

2019
January

MONTHLY REVIEW

Review of Fund Performance and Current Events

A photograph of a man in a white t-shirt with a red, white, and blue circular logo, holding a large white sign on a wooden frame. The sign reads "STOP DESTROYING THE GOVERNMENT" in black, hand-painted capital letters. In the background, the US Capitol building is visible under a clear blue sky. Another person in the lower left is holding a sign that says "STOP PLAYING GAMES WITH OUR LIVES!!! WE WANT TO WORK".

STOP
DESTROYING
THE
GOVERNMENT

The longest US Government shutdown in history (35 days) ended on January 25. It's all about funding The Wall - the cornerstone of President Trump's divisive re-election strategy.



Pathfinder
INVEST RESPONSIBLY

MARKET UPDATE

"The darkest hour is just before the dawn"

Attributed to Thomas Fuller back in 1650 - an English theologian and historian. While this is well understood metaphorically, there's a lot of (largely pointless) argument around whether it is literally true that the darkest hour is in fact just before dawn.

MARKET COMMENTARY

For investors December 2018 was a time of darkness and market turmoil. However January's dawn saw a sudden and unexpectedly strong turnaround.

In NZD terms, the leading US index (S&P500) was hit with a 6.9% fall in December, only to bounce 4.8% in January - consistent with the bounce in markets globally - such as Germany +2.6%, Japan +2.0% and NZ +2.3%. In localcurrency terms, MSCI's global equity index had it's best January since 1987!

Why a rebound? The rebound in equities cannot be explained by one single factor - although strong US job numbers (now 100 consecutive months of job creation), the end of the US government shutdown and more agreeable equity valuations all helped.

2018 for US equities: The weak December equity returns drove the S&P500 down 4% for 2018 - the first negative year since 2008 (when it was down 37%). Share price volatility was also sharply higher - in 2018 there were 20 days where the market rose or fell by more than 2% - 2017 had none.

Brexit: Where do we start? As the clock runs down to the end of March, it's still unclear how this will end up - exit with no deal, exit with Theresa May agreeing a deal or an extension to the deadline. Companies are preparing in different ways - more than a third of large UK financial services firms have shifted some staff abroad, meanwhile automakers and pharmaceutical companies are stockpiling inventory.

How the super rich invest: Ultra-high net worth families (US\$100m plus in wealth) are increasingly running their own investment teams - known as 'Family Offices'. Their investment strategies can

benefit not only from their balance sheet size but also their investment horizon (which is often inter-generational rather a 5-10 year focus). We can all check our personal investment portfolios against a "typical" family office portfolio which is spread across equities 28%, bonds 16%, private equity 22%, property 18%, hedge funds 6%, cash 7% and commodities 3%. Note the diversification across asset classes and also the high exposure to illiquid assets, namely 40% in private equity and property (source: *The Economist*).

Family Office changes: The coming decade will see major changes to governance of family offices. The 'next generation' (ie millennial heirs to family fortunes) are expect to take control of two-thirds of family office wealth. This is widely expected to mean a greater emphasis on environmental, social and governance investing (ESG) and also a push into 'impact investments' which are intended to earn both financial returns and measurable social or environmental benefits (source: *The Economist*).

Tobacco's existential risk: Smoking rates in the US have fallen to their lowest levels ever. Only 14% of US adults smoked in 2017 - which is significantly down on 42% back in 1965. This is a great outcome for the public health system - and at the same time raises existential challenges for tobacco companies (source: *The Economist*). From a consumer perspective tobacco is harmful. We also regard tobacco as harmful from an investor perspective - it is a sunset industry with shrinking long term demand and increased regulation. Our funds don't hold any tobacco stocks - we can also exclude retail companies with a high proportion of sales from tobacco.

UNIT PRICES as at 31 January

Pathfinder Global
Responsibility Fund
\$1.007

Pathfinder Global Water Fund
\$1.8452

Pathfinder Global Property
Fund
\$1.1708

Pathfinder World Equity Fund
\$1.6760

Pathfinder Commodity Plus
Fund
\$0.9574

OUR PEOPLE

John Berry - Chief Executive Officer

Paul Brownsey - Chief Investment Officer

Karl Geal-Otter - Investment Analyst

Bob McCutcheon - Strategy, Compliance

THE FOCUS | Pathfinder's news flash...

Pathfinder has a new major shareholder with Alvarium NZ taking a 51% stake. John and Paul will continue to run the business day to day and remain as significant shareholders. Alvarium manages NZ\$25 billion of assets and their global network and resources will bring more energy, enthusiasm and focus to responsible investment in New Zealand... Click here to read the full story



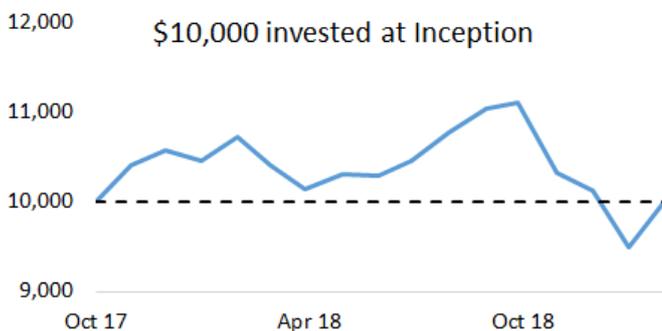
Phone : 09 489 3802

PORTFOLIO UPDATES

GLOBAL RESPONSIBILITY FUND

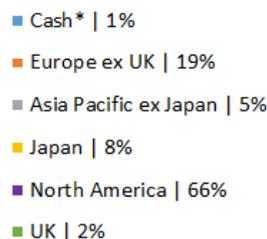
The socially responsible Global Responsibility Fund is designed to provide diversified equity exposure to developed markets. There are 3 tiers to the responsible investment process: (1) exclusion of corporate activities like tobacco and gambling (2) elimination of high controversy companies and (3) investment focus on high environmental, social and governance ratings. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month 5.4%	Performance since inception 0.1%	\$10,000 invested at inception is now worth \$10,007
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FUND COMMENTARY

Despite the high profile issues at the forefront of investors thinking (Government shutdown, lower corporate earnings, slowing global growth, US/China trade impasse, rate hikes) January was a very good month for equities, reversing much of the December drawdown. As we publish this commentary, some of these issues are off the agenda - the shutdown is over and won't reignite, consensus around earnings is widely shared (slow for the 2 quarters then growing again) and rumours of an agreement between China and the US on trade. And the Fed has signalled a less aggressive rate outlook). While not expecting full on bull market mode, the near term outlook for equities seems constructive. Forward looking valuations in most markets, while not always cheap, are usually below recent 5 or 10 year averages. After years of strong performance by growth stocks, we believe the cycle favours value stocks, especially those with stable earnings and profitability.



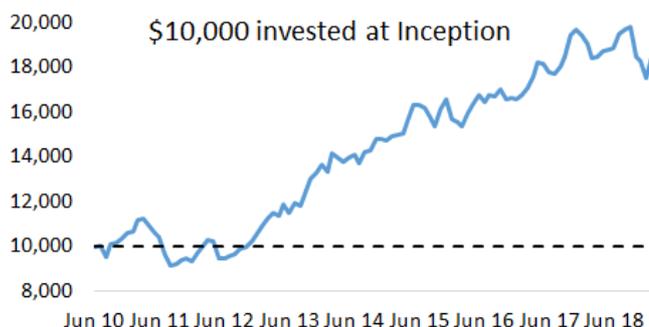
*Cash includes foreign currency hedging



GLOBAL WATER FUND

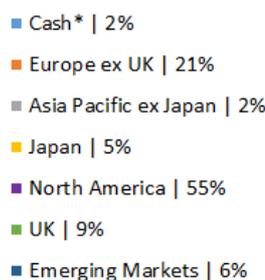
The Global Water Fund is designed to provide socially responsible investment in the water industry. This includes listed water utility, industrial, tech and materials companies. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month 5.4%	Performance 7 years p.a. 9.6%	\$10,000 invested at inception is now worth \$18,452
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FUND COMMENTARY

A good rebound this month from the Water fund (+5.4%) as equities globally had a strong relief rally after the trials of December. Utility stocks were helped by similar factors to REIT's - a general belief that the Fed is more likely to cut rates in the future than raise them. Currently our portfolio has a 30% weighting to the Utility sector which is split between the US, Europe and Asia. The balance of the portfolio is held in companies primarily in the industrial sector, but with the common theme that they all receive the majority of their income from activities that are directly tied to the water industry. We see global water scarcity as one of society's most pressing issues and our response to this will shape the lives of millions. Technological and investment responses are key as we believe that companies with this focus will be successful.



*Cash includes foreign currency hedging

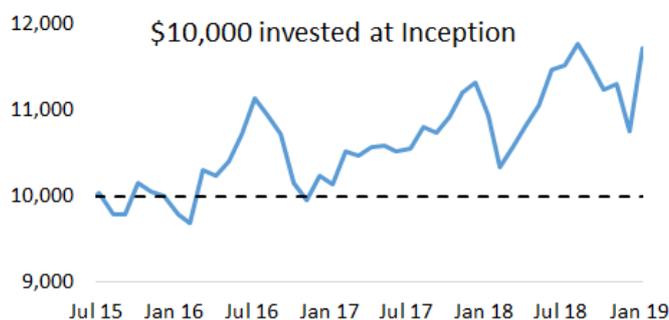


PORTFOLIO UPDATES

GLOBAL PROPERTY FUND

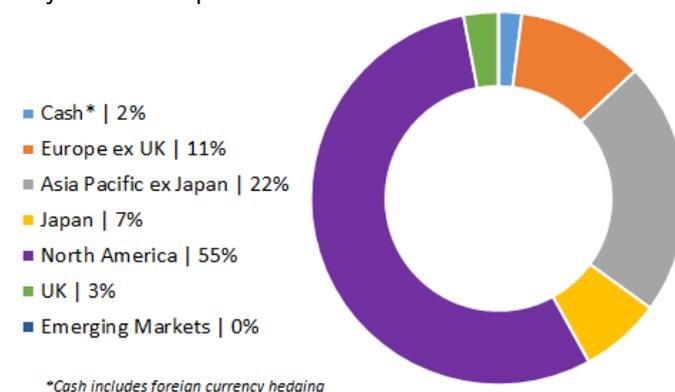
The Global Property Fund is designed to provide socially responsible investment in global listed property stocks. It has a significant allocation to NZ listed property, recognising the preference of NZ investors to overweight the local market. Currency hedging is used to reduce foreign currency exposure.

Performance 1 month	Performance 3 years p.a.	\$10,000 invested at inception is now worth
8.9%	6.2%	\$11,708



FUND COMMENTARY

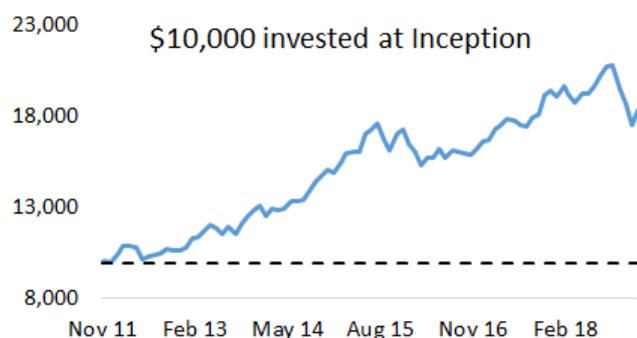
Listed property in all markets had a stellar month (our fund up 8.9%) even as concern about future GDP growth became baked in to investor outlook. While not necessarily reflected in current yields - the US 10 year treasury yield started the month at 2.69% and finished at 2.64%- there is little fear that rates will rise significantly in the near term. But the the expected path of future rate rises by the Fed has become significantly more dovish. Fed Funds futures contracts which are the market consensus on where the Fed Funds rate will trade in the future are essentially flat out to January 2020 implying no move in either direction by the Fed. Yet momentum is clearly favouring future lower rates by the Fed which historically has been very good for REIT's. Relatively benign inflation, low rates and good structural fundamentals in the US REIT market particularly bode very well for our portfolio.



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.

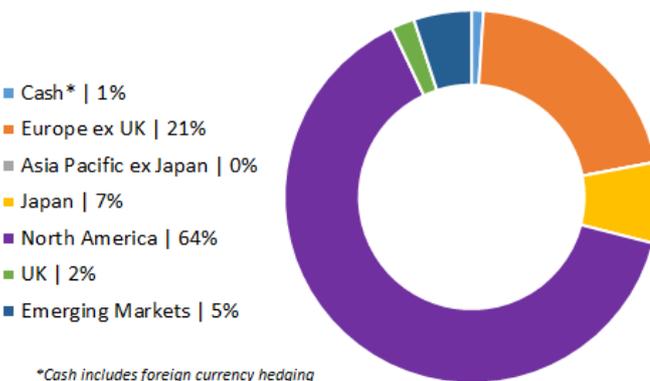
Performance 1 month	Performance 7 years p.a.	\$10,000 invested at inception is now worth
4.3%	7.2%	\$18,319



FUND COMMENTARY

Global equities rebounded in January with the fund up 4.3%. Markets were helped by the end to the US government shutdown (while only a temporary solution, there's clearly little Republican appetite for a repeat). Hopes for Chinese/US trade talks are also positive, as are US corporate earnings growth which have been running at a healthy 13.1%. Earnings and GDP growth will slow in the US going forward - especially as the stimulus from tax cuts has passed.

The poor Q4 equity performance has brought company valuations to much more reasonable levels. The forward PE for the SP500 is a 16.0 times earnings - now below the 5 year average. Europe continues to concern us with its continuing tepid growth, as does China with persistently high debt levels.



PORTFOLIO UPDATES

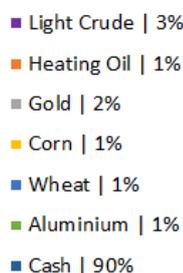
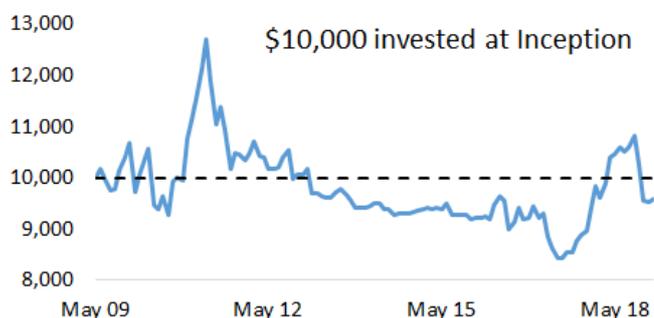
COMMODITY PLUS FUND

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 7 years p.a. -1.3%	\$10,000 invested at inception is now worth \$9,574
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FUND COMMENTARY

The commodity fund is currently running a very conservative profile with high cash levels based on the momentum in commodity prices. As the biggest component in the index, the energy outlook is critical. Right now it is fair to say that this is mixed. With US sanctions on Iran mid last year, Saudi Arabia initially increased output to keep markets stable, yet numerous countries - particularly in Europe granting waivers to Iran has kept supply at high levels. Combined with the general slowing of global growth in 2019, there is a prospect for oversupply. After cutting output by 1.2mm bpd in December it is likely OPEC will respond further, perhaps with a cut of up to 2mm barrels per day which would be very supportive of crude prices. The binary nature of outcomes based on OPEC has us looking to the option market. We are buyers of call options which will give us upside exposure but also mostly in cash which limits downside should oil prices fall.



FUND PERFORMANCE

As at 31 December 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	5.4%	-3.1%	-7.1%	-6.6%					12.1%
Morningstar Developed Markets Index NR (50% Hedged)	6.2%	-2.1%	-6.1%	-3.9%					12.7%
Global Water Fund	5.4%	-0.2%	-5.4%	-3.1%	4.9%	5.9%	6.7%	9.6%	9.1%
PIO Global Water ETF (50% Hedged)	7.4%	3.7%	-2.4%	-0.9%	11.6%	9.0%	5.8%	8.9%	11.3%
Global Property Fund	8.9%	4.3%	1.7%	7.1%	7.5%	6.2%			10.1%
Morningstar Real Estate Index TR (75% Hedged)	10.0%	6.6%	3.4%	7.2%	7.5%	7.2%			11.4%
World Equity Fund	4.3%	-6.0%	-9.4%	-6.9%	4.6%	4.4%	7.9%	7.2%	9.9%
Morningstar Global Markets Index NR (50% Hedged)	6.2%	-1.1%	-5.7%	-4.6%	10.0%	10.5%	8.5%	8.2%	9.4%
Commodity Plus Fund	0.6%	-6.6%	-9.0%	-2.7%	1.9%	1.3%	0.3%	-1.3%	7.8%
Bloomberg Commodity Index TR (100% Hedged)	5.4%	-2.4%	-4.4%	-8.2%	-2.5%	2.7%	-7.9%	-7.5%	12.4%

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.

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.