

Pathfinder

Monthly Newsletter – October 2021

Review of Fund Performance and Current Events



Market Commentary

There were mixed fortunes for markets over October as global enthusiasm did not translate into gains for the local market. The NZ market lost -1.3% as its underperformance versus global peers continues, with investor sentiment hit by the RBNZ hiking interest rates as we remain one of the most locked down & restricted countries in OECD. In contrast, the US S&P 500 index gained a massive +6.9%, led by technology heavyweights such as Tesla and Microsoft. Across the Tasman, the ASX rebounded +1.7% after selling off in September. November started off with a flurry, but there has been some profit taking following 8 consecutive positive trading sessions for the S&P 500, the longest winning streak since 2017.

As touched on last month, part of this market rally to new all-time highs has been driven by strong corporate earnings, although simply looking at the headline market index level hides a divergence in fortunes in individual stocks and sectors. Some earnings results impressed the market, while others did not. Looking at the big technology names, Microsoft (which is our biggest KiwiSaver stock position) is up +9% over the last month, while Tesla has rallied +16%. In contrast, Apple is only up +2% over the last month, while Meta (formerly Facebook) is up +3% and Amazon is also up +2%. Even among the mega-cap technology stocks there has been a dispersion in return, and we see this trend continuing over the next few years. This highlights the importance of good active fund managers, who can pick and choose stocks to own, rather than investing passively in the entire market.

Signs of retail trader euphoria are also back, and active managers such as us can avoid these stocks. An example is car rental business AVIS which jumped 108% overnight on the 2nd of November amid a flurry of retail-crazed activity as it said it will play a role in the increased adoption of electric vehicles in the US. Since then, it has subsequently dropped -25%.

In terms of the economic backdrop, inflation remains the focus as it has a large influence on when central banks around the globe pull-back support for economies and subsequently raise interest rates. In the US, October's CPI (inflation) print took the annual increase up to 6.2% the highest measure in 30 odd years. The number wasn't driven by just a few one-off items, suggesting the surging inflation picture is becoming broader based.

Despite high inflation readings and low unemployment, many central banks are trying to stay as dovish as possible. The Bank of England made a shock decision not to raise interest rates, US Fed Chair Powell said it could afford to be "patient" for the time being, and ECB President Lagarde said it was "very unlikely" the conditions for a rate hike would be met in 2022. Reserve Bank of Australia Governor Lowe pushed back against market pricing for rate hikes in 2022, even as he conceded that a move in 2023 was possible.

NZ inflation has been, and continues to, head down the same path with the risk of an imminent 6% headline CPI handle and some core inflation measures above 4%. NZ's unemployment rate has also dropped to a 14-year low of 3.4%. The difference is that the RBNZ is doing something about it, with clear guidance that interest rates are heading higher. That has already fed into mortgage rates, with the 2-year fixed rate mortgage up some 1.5% over the past few months.

This goes some way in explaining the recent return lag of the NZ market, which has a large proportion of "bond proxy" stocks – those which usually pay high dividends and are seen as stable stocks and alternatives income stocks. The relative attractiveness of these stocks, such as the power generator sector, drops as interest rates rise. We have trimmed our exposure and are very light in terms of our fund holdings in these types of stocks.

Moves in bond markets have been just as wild as equity markets. In what could only be described as a truly remarkable month, October 2021 saw the New Zealand 2-year interest rate jump +0.87%, the largest one month move since 1999.

In terms of other major market news, US Congress finally passed Biden's \$1.2tn infrastructure bill. Biden has outlined key goals of combating climate change and advancing equity.

COVID remains an issue and in Europe a surge in Covid cases has seen renewed restrictions as the Netherlands head back into partial lockdown, with Germany tipped by many to follow suit. Pfizer also sparked a rally in reopening stocks after it said its COVID-19 pill reduced hospitalisations and deaths in high-risk patients by 89%.

Fund Performance (after fees, before tax)

31-Oct-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	2.2%	5.9%	15.5%					16.9%	Sep-20
Global Responsibility Fund	4.5%	10.0%	33.6%	17.9%	16.1%			12.6%	Oct-17
Global Water Fund	1.9%	8.0%	31.7%	14.2%	17.0%	12.5%	12.4%	10.3%	Jun-10
Ethical Trans-Tasman Fund	-1.3%	4.5%	14.1%	21.9%				21.1%	Sep-19
Global Property Fund	2.6%	6.6%	28.7%	-1.8%	4.5%	5.0%		4.3%	Jul-15
Responsible Investment Fund*	4.6%	10.2%	31.7%	18.3%	17.6%			13.8%	May-17
KiwiSaver Growth	2.3%	8.9%	23.8%	20.0%				18.7%	Jul-19
KiwiSaver Balanced	1.6%	6.6%	16.9%	13.5%				12.0%	Jul-19
KiwiSaver Conservative	-0.1%	2.5%	5.7%	6.2%				5.6%	Jul-19

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

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KiwiSaver Funds

In their quarterly KiwiSaver survey, Morningstar have Pathfinder leading the peer group table for the September quarter across each of Conservative, Balanced and Growth funds. Our Conservative fund is also well ahead of peers on a 1-year period, driven by our active decision to be underweight listed fixed income assets. Given the recent move higher in interest rates, many other conservative funds have experienced significant losses in recent months.

[CLICK HERE](#) to read the Morningstar September Quarter KiwiSaver Survey

Performance	1 month	6 months	1 year	2-year p.a.	Inception p.a.
Growth	2.3%	8.9%	23.8%	20.0%	18.7%
Balanced	1.6%	6.6%	16.9%	13.5%	12.0%
Conservative	-0.1%	2.5%	5.7%	6.2%	5.6%

Global Responsibility Fund

The Fund surged +4.5% for October, more than reversing losses in the prior month. Tesla was a key contributor to return, and we have trimmed our position/taken more profits off the table.

Regionally, we continue to avoid China as while troubled Evergrande Group averted another debt default (putting Asian investors in positive spirits) we see too much political risk, the economy is cooling, and COVID restrictions are

[CLICK HERE](#) for the latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Inception p.a.
Fund Return	4.5%	10.0%	33.6%	16.1%	12.6%
Benchmark Return	3.5%	8.1%	34.9%	16.1%	13.7%

Global Water Fund

The Fund was +1.9% higher in October, slightly behind the benchmark return.

Water treatment is a medium-term theme we are playing through our Funds, and we took part in a share placement for ASX listed SciDev. SciDev has bespoke solutions focused on reducing the production of wastewater from industrial processes across a range of industries and we are bullish on the stocks prospects.

[CLICK HERE](#) for latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Inception p.a.
Fund Return	1.9%	8.0%	31.7%	17.0%	10.3%
Benchmark Return	3.0%	9.6%	30.1%	20.7%	11.0%

Ethical Trans-Tasman Fund

The Fund lost -1.3% over October, as the NZ market came under pressure. The rise in interest rates is starting to pose a real threat to NZ equity valuations. By way of example, Contact Energy are about to issue hybrid debt at close to a 5% coupon rate. Their listed shares which are yielding around 5.5%, and suddenly look a lot less attractive on a relative basis. Companies who can't post credible earnings/dividend growth over the next 12 months are increasingly facing the threat of large share price declines, in our view.

[CLICK HERE](#) for the latest Factsheet.

Performance	1 month	6 months	1 year	2 Year p.a.	Inception p.a.
Fund Return	-1.3%	4.5%	14.1%	21.9%	21.1%
Benchmark Return	-0.7%	4.0%	17.6%	9.2%	8.3%

Global Property Fund

The Fund staged a recovery in October, up +2.6%. As noted above, the NZ market has underperformed, and the same can be said for listed NZ property stocks, which make up about 10% of the global property fund and this saw us lag the more global benchmark. That said, the NZ listed property market actually did better in October (down -0.6%) than the broader NZ market which lost -1.3%.

[CLICK HERE](#) for latest Factsheet.

Performance	1 month	6 months	1 year	5 Year p.a.	Inception p.a.
Fund Return	2.6%	6.6%	28.7%	5.0%	4.3%
Benchmark Return	5.0%	7.9%	39.5%	7.1%	5.8%

Ethical Growth Fund

The Fund jumped +2.2% in October, well ahead of the benchmark which was in slight negative territory. We have a large tilt towards renewable stocks which have been performing well of late. Biden's \$1.2 trillion infrastructure bill and the recent UN climate change conference show that the trend is fully in favour of the renewable energy space.

[CLICK HERE](#) for latest Factsheet.

Performance	1 month	6 months	1 year	3 Year p.a.	Since Inception
Fund Return	2.2%	5.9%	15.5%	--	16.9%
Benchmark Return	0.0%	3.5%	14.3%	--	14.0%