December 2019

MONTHLY REVIEW

Review of Fund Performance and Current Events

Funeral of General Qasem Soleimani, second most powerful politician in Iran, the most influential military and intelligence operative in the Middle East. Killed in Iraq by US drone strike on 3 January.

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MARKET UPDATE

"We'll have an economy based on wind. I never understood wind. You know, I know windmills very much. I've studied it better than anybody I know. "
Donald Trump, Renewable Energy Expert

MARKET COMMENTARY

This quote about wind energy by President Trump is so amazing to read, we have to re-print it here in full. Click here for a video of the same speech - incredible. It seems to suggest the US is about to build an entire economy based on wind energy, but who knows?

"We'll have an economy based on wind. I never understood wind. You know, I know windmills very much. I've studied it better than anybody I know. It's very expensive. They're made in China and Germany mostly — very few made here, almost none. But they're manufactured tremendous — if you're into this — tremendous fumes. Gases are spewing into the atmosphere. You know we have a world, right? So the world is tiny compared to the universe. So tremendous, tremendous amount of fumes and everything. You talk about the carbon footprint — fumes are spewing into the air. Right? Spewing. Whether it's in China, Germany, it's going into the air. It's our air, their air, everything — right?"

Despite this mangled word salad, there is no doubt that renewable energy sources have now reached parity or better with more traditional forms of electricity generation. The latest report on renewable energy from the US Department of Energy shows on-shore wind generation now has a lower levelised cost of production (without subsidies) than nuclear, coal and gas. A modern generation network needs more than just wind of course, but already 3 states in America generate more than 30% of their load with wind, and 14 states generate more than 10%. These percentages are growing fast.

Geo-political risk has made an unwelcome comeback with the killing of Iranian meddler in chief General Solemani. As de-facto deputy leader of Iran and head of the Quds Revolutionary Guards military command, he is directly responsible for the deaths of many, many thousands of people across the middle east. His support of President Assad and terrorist groups from Lebanon to Iraq and further afield has left an appalling trail of death and suffering. His extra-judicial killing by a US drone strike is an extraordinary act, very significantly raising risk. From Iran's perspective it is seen as a declaration of war. This leads us to a heightened risk of 'asymmetric' acts of terror and mayhem promoted by Iran in revenge for his killing. While Iran is absolutely no match militarily for the USA, they do have the ability to disrupt markets, engage in cyber-warfare and prompt individual acts of terror around the world. Unfortunately, we should expect more awful headlines over the coming months, but these are unlikely to have a critical impact on markets.

Markets are at, or near, all time record highs - it is salutory to remember and understand the 3 main resons why we are here. Low interest rates. Low interest rates. Low interest rates.

As long as we have a global monetary policy that is repressing interest rates to this degree, it remains a great time to own equities and other risk assets. Many things follow from low interest rates; we believe that two things in particular are critically important for continued market performance: Firstly, a low risk of economic recession. When the only investment bubble is interest rates, and those are being held down effectively by Central Banks, then there is little likelihood of a recession. Secondly, equities that pay dividends and have stable earnings look cheap when compared to interest rate based alternatives. For this reason we love investing in utility stocks and real estate companies. If we see a move by Central Banks to start raising rates then hold on

THE FOCUS | How to be a positive, ethical investor

Ethical investors are often told what to avoid investing in, but there is little guidance on the investments to actively seek. This is surprising given that positive ethical investing is much more interesting, more profitable and more likely to effect change in the world. See John's recent story, published in Good Magazine here.

UNIT PRICES as at 31 Dec

Pathfinder Global Responsibility Fund
$1.1981

Pathfinder Global Water Fund
$2.3136

Pathfinder Global Property Fund
$1.2967

Pathfinder World Equity Fund
$1.9748

Pathfinder Commodity Plus Fund
$0.9816

OUR PEOPLE

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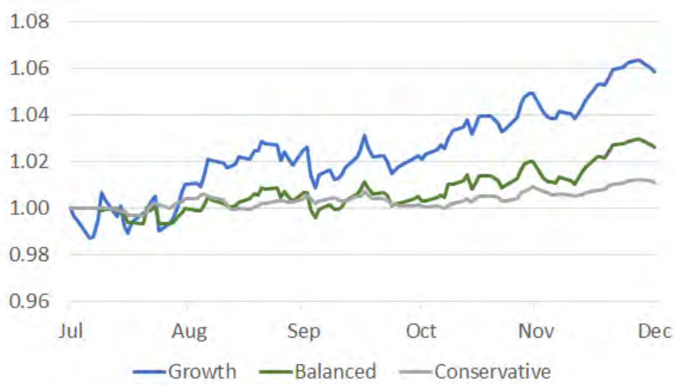
PORTFOLIO UPDATES

CARESAVER KIWISAVER

CareSaver was launched on July 31, 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	Balanced Since July 31	Growth Since July 31
+1.1%	+2.7%	+5.9%



FUND COMMENTARY

Our three CareSaver funds now have 5 months of track record, and it's been a pretty healthy comparison versus the bank schemes especially in Growth. Over that period, our Growth scheme has returned 5.9%, Balanced 2.7% and Conservative 1.1%. 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.

CareSaver has several unique properties. It is the only KiwiSaver scheme that entirely avoids companies engaged in the exploration and extraction of fossil fuels. To us this is investment common sense - fossil fuel companies have been a lousy investment for many years versus the wider market. They make up only about 5% of market capitalisation, so it is easy to find better alternatives for your investment capital. Over the last 10 years the energy sector in the US has returned +3.3% per annum versus the S&P500 return of +13.6% per annum. We don't expect that to change over the next 10 years.

We are the only KiwiSaver scheme that actually measures the carbon intensity of our portfolio. We also measure the transition risk companies face, which is important because regulators and consumer choices are forcing changes in corporate behaviour as we transition to a low carbon economy. Whether you agree with the science of climate change or not is irrelevant - society, and the companies that operate within our society, are being forced to become more sustainable and take account of climate change.

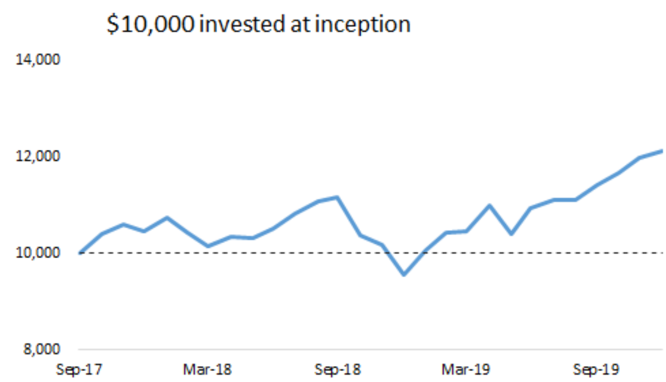
We are also avoiding companies involved in animal testing. It is rare that a genuine need exists for animal testing - there are many alternatives for animal trials, and many forward thinking biotech and cosmetic companies have already moved beyond traditional animal testing.

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.

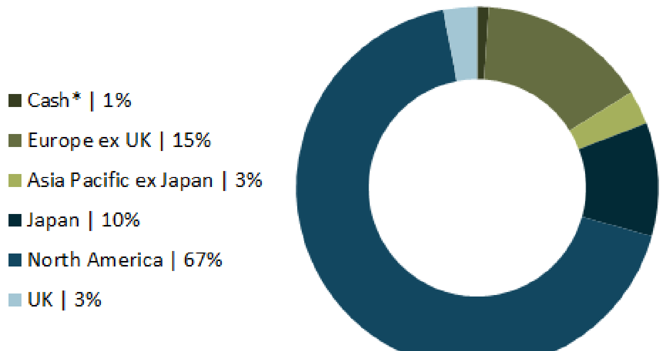
Performance 1 month	Performance 1 year	$10,000 invested at inception is now worth
+1.0%	+26.9%	$12,116



FUND COMMENTARY

CERTIFIED BY RIAA

Good returns for the Global Responsibility Fund despite a sharply higher NZ dollar (up around 5% versus the USD). Strong returns from stocks in the US, especially in the Consumer Discretionary and Industrial space, were key. The outlook for the US economy is perceived as relatively strong, so cyclical stocks have rallied.
Tesla (one of our top positions) has performed very strongly since October, up around 88%. News of a new factory opening in China was key - Tesla had been the most shorted stock in the US, but that has certainly been reversed now. Prospects for Tesla look pretty good. Consider that in 2018, General Motors sold more vehicles in China than it did in the US. Over the same period, Daimler sold more Mercedes-Benz's in China than it did in North America. Tesla is only one of the 200 odd companies in our portfolio but a very strong performer.



*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.

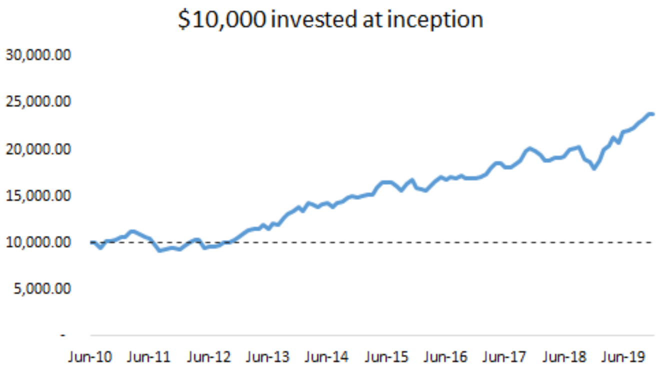
Performance 1 month	Performance 7 years p.a.	$10,000 invested at inception is now worth
-0.3%	+12.1%	$23,733

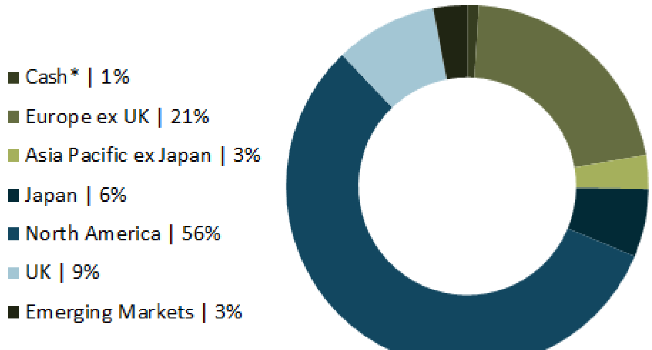
FUND COMMENTARY

CERTIFIED BY RIAA

Subdued performance from the Water Fund in December primarily due to under-performance by US water utilities. We are relatively underweight UK based utility companies as well, due to concerns around UK economic growth in the wake of Brexit.

Across all our portfolios we have slightly under-hedged currency positions as this is typically a good risk-reduction strategy if offshore equity markets sell off. The NZD rose significantly over December, up around 5%. While we were not exposed to all of this move in the Water Fund, it has definitely been a drag on returns.





*Cash includes foreign currency hedging

GLOBAL PROPERTY FUND

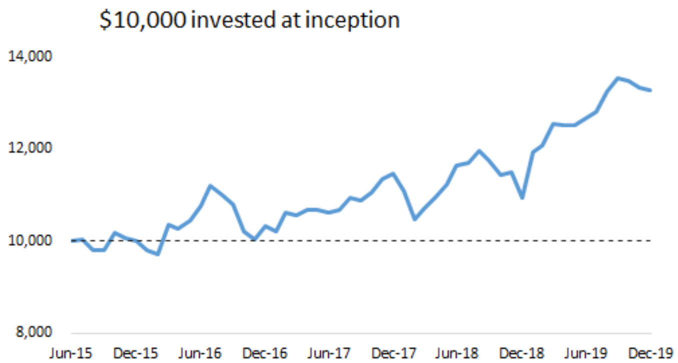
The Global Property Fund is designed to provide socially responsible investment in global listed property stocks. It has a significant allocation to NZ listed property, recognising the preference of NZ investors to overweight the local market. Currency hedging is used to reduce foreign currency exposure.

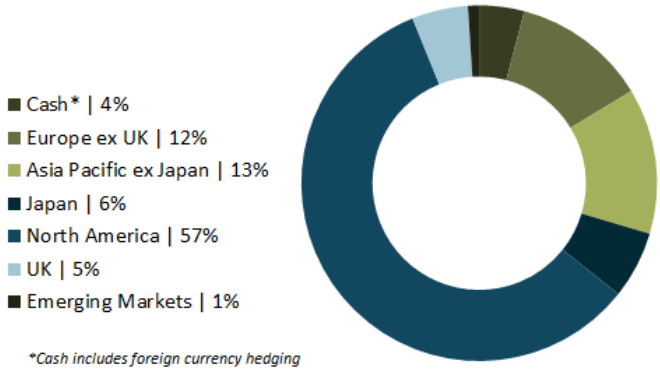
Performance 1 month	Performance 3 years p.a.	$10,000 invested at inception is now worth
-0.5%	+8.7%	$13,262

FUND COMMENTARY

Higher interest rates over December had a small negative impact on many of the REIT's in our portfolios, but we believe the outlook is very positive for property in 2020. We especially like many of the more niche-property sectors. Data storage, specialty health care and residential property companies are high on our list.

Data storage is an especially interesting sub-asset class. The growth in cloud storage is accelerating, yet more than 90% of corporate data is still stored on a company site on a server. The move to cloud storage has a long way to go and presents a compelling investment case.





*Cash includes foreign currency hedging

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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.

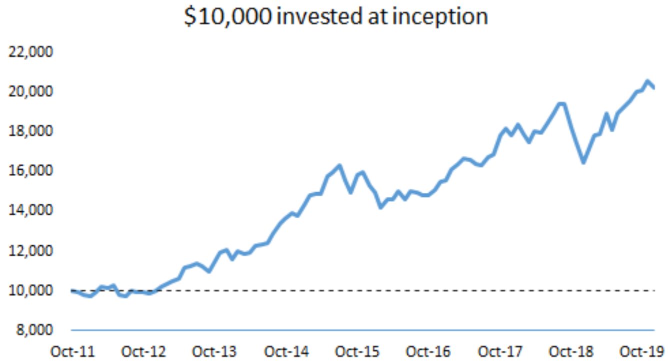
Performance 1 month	Performance 7 years p.a.	$10,000 invested at inception is now worth
-1.7%	+10.4%	$20,222

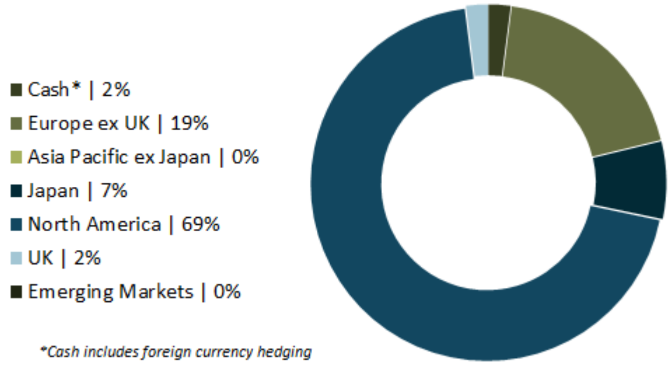
FUND COMMENTARY

The higher New Zealand dollar was a drag on performance for the World Equity Fund, though we expect this to revert over coming months. Global equity markets are very resilient here, with the US in particular trading at new market highs on a regular basis. We believe that low interest rates, the high level of corporate share buy- backs and improving net profitability are the major influences supporting markets in the US at the moment.

In terms of return attribution, our stock selection was 0.5% ahead of the global stock market return, but under-hedging on currency was costly, though we approach hedging from a risk reduction point of view should there be a significant sell off in equities.

We also appear to be inching toward a comprehensive deal between the US and China which would certainly be further good news for companies with a high proportion of revenue dependent on free trade.





*Cash includes foreign currency hedging

COMMODITY PLUS FUND

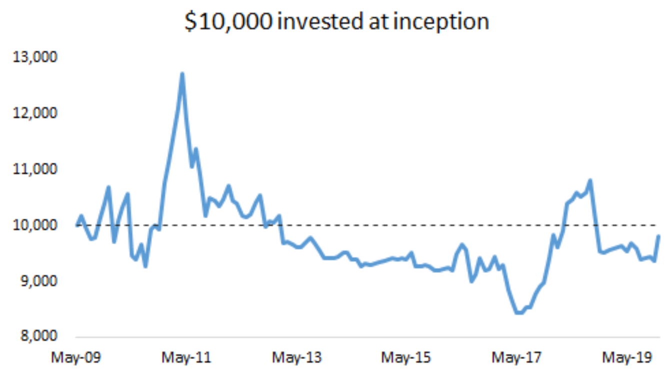
The Commodity Plus Fund is designed to provide exposure to global commodity markets. The investment process targets the "mean reverting" nature of commodities and can also allocate to cash for downside protection. The fund will not invest in a number of commodities such as thermal coal, uranium, livestock or the shares of commodity producers. Currency exposures are fully hedged.

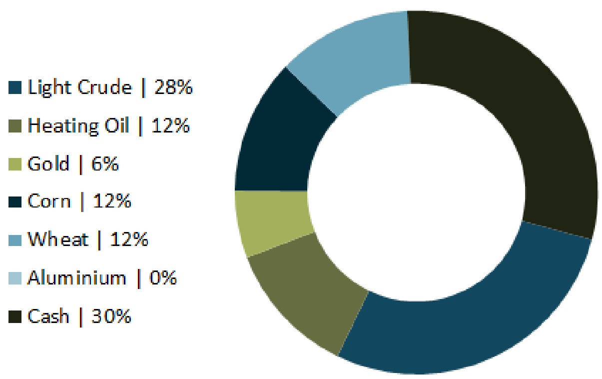
Performance 1 month	Performance 10 years p.a.	$10,000 invested at inception is now worth
+4.8%	-0.8%	$9,816

FUND COMMENTARY

Commodities remain very volatile, with crude oil in particular experiencing large swings on the back of geo-political news. Overall, though there is little strong trend (aside from event driven news) apparent in raw commodity prices. Global growth remains the key driver for commodity prices and while positive, growth remains subdued in key economies (US, EU, China and Japan.)

The Commodity Plus Fund is currently 71% invested in commodities, and 29% in cash.





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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
+0.5%	+5.7%	$10,573

FUND COMMENTARY

Another solid month for the fund in December with our portfolio outperformng the benchmark by 1.2%. Since inception (on 30 September 2019) the fund has outperformed it's benchmark by 4.0%. Key performance drivers in December included Metlife accepting a takeover offer from a Swedish private equity firm. We expect more M&A activity.

We remain structurally short the Big 4 banks - the regulatory outlook and lack of growth potential leaves a less than compelling outlook. There is no doubt the NZ market trades at significantly higher valuations than markets offshore, but the small size of our market, and the lack of new listings, combined with steady inflows from KiwiSaver providers continues to put a bid below good NZ companies. It is important to bear in mind the vast difference between "good" and "bad" NZ companies - there are many companies having returns exceeding 50% in one year, there are also many down that much. Active selection of stocks is extremely important now.

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
-1.6%	+27.7%	$12,907

FUND COMMENTARY

The Responsible Investment Fund is fully un-hedged at all times so was hit hard by the appreciation in the Kiwi Dollar over December, but longer term performance remains solid with a nearly 28% return over the last year.

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 31 December 2019	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	1.0%	10.8%	26.9%					8.9%	02/10/17	11.5%
Morningstar Developed Markets Index NR (50% Hedge	0.5%	8.9%	27.1%					10.8%		11.4%
Global Water Fund	-0.3%	8.6%	32.6%	12.0%	9.8%	12.1%		9.5%	30/06/10	10.0%
NASDAQ OMX Global Water Index (50% Hedged)	1.9%	11.2%	35.1%	16.5%	9.4%	11.5%		9.8%		10.7%
Global Property Fund	-0.5%	4.7%	21.2%	8.7%				6.6%	22/07/15	9.1%
FTSE/NAREIT Developed TR Index (75% Hedged)	-0.7%	6.4%	21.8%	8.6%				4.8%		9.3%
World Equity Fund	-1.7%	7.0%	23.1%	9.3%	7.9%	10.6%		9.0%	14/11/11	10.3%
Morningstar Global Markets Index NR (50% Hedged)	1.0%	8.7%	26.0%	12.8%	10.1%	11.6%		11.6%		10.0%
Commodity Plus Fund	4.8%	1.4%	3.1%	1.3%	1.0%	-0.4%	-0.8%	-0.2%	31/05/09	9.2%
Bloomberg Commodity Index TR (100% Hedged)	5.0%	2.5%	7.7%	-0.9%	-3.9%	-6.7%	-4.7%	-3.5%		8.6%
Ethical Trans Tasman Fund (Wholesale only)	0.5%	5.7%						5.7%	30/09/19	
NZX/ASX50	-0.7%	1.7%						1.7%		
Responsible Investment Fund (Wholesale only)	-1.6%	11.3%	27.7%					10.1%	04/05/17	11.5%
Morningstar Developed Markets NR Index (NZD)	-2.0%	8.6%	26.6%					11.3%		11.5%
CareSaver Growth Fund	0.9%							5.9%	31/07/19	
CareSaver Balanced Fund	0.6%							2.7%	31/07/19	
CareSaver Conservative Fund	0.2%							1.1%	31/07/19	

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.

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.

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