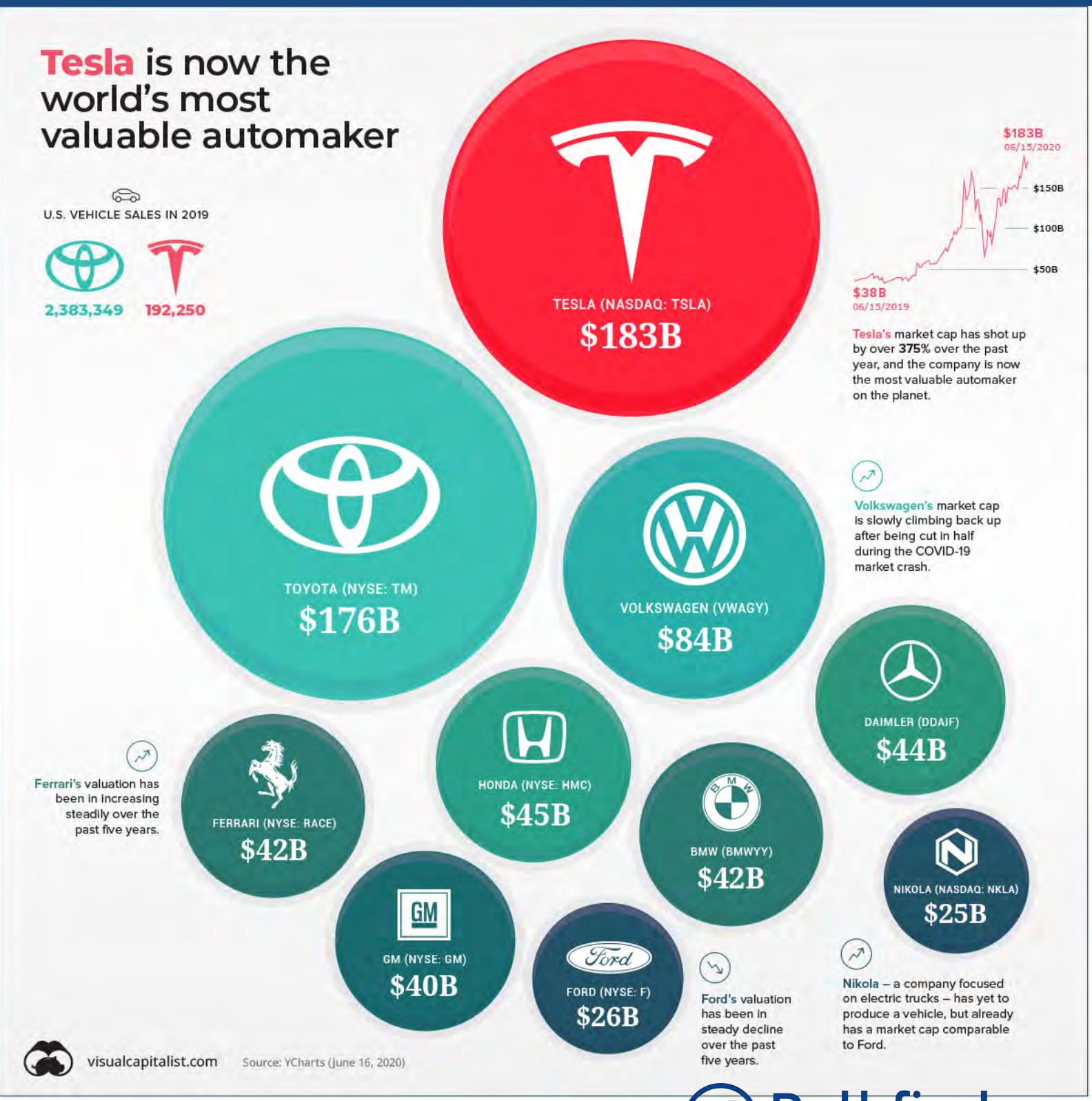
June 2020

MONTHLY REVIEW

Review of Fund Performance and Current Events



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MARKET UPDATE

"Tesla will make fabulous short shorts in radiant red satin with gold trim".

Elon Musk taking a stab at short sellers who have bet big speculating that the Tesla share price will fall. The tweets come as Tesla shares continue to surge, now valued as the largest car company in the world.

MARKET COMMENTARY

Markets remain turbulent but continue to trend higher, climbing a wall of worry.

A string of stronger than expected economic data continues to support the bull market thesis, with the Nasdaq technology index at fresh highs, and closer to home the New Zealand market is just 4% off its high.

The positive news-flow seems to be outweighing concerns around a second wave of COVID-19, and the re-escalation of trade tensions with China. Notably in the US, unemployment data continues to surprise on the upside and the US has now recovered about one-third of the job losses experienced in March and April. Similar trends are being seen in NZ and Australia and we have been surprised by the strength in data points such as retail sales which are back above levels seen at the same time last year. It remains to be seen as to whether this is being driven by pent up demand and if it is sustainable once the fiscal support packages from governments expire.

The macro-economic backdrop remains confusing with a solid rebound in economic activity around the globe, but some countries (US, Brazil, India) are experiencing a renewed surge in COVID-19 cases. Interestingly, hot spots including Arizona, Florida and Texas continue to see cases rise. However, the fatality rate has remained low.

Even as cases surge in parts of the USA, there is little political appetite to re-enter full lockdowns, so we are about to experience an interesting and potentially dangerous experiment. At what point does the trade-off between economic activity and the pain of lost lives become too costly? A lack of political leadership in the US is compounding the confusion, but so far the "open at any cost" camp is in the ascendant.

At the same time, with less than 5-months to the US elections, markets are already forming a view as to whether a Biden win (and a possible senate majority for democrats) is not seen as destructive for markets. JP Morgan has just published research suggesting that a Biden presidency could be good for markets or at least for certain sectors. For instance, we are overweight "new" technology companies who are likely to benefit from a Biden presidency.

Return dispersion is high, and there are clear winners and losers in the investment arena at the current juncture. Surging digital activity is a positive for technology companies which are leading markets higher globally, whereas real estate companies are directly affected with significantly lower future near term revenue on the back of COVID-19. We think this is an opportune environment for active management.

Our strong ESG focus and active approach is good for the portfolio, and oil stock moves continue to illustrate this.

We avoid investing in the energy sector which remains significantly lower year to date. A couple of recent articles illustrate the turmoil in the industry; 1) Shell is writing down the value of its assets by up to US$22bn due to lower energy prices caused by the COVID-19 pandemic. Shell expects benchmark Brent oil prices to average $35 a barrel this year and $60 a barrel long term, 2) Fracking pioneer Chesapeake Energy was pushed into bankruptcy by plunging energy prices.

Finally, from an equity allocation point of view, there is no doubt that the unprecedented global liquidity provided by central banks is supporting equity markets – until this changes, markets are likely to remain well supported.

THE FOCUS | Animal testing and your KiwiSaver

Animal testing for cosmetics is widespread and large scale. As an ethical fund manager, CareSaver won't invest in companies that do it. Conscious consumerism is a rising trend globally and with good reason. There are still too many companies doing harm to the planet, and engaging unethical practices. Animal testing is one of them. Read John's the full article by CLICKING HERE

UNIT PRICES as at 30 June

Pathfinder Global Responsibility Fund
$1.1320

Pathfinder Global Water Fund
$2.0461

Pathfinder Global Property Fund
$0.9720

Pathfinder World Equity Fund
$1.8254

Pathfinder Ethical Trans-Tasman Fund
$1.1596

OUR PEOPLE

John Berry	Chief Executive Officer
Paul Brownsey	Chief Investment Officer
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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

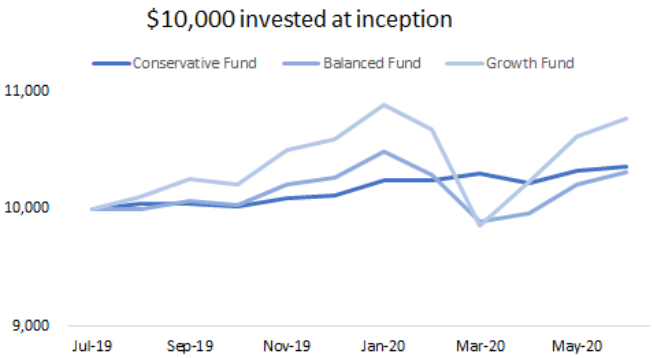
Pathfinder INVEST RESPONSIBLY

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	Balanced	Growth
Since July 31 2019	Since July 31 2019	Since July 31 2019
+3.6%	+3.1%	+7.7%



FUND COMMENTARY

Our CareSaver funds were all higher over the month.

For KiwiSaver investors, 2020 has delivered sharp losses followed by a strong rebound. This year has demonstrated that investing ethically is not only good for our planet but also really good for returns.

Funds that employ ethical investing strategies have performed ahead of the average. The Wall Street Journal has summed it up well, saying "funds focused on socially responsible investing have been a rare bright spot in this year's market meltdown". This is no surprise given the wealth of research pointing to companies that care about ESG issues being more resilient in tough times. Also, as an ethical investor, we held no coal producers, no oil companies and no casinos, because they all failed our ethical screens. All three sectors have been poor performers. While US technology stocks are up this year, oil and coal energy companies are down strongly.

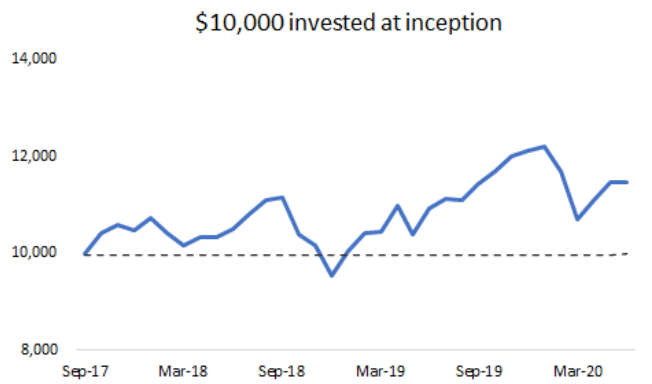
Instead we have focused on selecting quality companies. This not only means a strong balance sheet but importantly how these companies manage environmental, social and governance risks.

So what companies do we like? Our 5 largest listed investments are Microsoft (+35% this year), Fisher & Paykel Healthcare (+61%), Pushpay (+124%), SolarEdge (+66%) and NextDC (+71%). Our largest holdings have done well but of course not every holding is a winner, for example Ebos is down 7% this year. Overall though, returns from including ethical investment considerations are solid.

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
+0.1%	+4.9%	+4.3%

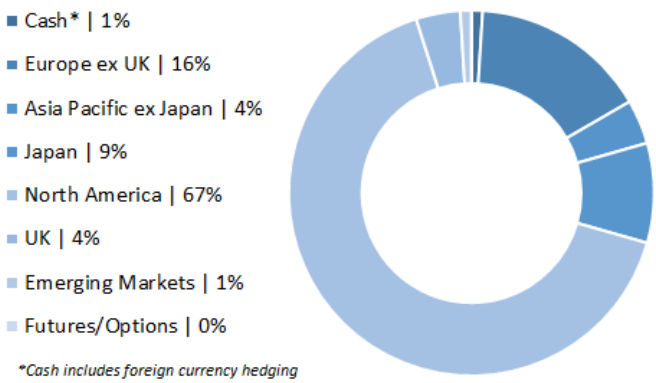


FUND COMMENTARY

The Fund was flat in June. As touched on in the front page of the monthly, the global story right now is the technology sector surge, and we remain overweight with holdings in the likes of Microsoft and Tesla.

The growth in the technology sector has been staggering. There are now four trillion dollar market capitalisation companies – Apple, Microsoft, Amazon and Alphabet. The domination of the market by tech companies is almost unprecedented – these four companies (plus Facebook) make up 45% of the NASDAQ and 22% of the S&P500 index. Compared to the S&P500 the NASDAQ is back to similar size in relative terms as prior to the 2001 DotCom bubble, but the earnings stream of the NASDAQ is 5 times greater than it was then.

An ESG bias also steers us toward well governed, strong balance sheet companies with heavily embedded competitive advantages – good examples of these are Microsoft, and chip foundry manufacturers like Lam Research Corp (USA), Tokyo Electron (Japan) and ASML (Netherlands)



**Cash includes foreign currency hedging*

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INVEST RESPONSIBLY

PORTFOLIO UPDATES

GLOBAL WATER FUND

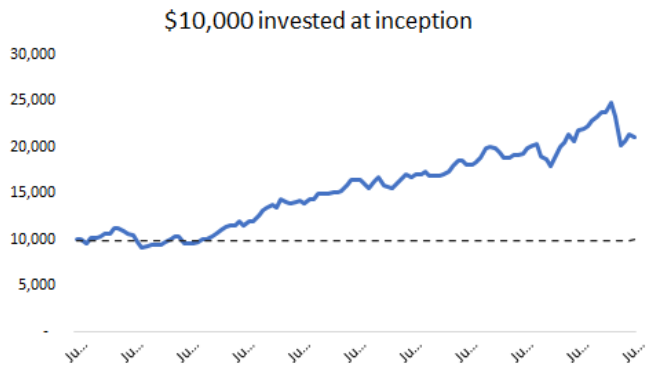
The Global Water Fund is designed to provide socially responsible investment in the water industry. This includes listed water utility, industrial, tech and materials companies. Currency hedging is used to reduce foreign currency exposure.

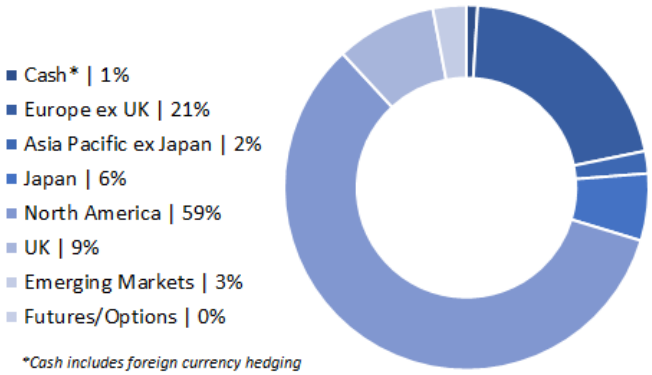
Performance 1 month	Performance 7 years pa	Benchmark 7 years pa
-1.9%	+8.9%	+9.4%

FUND COMMENTARY

The Fund was lower in June. This was disappointing, but we note that many themed based/sector funds have lagged the broader market as this rally has been heavily concentrated in sectors such as technology. With a medium-term view we remain confident in the outlook for the fund.

Our fund holdings are backed by the long term investment theme behind water scarcity, and we remain comfortable with our medium term positions. The Fund maintains a defensive bias, given its water utility and infrastructure holdings, which should remain resilient in a recession.





**Cash includes foreign currency hedging*

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.

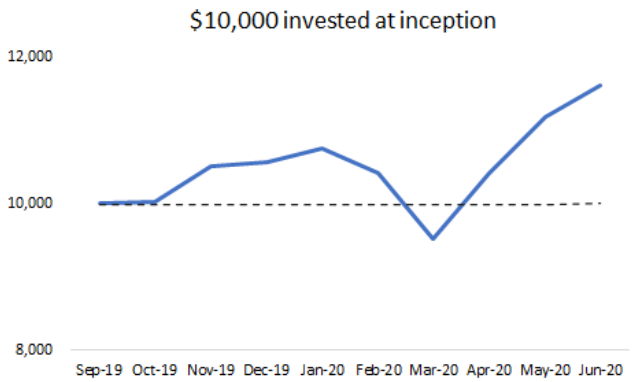
The Fund is currently offered for wholesal investors only. It will be offered to retail investors very shortly

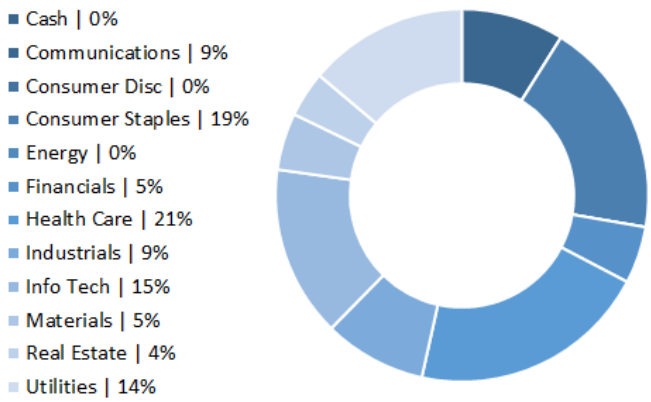
Performance 1 month	Performance 9 month	Benchmark 9 month
+3.9%	+16.2%	-3.8%

FUND COMMENTARY

The Fund rallied +3.8% over June, in line with the market benchmark index for the month.

Tech stocks in the portfolio continue to lead returns, with Pushpay rallying another +14% over the month. Datacentre business Next DC also rallied +7% over the month, and has hit new all-time highs at the start of July on the back of new contract wins which continue to highlight the strong demand for data and need for additional capacity. The funds other technology exposure, accounting SaaS business Xero is also trading at all-time highs and was up +5% in June. Healthcare was the next major contributor to monthly return. Fisher & Paykel Healthcare (+19% in June) surged to fresh all-time highs at month end after it delivered another record result. We still believe that management are being fairly conservative with their guidance. Clearly if covid-19 remains an issue for longer than expected then we think there is further upside, making FPH the ultimate hedge against the risk of a second covid-19 wave (as covid-19 is creating unprecedented demand for their breathing mask technology).





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.

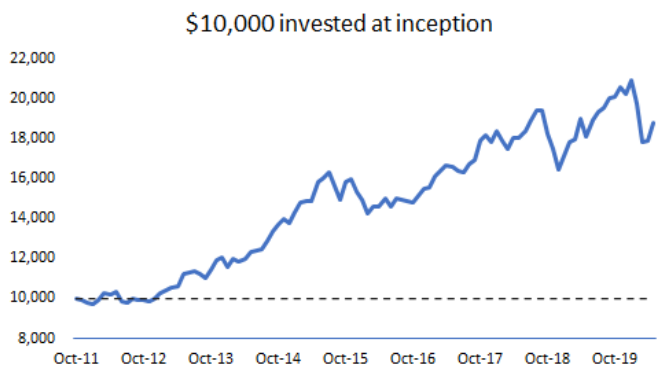
Performance 1 month	Performance 7 years pa	Benchmark 7 years pa
-0.5%	+7.5%	+9.2%

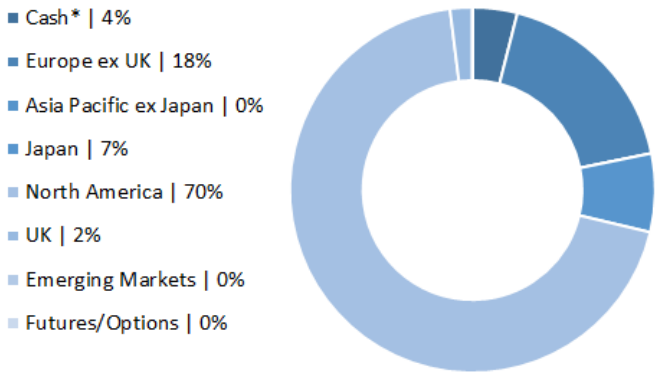
FUND COMMENTARY

The Fund was a touch lower in June, partially on the back of a stronger New Zealand dollar.

In terms of positioning, our key sector tilts remain overweight technology.

In terms of region, we continue to have a large exposure to the US, while continuing to avoid Asia Ex-Japan. The gains made to the US share market in June saw equities have their best quarter since 1998 in one of the fastest rebounds and return to a bull market in history following the remarkable crash in March. Looking ahead in the near term, we are heading into 2nd quarter earnings season and already at least three companies that have talked about job cuts ahead of the upcoming season (one airline, one bank and one retailer).





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.

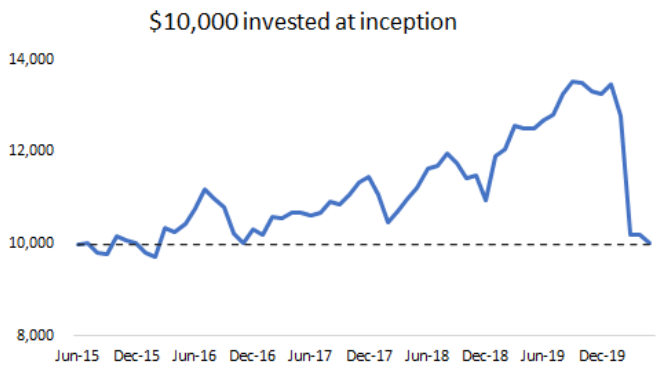
Performance 1 month	Performance 3 year	Benchmark 3 year
-0.4%	-2.1%	+0.5%

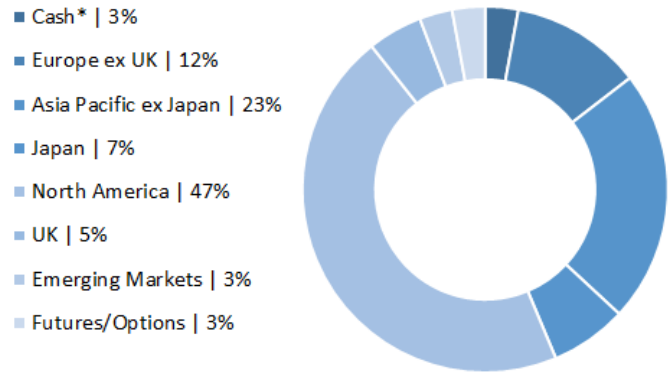
FUND COMMENTARY

The Fund lost ground in June, but encouragingly has bounced back at the start of July.

We have re-weighted several positions in the fund lately, including a shift to an overweight position to Australasia given we see a clearer outlook, particularly around dividends.

In New Zealand, we have added Argosy to the portfolio, a REIT focused on industrial and office spaces. The stock price also has a smaller exposure to retail, and has sold-off as a result, now trading at an attractive yield over 5% and at a discount to Net Tangible Asset value (NTA). We are buying on valuation and given the retail part of the portfolio it indirectly exposes the portfolio to the consumer discretionary space. We have bought into Vital Harvest REIT (VTH). VTH owns strategic farmland leased to fresh fruit and vegetables producer Costa Group. Similar to Argosy, VTH trades at a discount to NTA and is trading on a dividend yield of over 6%, attractive in the current low rate environment.





Pathfinder INVEST RESPONSIBLY

PORTFOLIO UPDATES

FUND PERFORMANCE

Fund Performance as at 30 June 2020	1 Month	6 Month	1 Year	3 Year p.a.	5 Year p.a.	Since Inception	Inception Date	Volatility
Global Responsibility Fund	0.08%	-5.36%	4.88%			5.11%	02/10/17	12.4%
Morningstar Developed Markets Index NR (50% Hedged)	0.40%	-4.22%	4.29%			7.08%		14.8%
Global Water Fund	-1.95%	-11.43%	-3.82%	5.03%	4.96%	7.71%	30/06/10	13.6%
NASDAQ OMX Global Water Index (50% Hedged)	-1.39%	-4.09%	6.65%	11.06%	6.25%	8.87%		14.3%
Global Property Fund	-0.39%	-24.88%	-21.37%	-2.10%		-0.08%	22/07/15	15.3%
FTSE/NAREIT Developed TR Index (75% Hedged)	1.63%	-19.93%	-14.44%	0.52%		1.93%		16.8%
World Equity Fund	-0.51%	-7.47%	-1.03%	4.57%	3.17%	7.53%	14/11/11	12.8%
Morningstar Global Markets Index NR (50% Hedged)	0.93%	-4.64%	3.63%	8.10%	6.85%	10.27%		14.0%
Ethical Trans Tasman Fund (Wholesale only)	3.89%	9.86%				16.16%	30/09/19	
NZX/ASX50	3.73%	-5.42%				-3.81%		
Responsible Investment Fund (Wholesale only)	-0.81%	-1.08%	10.12%	10.43%		8.04%	04/05/17	11.8%
Morningstar Developed Markets NR Index (NZD)	-1.74%	-2.06%	6.34%	10.84%		8.72%		13.4%
CareSaver Growth Fund	1.46%	1.73%				7.73%	31/07/19	
Benchmark	0.45%	-2.75%				3.26%		
CareSaver Balanced Fund	0.96%	0.40%				3.07%	31/07/19	
Benchmark	0.51%	-1.35%				3.52%		
CareSaver Conservative Fund	0.39%	2.48%				3.64%	31/07/19	
Benchmark	0.62%	1.20%				3.70%		

^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.