Pathfinder

Monthly Newsletter – August 2021

Review of Fund Performance and Current Events

Certified B Corporation

Market Commentary

August saw equity markets add to 2021 gains with the US market (S&P 500 index) up +2.9%, wrapping up its seventh-straight month of gains, the longest winning streak since January 2018. Closer to home, the Australian market broke a record, with the ASX having improved for an 11th consecutive month, the longest monthly streak in the market's history. In stark contrast to July, the New Zealand market (NZX 50) jumped +5%.

Looking in the rear vision mirror for the NZ market, NZ has underperformed global markets year to date and is now back at unchanged for the year (to the same level as January when we had the clean energy ETF inflows driving up the price of Meridian & Contact Energy). Strength on both sides of the Tasman was driven by bumper updates by blue chip stocks, and evidence Australian corporate profits have roared back to life in the latest earnings season period - surging +30% to June 30, 2021, driven by record-low interest rates, fiscal stimulus, and economic reopening, though in fits and starts.

The outbreak of delta and associated lockdowns has tempered enthusiasm at the margins, as we saw cautiousness amongst various companies in their outlook statements, with continued comment around labour shortages/higher labour costs, and higher freight costs/supply chain disruptions.

Accordingly, our Funds had another strong month in August. However, at the time of writing markets have pulled back, with headlines dominated by concerns around China.

As we discussed last month, we have avoided direct Chinese stock exposures across our Funds for some considerable time now, this is helping fund performance. Much of the news coming out of China recently has been negative, with another outbreak of delta COVID, widespread lockdowns causing a soft patch in economic activity, regulatory crackdowns across a wide range of sectors (with casinos added to the list with technology and education), the implications of focusing on "common prosperity" over economic growth and the impact on the steel market as Chinese authorities try to contain emissions. The risk of a domino effect in the property market is concerning, with the probable imminent collapse of property development giant, Evergrande.

Most of the sell-off pain is being felt in Asian markets so far, as well as China market dependent sectors in other countries such as mining stocks. The Australian market has been hit particularly hard, given its large mining sector (which we do not invest in for ESG reasons) and heavy reliance on iron ore shipments to China.

The current selling/profit-taking may intensify given the strong rally year to date, fuelled by a wave of global liquidity which is now slowing. The US Fed is starting to signal it will reduce monetary stimulus amid surging inflation and improvement in the jobs market. In Europe, the ECB confirmed it would reduce its' bond buying pace from next month. In Australia, the RBA left the cash rate unchanged at 0.10%, as expected, and stuck with its tapering decision, reducing bond purchases from A$5bn to A$4bn per week. In NZ, the RBNZ remains the outlier, with the RBNZ still indicating they will raise the official cash rate this year (although this has been delayed by lockdown).

Back to Evergrande. Evergrande is a large property development company with some $300bn of liabilities, equivalent to around 2% of China GDP. Creditors include Chinese banks, offshore bond holders, contractors, suppliers, and retail investors. Evergrande Group is on the brink of default ahead of an interest payment deadline later this week which is unlikely to be met. Investors are divided on the potential wider financial impact. Some believe an Evergrande bankruptcy will trigger a wholesale collapse in China's financial system, causing severe global contagion. Others see an Evergrande default as a Government-managed reminder to wealthy Chinese to remain committed to State guidance and goals. There is no doubt though, that China's real estate sector is too indebted and there will certainly be some short-term lender pain, in order to reduce excessive speculation and leverage.

Commentators have been worried about the over-leveraged Chinese property sector for years without anything much happening. This is clearly a big test for the market. As yet, it is uncertain how much leeway creditors will give the company and how actively the authorities will manage the fall-out. Our base view is that the Chinese Authorities will allow some defaults (especially for foreign investors), but prevent an all-out collapse of the system, which would clearly be negative for global markets. We are letting cash build across the portfolios and monitoring developments closely.

Fund Performance (after fees, before tax)

To 31 August 2021	1 Month	6 Months	1 Year	3 Years Annualised	5 Years Annualised	10 Years Annualised	Since Inception Annualised	Start Date
Ethical Growth Fund	2.4%	9.1%						Sep-20
Global Responsibility Fund	1.9%	15.2%	28.5%	13.0%			**12.7%**	Oct-17
Global Water Fund	1.8%	23.0%	38.5%	16.0%	13.1%	13.1%	**10.8%**	Jun-10
Ethical Trans-Tasman Fund	5.3%	8.9%	18.3%				**23.3%**	Sep-19
Global Property Fund	2.1%	18.1%	25.0%	3.2%	3.6%		**4.6%**	Jul-15
Responsible Investment Fund*	2.0%	16.2%	27.7%	14.5%			**13.9%**	May-17
KiwiSaver Growth	3.5%	13.1%	24.2%				**19.8%**	Jul-19
KiwiSaver Balanced	2.8%	9.3%	17.3%				**12.7%**	Jul-19
KiwiSaver Conservative	1.7%	4.1%	7.0%				**6.3%**	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 – August 2021

Review of Fund Performance and Current Events

Certified B Corporation

KiwiSaver Funds

All 3 of our KiwiSaver Funds experienced strong returns in August.

A key investment them across the funds is investing in solar power. There was an interesting article in the New York times, reporting the Biden administration will announce a goal of producing 45% of the nation's electricity from the sun by 2050, a major shift in energy policy. Solar energy provided less than 4% of the country's electricity last year, and we see strong medium-term tailwinds behind the sector for years to come.

Performance	1 month	6 months	1 year	2-year p.a.	Inception p.a.
Growth	3.5%	13.1%	24.2%	20.0%	19.8%
Balanced	2.8%	9.3%	17.3%	13.3%	12.7%
Conservative	1.7%	4.1%	7.0%	6.3%	6.3%

Global Responsibility Fund

The path of interest rates/inflation and spread of COVID remain uncertain, hence, we remain very much diversified across sectors and industries. Delta variant cases are rising as colder weather approaches in North America. We have also seen delta create lockdowns in NZ/Australia. Mixed inflation data continues to push the 'transitory' inflation debate further out as move into 2022.

CLICK HERE for the latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Inception p.a.
Fund Return	1.9%	15.2%	28.5%	13.0%	12.7%
Benchmark Return	2.1%	17.0%	27.9%	13.4%	14.2%

Global Water Fund

The Global Water Fund was +1.8% higher in August. As touched on above, if central banks start to withdraw stimulus, longer term bond yields may start to inch higher again which sees us more cautious on very highly priced, high-growth companies as this often creates a headwind for their share prices. The Water Fund does not have much exposure here, with an emphasis on industrial water companies.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Inception p.a.
Fund Return	1.8%	23.0%	38.5%	16.0%	10.8%
Benchmark Return	2.3%	27.3%	34.2%	19.2%	11.5%

Ethical Trans-Tasman Fund

The Fund surged +5.3% in August, well ahead of the market.

A few of our NZX holdings had stellar a month including Summerset (+20%) which delivered record profits for the 1st half of the financial year and lifted their expected retirement village rebuild rates. Recent addition, biotech firm Pacific Edge (+12%), has been on a strong run and we still see upside as the company increases sales of it's bladder cancer diagnostic test in the US market.

CLICK HERE for the latest Factsheet.

Performance	1 month	6 months	1 year	3 year p.a.	Inception p.a.
Fund Return	5.3%	8.9%	18.3%	--	23.3%
Benchmark Return	3.1%	9.9%	16.0%	--	8.1%

Global Property Fund

The Fund was up +2.1% in August.

September has seen a reversal to date, given the Chinese property market concerns. The Fund has a 2% exposure to Hong Kong property stocks. The majority of this is made up by Country Garden, which we see as one of the best run large Chinese real estate companies.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Inception p.a.
Fund Return	2.1%	18.1%	25.0%	3.2%	4.6%
Benchmark Return	1.1%	19.1%	32.1%	5.8%	6.8%

Ethical Growth Fund

The Fund was up +2.4% in August, helped by the NZX regional overweight. We have changed the target and permitted asset allocation of the Pathfinder Ethical Growth Fund. The new target and permitted asset allocation can be found on our website The purpose of change is to align target asset allocation between Pathfinder Ethical Growth Fund and the Pathfinder KiwiSaver Growth Fund, and to reflect the changes of definition for Other Assets.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Since Inception
Fund Return	2.4%	9.1%	--	--	17.9%
Benchmark Return	1.4%	10.5%	--	--	14.7%