Pathfinder

Monthly Newsletter – June 2021

Review of Fund Performance and Current Events

Certified B Corporation

Market Commentary

Globally markets continue to trend higher even as the COVID delta variant spreads, investors digest the latest quarterly global earnings season, and low interest rates remain supportive of valuations. All our funds experienced a positive month in June, and this trend has continued through the month of July.

Before moving on to market details, we are very proud to have won "Best Ethical KiwiSaver Fund Provider" & "Best New Ethical Fund" (for the Pathfinder Ethical Growth Fund) out of 48 entries at the Mindful Money Awards. The Mindful Money Awards celebrate the role that ethical and impact investing are playing in making money a force for good. They reflect the growing movement to re-orient investment finance towards sustainability and well-being, providing solutions to the mounting crises of climate change, biodiversity loss and inequality.

For all the headlines on the COVID "delta" strain, markets, equity markets have generally taken the news-flow in their stride. That said, the more transmissible variant creates two risks for share markets. The first is whether it would spread before countries could inoculate their populations, forcing Governments to extend or plunge their nations back into mobility restrictions. The second risk is whether the current vaccines are effective against this new variant. It remains prudent to be active and aware of risks. In fact, the biggest stock on the NZ market, and one our portfolio positions - Fisher & Paykel Healthcare, can be seen as a "hedge" against rising delta variant cases across the globe given their masks are used to treat patients with COVID.

A fundamental driver of stock returns is company profitability, and we are currently in global "earnings season". So far, over 80% of S&P500 companies that have reported earnings, have beaten analyst expectations, which could see the best quarterly earnings season since 2009. While the US market (S&P 500) index is up approximately 18% year to date, a key market valuation multiple (Price to earnings) is unchanged given that current year consensus earnings per share is already up 18%.

While earning are important, the market is also likely to pay more attention than usual to comments around inflation pressures. Coca Cola's CFO thought that in 2022 there would be more cost pressures ahead, while JP Morgan CEO Jamie Dimon said that inflation could be worse than people think. The list of companies expressing similar sentiments goes on.

This leads nicely to another fundamental driver of markets, interest rates. Rates remain remarkably low, as central bank policy globally stays easy, with the ECB saying it will pursue a "persistently accommodative" stance. Several Federal Reserve officials have said the labour market and inflation have made progress toward preconditions for tapping the brakes on their robust support for the US economy. Officially however, in its latest meeting, the Fed kept the target range for its benchmark policy rate unchanged at zero to 0.25% and repeated language that inflation had run persistently below its long-run 2% goal. Rates moving lower has seen "growth" stocks such as the technology sector come back in favour with investors – the Nasdaq tech index hit a fresh all-time high in July.

Closer to home, the RBNZ is the clear exception to easy central bank policy. The NZ labour market is the tightest it's been this century according to latest economic survey data, and a very strong NZ CPI inflation print (+1.3% in the June Quarter giving annual inflation of 3.3%) - the was the highest rate of inflation since 2011. The RBNZ surprised most by deciding to cease its Large-Scale Asset Purchase Programme (LSAP) from 23 July, which paves the way for an earlier than expected OCR hike. The market is now pricing in 0.5% of cash rate hikes by November, with a hike as early as August. We are underweight NZ stock and sectors most exposed to higher rates,

Across the ditch in Australia, the near-term economic outlook will take a hit with fresh lockdowns and the pause of travel-bubbles. However, at this stage the damage seems limited to sectors most exposed such as travel & tourism, with investors expecting a strong recovery on the other side with the ASX trading at an all-time high.

Fund Performance (after fees, before tax)

To 30 June 2021	1 Month	6 Months	1 Year	3 Years Annualised	5 Years Annualised	10 Years Annualised	Since Inception Annualised	Start Date
Ethical Growth Fund	2.9%	5.0%						Sep-20
Global Responsibility Fund	3.7%	13.2%	34.8%	13.7%			**12.4%**	Oct-17
Global Water Fund	2.4%	17.4%	39.3%	14.9%	11.9%	10.9%	**10.3%**	Jun-10
Ethical Trans-Tasman Fund	3.5%	3.1%	24.7%				**23.6%**	Sep-19
Global Property Fund	3.1%	15.1%	27.5%	3.0%	3.4%		**4.1%**	Jul-15
Responsible Investment Fund*	3.8%	13.9%	32.9%	15.6%			**13.6%**	May-17
KiwiSaver Growth	3.6%	7.8%	29.5%				**19.1%**	Jul-19
KiwiSaver Balanced	2.6%	5.3%	20.5%				**12.0%**	Jul-19
KiwiSaver Conservative	1.1%	2.0%	7.4%				**5.8%**	Jul-19

This is a wholesale offer that is not available for retail investors.

Investment Team

Contact: info@path.co.nz / 0800 (ETHICAL) 384 422

Chief Investment Officer
Paul Brownsey

Portfolio Manager
Hamesh Sharma

Portfolio Manager
James Caughey

Investment Analyst
Simon Crotty

ESG Analyst
Kate Brownsey

Pathfinder

Monthly Newsletter – June 2021

Review of Fund Performance and Current Events

Certified B Corporation

KiwiSaver Funds

All 3 of our KiwiSaver Funds experienced stellar returns over June.

We have made a small investment into another unlisted business, Wool+Aid. Wool+Aid have created a merino wool-based substitute to plastic plasters - the entirety of which is biodegradable - could provide a potentially game-changing disruption to the personal care industry.

Our investment forms part of the $1.5 million capital raised by young Kiwi entrepreneur Lucas Smith after 5 years of development. The capital provides funding to expand product distribution into a market problematically dominated by plastic-derived materials.

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Growth	3.6%	7.8%	29.5%	--	19.1%
Balanced	2.6%	5.3%	20.5%	--	12.0%
Conservative	1.1%	2.0%	7.4%	--	5.8%

Global Responsibility Fund

The Fund had another strong month, +3.7% in June. One of our sector tilts which has paid off is not owning Chinese stocks. Chinese and Hong Kong markets have been under pressure (the HK market has wiped its 2021 gains) as China introduced new regulations banning companies who teach school curriculums from making profits, raising capital, going public or engaging in M&A. This highlights the risk of doing business in China, and how quickly policies can change.

Tensions are escalating with the "5-eyes" countries (Britain, Canada, United States, Australia, and New Zealand) stating that China was behind the wave of hacking which occurred hacking earlier in the year.

CLICK HERE for the latest Factsheet

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Fund Return	3.7%	13.2%	34.8%	13.7%	12.4%
Benchmark Return	3.4%	14.6%	34.2%	14.0%	13.8%

Global Water Fund

The Global Water Fund was +2.4% higher over June with the Fund experiencing strong momentum. Performance was led by US stocks, specifically industrials as confidence in the economic backdrop grew. Roper Technologies (+4.5%), a major diversified industrial company that produces engineered products for customers in over 100 countries made the biggest contribution to return.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Fund Return	2.4%	17.4%	39.3%	14.9%	10.3%
Benchmark Return	2.5%	15.3%	33.7%	17.6%	10.9%

Ethical Trans-Tasman Fund

The Fund rebounded +3.5% in June.

We have taken a small (2%) position into small-cap Adveritas (AV1) on the ASX through a share placement. The technology company solves the multibillion-dollar problem of online ad fraud detection and prevention using its big data and proprietary technology.

CLICK HERE for the latest Factsheet.

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Fund Return	3.5%	3.1%	24.7%	--	23.6%
Benchmark Return	2.7%	3.8%	17.4%	--	7.2%

Global Property Fund

The Fund had a strong month in both an absolute and relative sense to benchmark, up +3.1%.

We have re-weighted some of our New Zealand holdings, with the key change trimming our position in Argosy Property as we saw an opportunity to take profits. The stock has been on a big run, largely driven by ETF/passive index related investment flows.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Fund Return	3.1%	15.1%	27.5%	3.0%	4.1%
Benchmark Return	1.9%	17.0%	32.2%	7.2%	7.1%

Ethical Growth Fund

The Fund rebounded +2.9% in June. As touched on above, the fund won "Best New Ethical Fund 2021" at the 2021 Mindful Money Awards. Mindful Money noted that "The fund avoids investments in companies that cause harm, practices active ownership, but invests in companies with positive impacts, such as solar energy, mental health, women's livelihoods and social housing".

CLICK HERE for latest Factsheet

Performance	1 month	6 months	1 year	3 years	Since Inception
Fund Return	2.9%	5.0%	--	--	15.4%
Benchmark Return	2.3%	6.2%	--	--	15.2%