

February
2020

MONTHLY REVIEW

Review of Fund Performance and Current Events

ilet Rolls

Panic buying on corona-virus fears in Australia has seen shortages in toilet rolls at supermarkets.

MARKET UPDATE

"We are doing very precise medical screenings at our airports. Pardon the interruptions and delays, we are moving as quickly as possible, but it is very important that we be vigilant and careful. We must get it right. Safety first!"

Donald Trump on Corona-virus containment measures

MARKET COMMENTARY

Before we move onto market commentary, there has been a milestone development in the KiwiSaver industry.

In a bold call from our government, from 2021 default KiwiSaver funds won't hold fossil fuel companies.

Climate change is a massive threat – and our view is that aside from good for the planet, from a financial perspective, returns will be enhanced without fossil fuels. Energy companies are down significantly year to date and are by far the worst performing sector this year. Most recently the sector went into free-fall following an oil price war triggered by Saudi Arabia, as crude oil experienced its biggest drop since the 1991 Gulf War.

No fossil fuel companies in default KiwiSaver is a big call from the govt. We support no fossil fuel companies for our investors (according to mindfulmoney.nz our CareSaver is the only KiwiSaver genuinely having no fossil fuels). But should the government require this from all default KiwiSaver funds, or let investors decide?

Back to markets. It was a tough end of February in (and March is worse) investment markets with lots of excited commentators predicting doom and gloom. But that is the nature of investing for the long term.

The corona-virus has been unsettling markets for over a month now, so what changed to cause such a vicious market correction - with the US market experiencing volatility in line with 2008 in the Global Financial Crisis?

The S&P 500 index has experienced the fastest descent into a US bear market (20% decline from peak) in history, with the S&P 500 down 26.7% within 18 trading days as of last Thursday. Early on, when China was the focus of the virus

outbreak, it was stocks with links to China which felt the initial sell-off.

Now that the World Health Organisation has announced a global pandemic, and governments globally are responding with containment measures, the true extent of the hit to the global economy is being understood.

Travel bans are being implemented in order to "flatten the infection curve", and avoid a situation such as in Italy. The US has blocked travel from Europe and the UK, while closer to home, New Zealand and Australia have both introduced requirements for all international arrivals to self-isolate for 14-days. Major sporting tournaments have largely been suspended, and companies reliant on tourism, travel, retail and sport broadcasting are first in the firing line. There is going to be a short term hit to global GDP and corporate earnings for a few quarters.

Given the speed of the fall, a relatively quick rebound is also likely following a large exogenous shock such as corona-virus. So what could indicate a turning point? Looking at past outbreaks, the market usually starts to recover once the growth rate in new cases peaks - and we still appear to be in the exponential growth phase outside of China. Once the shock from corona-virus is over, markets will likely rise rapidly, given the massive monetary and fiscal stimulus commitments already made by officials.

For now, we have built cash positions which we will look to reinvest. We generally have a low level of currency hedging across our portfolios - the fall in the New Zealand dollar versus the US dollar from 65 cents to 60 cents has buffered some of the downward moves. We discuss the strategies we are incorporating to protect against downside moves on the individual portfolio pages.

UNIT PRICES as at 28 Feb

Pathfinder Global Responsibility Fund

\$1.156

Pathfinder Global Water Fund

\$2.2694

Pathfinder Global Property Fund

\$1.2483

Pathfinder World Equity Fund

\$1.9267

Pathfinder Commodity Plus Fund

\$0.9031

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

THE FOCUS | Questions about the fossil fuels ban

A Government decision to ban KiwiSaver default providers from investing in fossil fuel production is a bold and unexpected step. But it raises a bunch of questions, says Newsroom's business editor Nikki Mandow. Not least, who decides what is an investment in fossil fuels and what isn't? Our CEO John Berry features in this article, see John's comments in the article here.



Phone : 09 489 3802

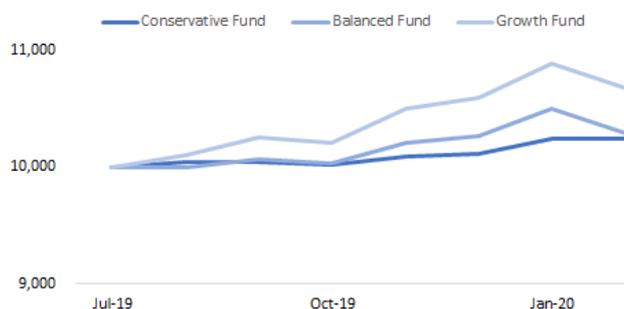
PORTFOLIO UPDATES

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, both listed and unlisted. 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%	+2.9%	+6.8%
Benchmark	Benchmark	Benchmark
+2.6%	+2.2%	+2.0%

\$10,000 invested at inception



FUND COMMENTARY

Investing is a long term game, and market corrections are always followed by market gains, even if we don't know exactly when. Active managers who respond to crises effectively will give their investors superior returns. Having money put aside to invest when markets fall really will give you superior returns as your cash positions do not fall with the market, and we are able to reinvest at lower levels.

At CareSaver we have been pro-active when it comes to dealing with corona-virus related risks. So we have been doing a few things:

First, as touched on above, we have built higher cash positions across our portfolios and we will re-invest this when we have a better understanding of what the corona-virus might lead to. Second, we have a defensive bias to our portfolio, such as real estate investment companies, utility companies (these usually go down less in falling markets). Third, we use our currency positioning to protect our assets (When markets are under stress, the NZ dollar usually falls in price which improves the value of our foreign assets). The fall in the New Zealand dollar recently versus the US dollar from 65 cents to 60 cents has buffered some of the downwards move as we are under-hedged. Finally, we invest in ethical companies - these have proven in the past to have less downside than the wider market. Most notably we have no fossil fuel companies, that is by far the worst performing sector this year and has gone into free-fall in the last few days following an oil price war triggered by Saudi Arabia.

CareSaver has several unique properties. It is the only KiwiSaver scheme that entirely avoids companies engaged in the exploration and extraction of fossil fuels. As mentioned on the prior page, from 2021 the government will require that default KiwiSaver funds do not hold fossil fuel companies. While this is a bold move, there are a lot of details to work through - such as the exact definition of a "fossil fuel company" and whether there are exceptions such as a maximum proportion of revenue from fossil fuels or whether fuel retailers come under the definition.

Benchmark
+2.2%

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	Benchmark 1 year
-4.3%	+12.1%	+9.0%

\$10,000 invested at inception



FUND COMMENTARY

The Fund lost ground in February, however the fall was lower than the broader market benchmark.

We continue to have a high weighting towards the US, and growth is likely to take a hit over the next few quarters, and as a result hit corporate earnings. The US Fed has just announced a 1% cut to the Fed funds rate - taking it back to a range of 0-0.25%, measures last implemented in the depths of the Global Financial Crisis.

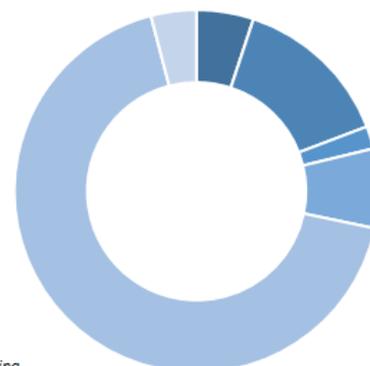
US officials finally appear to be taking corona-virus risks seriously, and the "good news" is that South Korea's experience shows infections can be brought under control with a limited economic hit, and large cap corporates in China are now reportedly 95% back to normal operations. As a result, we still believe the base case is for a deep but sharp correction, followed by a recovery over the medium term.

By design, our portfolio remains relatively defensive, and we are running higher than normal cash positions in order to navigate the short term volatility.



- Cash* | 5%
- Europe ex UK | 14%
- Asia Pacific ex Japan | 2%
- Japan | 7%
- North America | 67%
- UK | 4%

*Cash includes foreign currency hedging

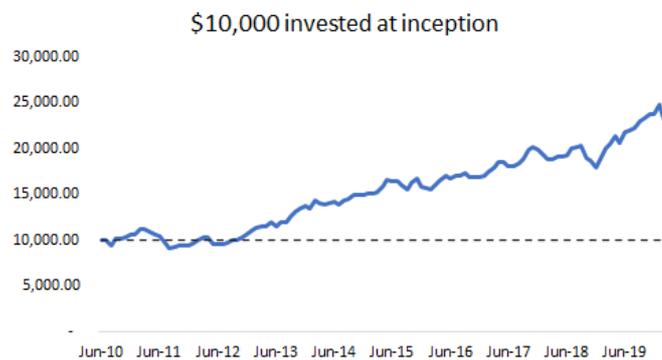


PORTFOLIO UPDATES

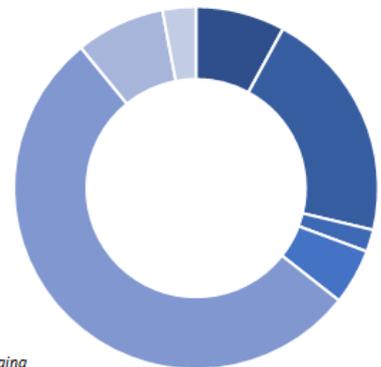
GLOBAL WATER FUND

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.	Benchmark 7 years p.a.
-5.9%	+10.9%	10.1%



- Cash* | 8%
- Europe ex UK | 21%
- Asia Pacific ex Japan | 2%
- Japan | 5%
- North America | 54%
- UK | 8%
- Emerging Markets | 3%



*Cash includes foreign currency hedging

FUND COMMENTARY

The Fund sold off in February, giving back some of the strong gains experienced in recent times.

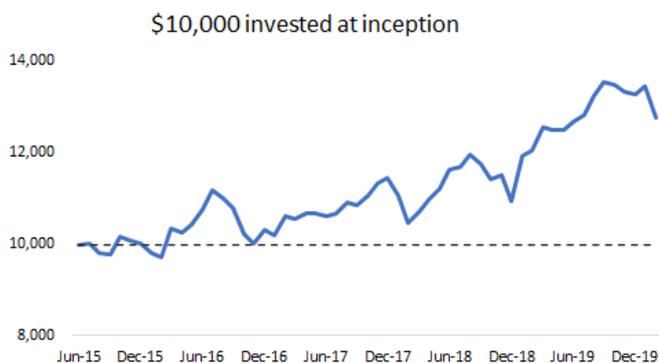
As with our other funds, we are actively allocating to cash to protect against downside risk. We remain comfortable with our medium term positions and water investment theme, with the Fund continuing to have a defensive bias given its water utility and infrastructure holdings.



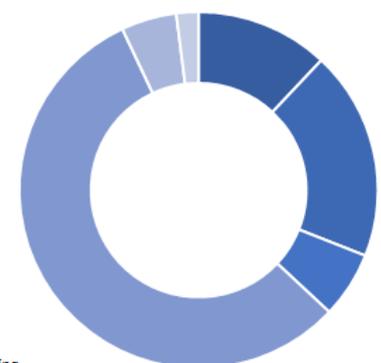
GLOBAL PROPERTY FUND

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.	Benchmark 3 years p.a.
-5.2%	+6.4%	+5.6%



- Cash* | 0%
- Europe ex UK | 12%
- Asia Pacific ex Japan | 19%
- Japan | 6%
- North America | 56%
- UK | 5%
- Emerging Markets | 2%



*Cash includes foreign currency hedging

FUND COMMENTARY

The property fund fell in February, but was ahead of benchmark for another month.

In North America, the ten year US Treasury yield plummeted and is currently trading at 0.66%. This has been a combination of a flight to safety with funds moving out of equity markets, as well as continued actions by the US Federal Reserve which launched a fresh QE program that will entail \$700 billion worth of asset purchases, including Treasuries and mortgage-backed securities. Property stocks trade relative to interest rates, and are generally trading better than the broader market, though some sectors continue to struggle.

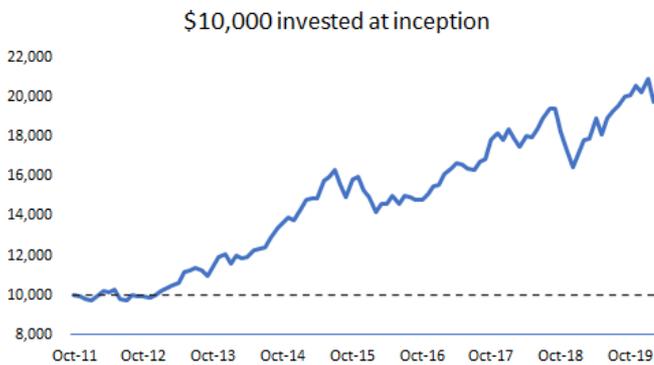
Traditional retail REIT's remain under pressure as malls are coming under further near-term pressure as corona-virus spread means mall visitors are likely to take a dive

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.	Benchmark 7 years p.a.
-5.7%	+9.6%	+9.9%



FUND COMMENTARY

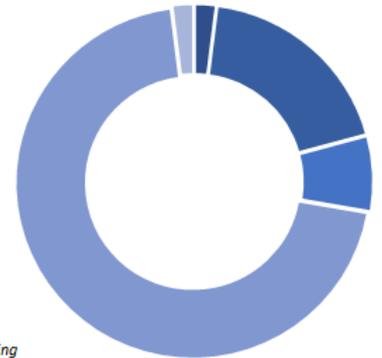
We remain comfortable with our high allocations to technology, utilities and real estate, all sectors which have performed well in a relative sense during the recent turmoil. We also are happy to be avoiding the energy sector, a space which is complicated by a low crude oil price that could lead to significant company defaults.

As with our other globally exposed funds, we are allocating a portion of the fund to cash to dampen volatility, while also remaining under-hedged on key currency exposures versus the New Zealand dollar as we continue to see downside risk for the Kiwi in the current investment environment.

The Chinese market has outperformed over recent weeks, presumably as the growth rate in corona-virus cases looks to have peaked. We are assessing our position on the region, and looking to re-enter investments.

- Cash* | 2%
- Europe ex UK | 19%
- Asia Pacific ex Japan | 0%
- Japan | 7%
- North America | 71%
- UK | 2%
- Emerging Markets | 0%

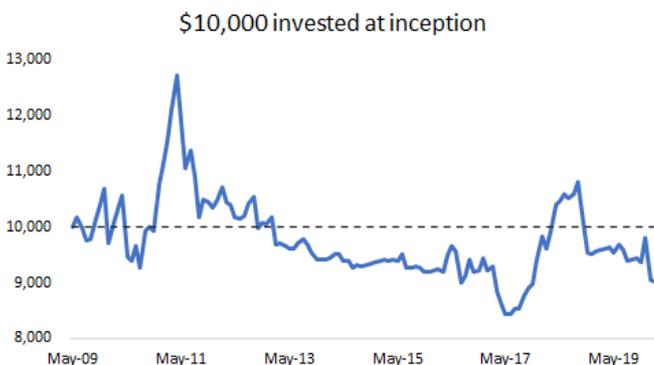
*Cash includes foreign currency hedging



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.	Benchmark 10 years p.a.
-0.1%	-1.1%	-5.6%



FUND COMMENTARY

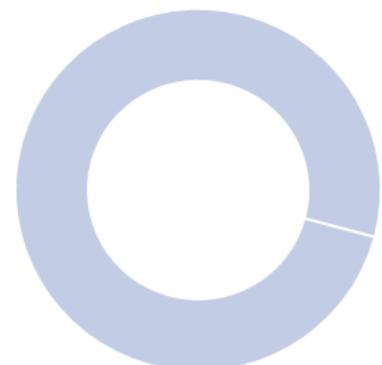
The Fund was virtually flat in February, what was another poor month for commodity markets.

March has begun with a bang, as crude oil fell and experienced its biggest drop since the 1991 Gulf War. The fall came as OPEC+ negotiations for output cuts broke down over the weekend, likely leading to an oil price war. Saudi Arabia fired the first shots on Saturday, slashing official selling prices.

With West Texas crude trading at approximately \$30 a barrel, it is uneconomical for oil companies to operate profitably and there is the potential for a significant number of bankruptcies across the sector.

The commodity fund investment rules mean it is currently 100% invested in cash and we are avoiding significant downside by not participating in the current market turmoil.

- Light Crude | 0%
- Heating Oil | 0%
- Gold | 0%
- Corn | 0%
- Wheat | 0%
- Aluminium | 0%
- Cash | 100%



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 is used 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	Benchmark since inception
-3.1%	+4.2%	-1.1%

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	Benchmark 1 Year
-2.3%	+18.4%	14.1%

FUND COMMENTARY

The Fund lost ground in February (-3.1%) but outperformed the broader market index, with the Australian and New Zealand markets down an average of -5.9%.

The Fund's major contributors to return were A2 Milk and Fisher & Paykel Healthcare, both of which have been remarkably resilient in a volatile market after reporting outstanding earnings updates. The same can be said for data centre business Next DC, which illustrates once again the tremendous multi year tailwinds behind data.

We increased our cash holding to reduce volatility and protect against the downside. In terms of portfolio changes we have removed Vista Group from the portfolio as we have lost faith in the near term investment case, particularly given corona-virus concerns and the impact on cinema visitor numbers around the globe. We are happy to buy names and add to positions which are relatively immune to corona-virus such as blue chip healthcare businesses like FPH and CSL.

FUND COMMENTARY

The Responsible Investment Fund is fully un-hedged at all times so a weaker New Zealand dollar buffered market falls. The New Zealand dollar fell in a risk off mood, and with the Reserve Bank of New Zealand cutting interest rates to 0.25% pressure is likely to remain on the Kiwi. Add to this the North Island drought, as well as huge impacts from corona-virus containment measures on Tourism (which accounts for 20% of New Zealand's exports) and we find it difficult to see the NZ dollar rallying anytime soon.

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

FUND PERFORMANCE

Fund Performance as at 28 February 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	-4.3%	5.4%	12.1%					6.7%	02/10/17	11.5%
Morningstar Developed Markets Index NR (50% Hedge)	-6.6%	1.6%	9.0%					7.6%		12.0%
Global Water Fund	-5.9%	4.4%	16.2%	10.2%	9.0%	10.9%		9.1%	30/06/10	10.9%
NASDAQ OMX Global Water Index (50% Hedged)	-6.2%	5.3%	15.7%	13.9%	8.0%	10.1%		9.3%		11.6%
Global Property Fund	-5.2%	-3.6%	5.9%	6.4%				5.4%	22/07/15	9.5%
FTSE/NAREIT Developed TR Index (75% Hedged)	-7.2%	-3.2%	4.4%	5.6%				3.3%		10.3%
World Equity Fund	-5.7%	1.0%	10.9%	7.0%	5.9%	9.6%		8.5%	14/11/11	11.0%
Morningstar Global Markets Index NR (50% Hedged)	-6.2%	1.8%	8.3%	9.4%	7.7%	9.9%		10.6%		10.7%
Commodity Plus Fund	-0.1%	-3.9%	-5.8%	-1.0%	-0.8%	-1.0%	-1.1%	-0.9%	31/05/09	10.2%
Bloomberg Commodity Index TR (100% Hedged)	-5.0%	-7.1%	-11.1%	-5.2%	-6.2%	-8.2%	-5.6%	-4.6%		9.9%
Ethical Trans Tasman Fund (Wholesale only)	-3.1%							4.2%	30/09/19	
NZX/ASX50	-5.9%							-1.1%		
Responsible Investment Fund (Wholesale only)	-2.3%	6.6%	18.4%					9.7%	04/05/17	11.4%
Morningstar Developed Markets NR Index (NZD)	-4.6%	2.4%	14.1%					10.1%		11.8%
CareSaver Growth Fund	-1.9%	5.7%						6.8%	31/07/19	
Benchmark	-5.1%	1.6%						2.0%		
CareSaver Balanced Fund	-1.9%	2.9%						2.9%	31/07/19	
Benchmark	-3.7%	1.5%						2.2%		
CareSaver Conservative Fund	0.0%	2.0%						2.4%	31/07/19	
Benchmark	-0.9%	1.3%						2.6%		

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.responsibleinvestments.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.