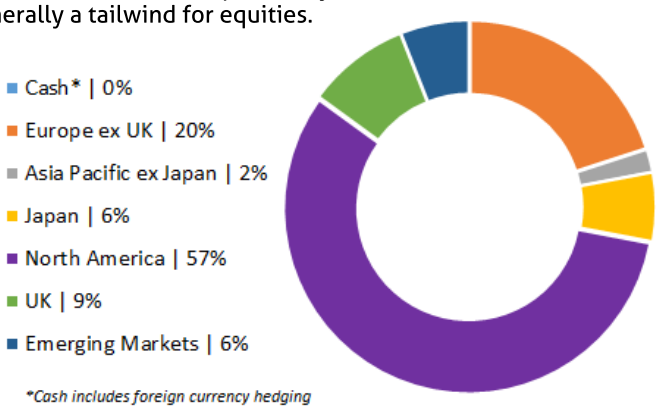


FUND COMMENTARY

The Water Fund performed strongly in February driven by a solid rebound from most stocks in the portfolio.

Utilities performed well after interest rate expectations fell sharply. This was on the back of concerns that global growth - particularly in Europe and China - would fall significantly for the remainder of 2019. We broadly agree with this outlook - Germany for instance may experience growth of less than 0.5% in 2019 (per Deutsche Bank).

On a positive note there is an offsetting factor. Interest rates are likely to fall as the growth outlook slows, providing support to equities. We have already seen European interest rates decline sharply - German 10 year government bonds declined from 0.19% to 0.07% - perilously close to zero. Low rates are generally a tailwind for equities.



**Cash includes foreign currency hedging*

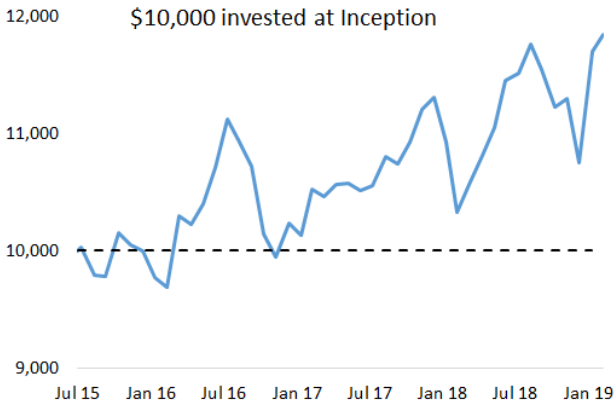
Pathfinder INVEST RESPONSIBLY

PORTFOLIO UPDATES

GLOBAL PROPERTY FUND

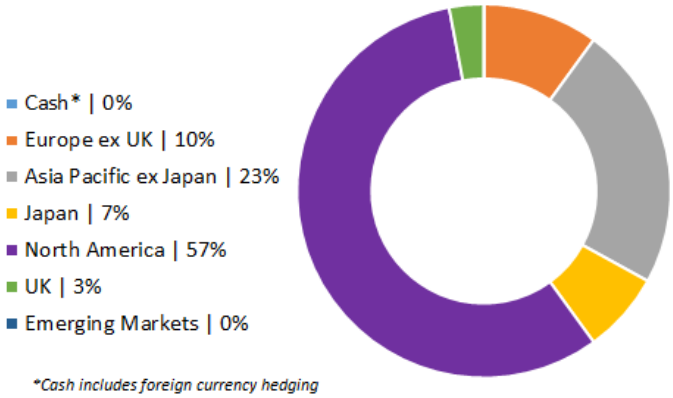
The Global Property Fund is designed to provide socially responsible investment in global listed property stocks. It has a significant allocation to NZ listed property, recognising the preference of NZ investors to overweight the local market. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month	Performance 3 years p.a.	$10,000 invested at inception is now worth
1.2%	6.9%	$11,849



FUND COMMENTARY

The listed real estate outlook is positive. In the US, supply and demand dynamics are supportive. Occupancy rates are at the highest level since 2000, in excess of 95%. New construction is low - historically his has been around 1.5% of GDP, currently it is 1.3%. On balance landlords hold pricing power, which should continue to translate into higher rent and dividend growth. Interest rate expectations have dropped markedly over the last few months and this will also continue to support high yielding REIT's - our portfolio has a current dividend yield of 4%. Should economic growth slow, REIT income is "stickier"than more cyclical equities, and with slowing growth lower interest rates will make REIT yields look more attractive.
Since inception of our fund (July 2016), it has outperformed both the AMP and ANZ Global property funds by 2.1% and 0.6% p.a., respectively, and with lower volatility (1.8% and 1.5% pa.)

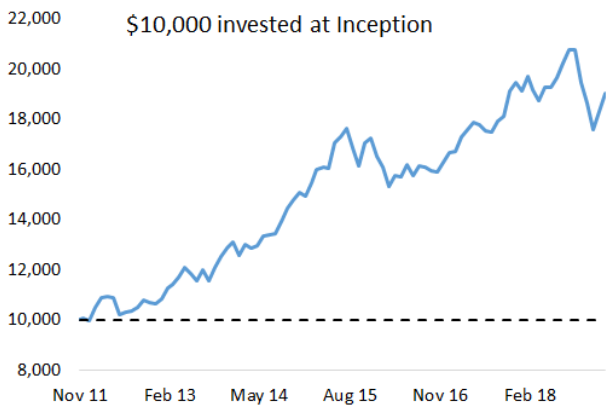


**Cash includes foreign currency hedging*

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.

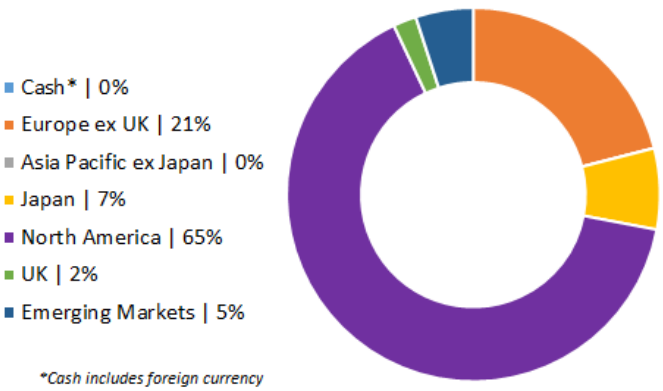
Performance 1 month	Performance 7 years p.a.	$10,000 invested at inception is now worth
3.9%	7.6%	$19,028



FUND COMMENTARY

February saw another rebound in global equities. Interestingly, the best performing US sectors were Info Tech (perceived as the highest growth sector) and utilities (perceived as the most defensive sector). Both returned 3.7% for the month.

This growth/defensive comparison helps explain equity markets right now - lacking momentum and strongly divergent views on whether the next major move is up or down. We fall back on a valuation approach. Today the S&P500's forward PE (current price divided by expected 12 month earnings) is 16.1 - a relatively high figure but well below the 5-year average (17.5). Globally, forward P/Es are much lower - 12.9 for large cap Europe, 12.3 for Germany and 14.7 for Japan. NZ is extreme at 21.0 - offshore markets look much better value.



**Cash includes foreign currency*

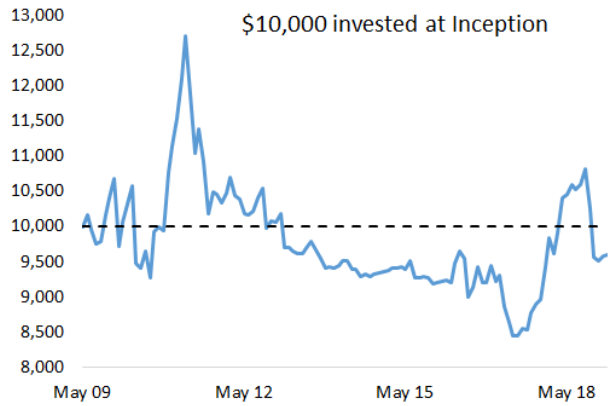
Pathfinder INVEST RESPONSIBLY

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.

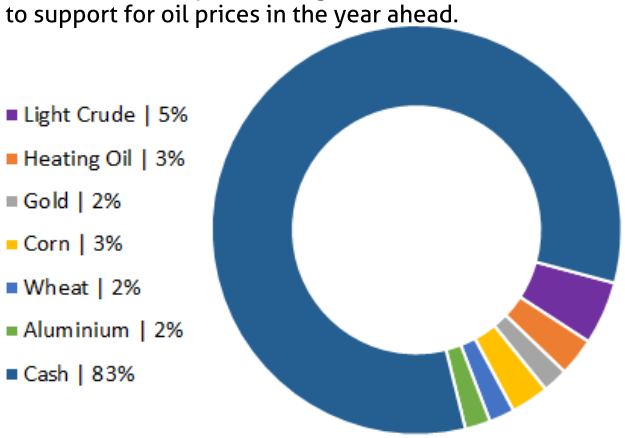
Performance 1 month	Performance 9 years p.a.	$10,000 invested at inception is now worth
0.2%	-0.7%	$9,590



FUND COMMENTARY

The fund continues to hold a small portion of commodities (17%) due to the market sell off in Q4. The momentum rule looks back over the past 12 months to gauge the market's momentum and allocates into commodities based on positive readings.

As a general rule, the long-term commodity market should largely be correlated to economic growth and macro factors. In the short-term, geo-politics can also have a big pricing impact. This is the case at the moment with the US imposing sanctions on Venezuela and Iran, and the US president rage-tweeting OPEC. Add to this the fact US stockpiles decreased over Feb (reducing available supply) and positive demand growth expected for 2019 (despite slowing GDP). All these factors point to support for oil prices in the year ahead.



FUND PERFORMANCE

As at 28 February 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	3.6%	2.5%	-6.1%	-0.4%					12.1%
Morningstar Developed Markets Index NR (50% Hedged)	4.0%	3.1%	-4.9%	3.1%					12.6%
Global Water Fund	6.1%	7.1%	-0.5%	6.4%	7.0%	8.4%	6.7%	10.0%	9.2%
PIO Global Water ETF (50% Hedged)	5.5%	7.7%	1.6%	9.5%	13.0%	11.9%	5.5%	9.4%	11.1%
Global Property Fund	1.2%	4.9%	0.7%	14.6%	6.1%	6.9%			10.0%
Morningstar Real Estate Index TR (75% Hedged)	0.5%	4.6%	1.9%	15.0%	5.8%	7.3%			11.3%
World Equity Fund	3.9%	2.0%	-8.3%	-0.7%	4.9%	7.5%	7.9%	7.6%	10.0%
Morningstar Global Markets Index NR (50% Hedged)	3.6%	3.5%	-4.5%	2.0%	10.0%	12.4%	8.6%	8.6%	9.5%
Commodity Plus Fund	0.2%	0.3%	-9.5%	-0.2%	1.6%	1.3%	0.3%	-1.6%	7.8%
Bloomberg Commodity Index TR (100% Hedged)	1.0%	-0.8%	-1.7%	-5.7%	-2.1%	3.6%	-8.8%	-7.7%	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 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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