Pathfinder

Monthly Newsletter –September 2021

Review of Fund Performance and Current Events

Market Commentary

September spooked the US stock market once again with all major benchmark indices in the red. The SPX 500 ended with a loss of -4.9% breaking a 7-month winning streak. The biggest drag came from high-growth technology stocks underperformed due to increase in longer-dated US interest rates, raising red flags with relative higher valuation concerns.

In contrast, the New Zealand market ended the month in the green (NZX 50 index +0.4%). As touched on last month, the NZ market has lagged in 2021, and given this we expect that the thematic of NZ outperformance during any period of global risk unwind to continue. Across the Tasman in Australia the ASX 200 index was down -2.7%. Aussie mining stocks were hammered, as iron ore continued its free fall and gas prices soared with the global supply chain inadvertently disrupted through factory shutdowns and rising shipping costs. A sudden rally in oil prices helped the energy sector gain close to 17% for the month, while mining heavyweights such as BHP and Fortescue lost -16% and -26% respectively.

Energy stocks provided a silver lining in terms of global sector performance for the month, riding the tailwind of higher oil prices (which are back at mid-2018 levels). At Pathfinder we do not invest in the energy sector, and as consumer behaviour continues to change, we believe this will also influence investment flows into the fossil fuel sector. For the naysayers around EV (electric vehicle) adoption, recent stats in NZ showed that one in every five of the 16,518 vehicles sold in September was electrically powered, driven by 1,066 sales of the Tesla Model 3. Second only to the Ford Ranger at 1,408. At the time of writing, Tesla has surged to new all-time highs, on a day it announced receiving an order for 100,000 cars from car rental business Hertz.

There was not one single reason for the market pullback. There are a few factors of nervousness for investors creating a "wall of worry: These include 1) Evergrande/ risks stemming from the Chinese property market spilling over into the global financial system 2) rampant inflation 3) removal of central bank liquidity/higher interest rates 4) market levels/technicals.

Markets have enjoyed a phenomenal run and seasoned investors would know that 5-10% market corrections are a normal feature of markets and medium-term investors should be ready to experience some volatility. Since mid-October, markets have managed to climb a "wall of worry" and the S&P 500 index is trading at new all-time highs.

Concerns around the risk of a domino effect triggered by Chinese property developer Evergrande have reduced as it so far has avoided imminent default, but more importantly it looks like Chinese authorities are ready to step in and limit the damage/protect the end buyers of the properties. We are very comfortable in our position to not own direct Chinese stock exposures across our funds, as these stocks carry a very high risk of government intervention.

What has really driven a resurgence in enthusiasm is the most recent quarterly US corporate profit reporting season. Of the 117 companies in the S&P 500 that have reported earnings to date, 84% posted numbers that beat expectations, with financials being the real standout so far. Inflation concerns continue to bubble away: Intel's CEO said he expected the shortage of semiconductors will continue into 2023, while consumer products giant Unilever, said it increased the price of its products by an average of 4% during the 3rd quarter.

US Fed Chair Powell also seems to have conceded that inflation pressures may last a bit longer than anticipated, and affirmed the need to start tapering bond purchases, most likely in November or December (but not, it seems, actually lift official interest rates any time soon).

Closer to home, the RBNZ started a tightening cycle with a 0.25% hike to a level of 0.50% and signalled more to come. Despite lockdowns, the RBNZ feel it is prudent to act as the most recent inflation (CPI) data was up +4.9% annually, the fastest pace in 10 years.

History suggests rising interest rates early on tend not to derail equity markets, which is a positive sign as we head towards 2022. Ultimately, Central banks are tightening in response to better economic growth/lower unemployment, and both go hand in hand with improved corporate earnings growth. That is, until interest rates become too high and slow growth in earnings.

Fund Performance (after fees, before tax)

30-Sep-21	1 Month	6 Months	1 Year	2 Years p.a	3 Years p.a	5 Years p.a	10 Years p.a	Since Inception p.a	Start Date
Ethical Growth Fund	-1.0%	5.2%	14.8%					**16.0%**	Sep-20
Global Responsibility Fund	-2.8%	8.0%	25.7%	16.6%	11.7%			**11.7%**	Oct-17
Global Water Fund	-5.2%	11.5%	30.0%	13.9%	13.7%	11.5%	12.4%	**10.2%**	Jun-10
Ethical Trans-Tasman Fund	1.1%	7.8%	19.9%	22.9%				**22.9%**	Sep-19
Global Property Fund	-3.3%	8.2%	23.7%	-3.1%	2.6%	3.3%		**3.9%**	Jul-15
Responsible Investment Fund*	-2.8%	7.7%	23.8%	16.5%	13.2%			**12.9%**	May-17
KiwiSaver Growth	-1.3%	8.1%	22.8%	18.4%				**18.2%**	Jul-19
KiwiSaver Balanced	-0.9%	6.2%	16.5%	12.4%				**11.7%**	Jul-19
KiwiSaver Conservative	-0.4%	3.1%	6.5%	6.1%				**5.9%**	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

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KiwiSaver Funds

We would like to introduce our first-ever Sustainability Report.

Despite a survey back in 2014 suggesting 96% of KiwiSaver investors want their KiwiSaver manager to report on their sustainability performance, no KiwiSaver manager appears to have done so in a meaningful way. Until now. It's not enough to say you're avoiding investment in tobacco, gambling, etc. The big question is, after avoiding the negative, where do you invest to generate positive benefits? We're hoping our transparency raises awareness that the impact of how we invest our dollar is as impactful as how we spend our dollar or spend our time.

CLICK HERE to read our Sustainability Report.

Performance	1 month	6 months	1 year	2-year p.a.	Inception p.a.
Growth	-1.3%	8.1%	22.8%	18.4%	18.2%
Balanced	-0.9%	6.2%	16.5%	12.4%	11.7%
Conservative	-0.4%	3.1%	6.5%	6.1%	5.9%

Global Responsibility Fund

The Fund was –2.8% lower for the month and slightly ahead of the benchmark return, in part due to holding approximately 10% in cash.

One of the Funds more contentious positions is Tesla which has delivered stellar returns to date. As touched on the front page, Tesla has defied gravity with its market value hitting the 1 trillion-dollar level, and its shares are up +143% over the last 12-months alone.

CLICK HERE for the latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Inception p.a.
Fund Return	-2.8%	8.0%	25.7%	11.7%	11.7%
Benchmark Return	-3.1%	8.0%	26.7%	12.1%	13.1%

Global Water Fund

In an absolute sense, September was a tough month for the Water Fund -5.2%) as utilities sold off. In saying that, the Fund had strong out performance versus the benchmark due to the cash position built over recent weeks. We will look to add to selective names as opportunities arise.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Inception p.a.
Fund Return	-5.2%	11.5%	30.0%	13.7%	10.2%
Benchmark Return	-6.3%	11.6%	24.2%	16.6%	10.8%

Ethical Trans-Tasman Fund

The Fund was up +1.1%, well ahead of the broader market. From a sector point of view, not owing ASX miners helped performance relative to the market, as well as not owning listed property stocks. Our biggest Fund holding Infratil had a solid month, up 8% as it announced a number of smaller acquisitions as it spends its proceeds from the sale of Tilt Renewables. On the other side of the ledger, 2 of our ASX technology names, accounting software firm Xero, and datacentre business Next DC were down -9% & -8% respectively, following the sell-off in technology stocks globally.

CLICK HERE for the latest Factsheet.

Performance	1 month	6 months	1 year	2 Year p.a.	Inception p.a.
Fund Return	1.1%	7.8%	19.9%	22.9%	22.9%
Benchmark Return	-0.9%	5.9%	18.6%	7.3%	7.3%

Global Property Fund

The Fund lost ground in September -3.3% but was ahead of the market. We are light on Asia stocks, which have been very volatile given the China/Evergrande situation. We are holding a 10%+ position in cash, with real estate stocks potentially coming under more short-term pressure as interest rates seem to be on the rise.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Inception p.a.
Fund Return	-3.3%	8.2%	23.7%	2.6%	3.9%
Benchmark Return	-5.3%	8.6%	28.4%	5.9%	5.0%

Ethical Growth Fund

The Fund lost -1.0% in September. We have increased our conviction & weighting in NZ based bladder cancer testing company, Pacific Edge (PEB). PEB undertook a successful capital raise to grow its sales team and support growth ambitions as it scales up to make inroads into the large US market.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Since Inception
Fund Return	-1.0%	5.2%	14.8%	--	16.0%
Benchmark Return	-1.3%	5.1%	13.7%	--	13.9%