Pathfinder

Monthly Newsletter –May 2021

Review of Fund Performance and Current Events

Certified B Corporation

Market Commentary

Globally markets continue to grind higher and currently trade near all-time highs, as investors continue to debate the impact of resurgent inflation on future monetary policy.

Before diving into market commentary, there has been some interesting public debate around the NZ governments new "feebate" scheme to subsidise purchases of electric vehicles (EV's) and simultaneously penalise/discourage high-emission vehicles. This highlights that the trends towards electric vehicles are supported by government and real. When investing, we take into account these high-level macroeconomic influences and for example in NZ we do not own Z Energy given the uncertainties for the business created by the proliferation of EV's. We see 2025 as a key inflection point when the price of a new EV is the same as an equivalent new petrol car, and 2030 when the second hand EV market becomes material.

Back to markets. New Zealand shares continue to underperform, dragged down by major stocks such as Fisher & Paykel Healthcare which had massively benefitted during "peak COVID". In contrast, Australia (ASX 200 index +2%) is leading the way, given its higher exposure to value orientated Financials/Bank sector stocks. Other markets also posted gains, but their rises were more muted, including in the US with the S&P 500 index +0.7%.

Vaccine rollout news has kept headlines positive, with infections dropping in India, and the US potentially moving towards herd immunity, all of which kept investors in good spirits. Governments globally continue to pump money into the economy, most recently a bipartisan group of senators had reached an agreement on a US infrastructure package – it will include $579bn in new spending and be funded largely via repurposed Covid-19 recovery funds, rather than higher corporate tax rates, as originally proposed by the Democrats.

As we touched on last month, the main risk for markets is still that a sustained bout of inflation that may trigger sharply and unexpectedly higher interest rates.

Talk of higher rates is growing, as is the increase in the number of Fed members who are now pencilling in a rate hike in 2023 according to the Fed's 'dot plot' chart. Just over half (13 of 18) now see rate increases starting in 2023, while a chunky 40% (7 of 18) see the first move as early as next year. Closer to home in NZ, the market continues to bring forward the expected timing of RBNZ OCR hikes, with an interest rate hike in February 2022 now fully priced.

We also note that the US Government has been issuing fewer bonds over the last couple of months. This can only go on, though, for a few months before the Fed will start having to issue more debt to finance its fiscal spending, potentially putting upwards pressure on bond yields again.

Despite the news flow above, markets remain relatively sanguine. If interest rates rebound back to 1%-2%, this is not by any stretch a disaster for equity markets, and more of a sign of a healthy economy than reason to panic (although bond investors will likely take a hit). What will be more of a concern is a rapid increase in rates and/or overshoot on the up-side. Longer-term interest rates are the best "canary in the coalmine" but are still relatively well behaved.

There are no signs this rally is ending yet, and even the Nasdaq has been on a tear as tech stocks come back in favour. We are not calling the cyclical run & "sector rotation" over, but remain diversified across sectors and style, with a focus on our medium-term investment themes such as water, renewable energy, and data.

Overall, we remain close to fully invested, but cognisant of risks, noting that markets are generally at or near all-time highs.

We remind investors that our main game is investing for the medium term, and not timing the markets. As famed investor Peter Lynch once said, "Far more money has been lost by investors preparing for corrections than has been lost in corrections themselves".

Fund Performance (after fees, before tax)

To 31 May 2021	1 Month	6 Months	1 Year	3 Years Annualised	5 Years Annualised	10 Years Annualised	Since Inception Annualised	Start Date
Ethical Growth Fund	-0.4%	5.7%					--	Sep-20
Global Responsibility Fund	0.9%	13.3%	30.1%	13.0%			**11.5%**	Oct-17
Global Water Fund	1.8%	17.6%	33.4%	14.2%	10.9%	10.4%	**10.1%**	Jun-10
Ethical Trans-Tasman Fund	-1.9%	2.5%	25.2%				**22.4%**	Sep-19
Global Property Fund	0.8%	14.4%	23.2%	3.2%	3.4%		**3.6%**	Jul-15
Responsible Investment Fund*	0.8%	13.1%	26.9%	15.2%			**12.8%**	May-17
KiwiSaver Growth	-0.1%	9.3%	26.9%				**17.7%**	Jul-19
KiwiSaver Balanced	0.0%	6.6%	18.6%				**11.0%**	Jul-19
KiwiSaver Conservative	-0.1%	2.5%	6.7%				**5.4%**	Jul-19

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

Pathfinder Asset Management is the manager of the Funds, Product Disclosure Statements for the offers are available from www.path.co.nz

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 – May 2021

Review of Fund Performance and Current Events

Certified B Corporation

KiwiSaver Funds

All 3 of our KiwiSaver Funds were basically flat over May.

Interestingly, NZ Oil & Gas and Bathurst Resources are the only two NZ-listed companies that will be banned from being owned by the new default Kiwisaver schemes under the fossil fuel exclusion rules, with Genesis Energy, NZ Refining, and Z Energy still allowed. While this is a "step in the right direction", our KiwiSaver Funds own none of the above stocks, and we remain committed to actively seeking out renewable energy companies and remain at the forefront of ESG investment leadership in NZ.

CLICK HERE for the latest Factsheet

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Growth	-0.1%	9.3%	26.9%	--	17.8%
Balanced	0.0%	6.6%	18.6%	--	11.0%
Conservative	-0.1%	2.5%	6.7%	--	5.4%

Global Responsibility Fund

The fund added to gains in May, up +0.9% and ahead of benchmark.

While we have a large exposure to technology stocks, we have lower single stock weightings to the mega cap technology companies, which have actually underperformed the broader market year to date. Our financials holdings led returns for another month, although there was a notable rebound across many of our renewable energy positions.

CLICK HERE for the latest Factsheet

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Fund Return	0.9%	13.3%	30.1%	13.0%	11.5%
Benchmark Return	0.6%	14.5%	30.7%	13.4%	13.1%

Global Water Fund

The Global Water Fund was up +1.8% in May, and performance has been strong over the past 6 months (+17.6%) as it benefited from having significant exposure to cyclicals. We have reweighed the portfolio, reducing concentration risk to single stock names and reallocating capital across a wider range of companies. We have also reduced the underweight to Europe and UK which has already paid off with the 2 regions outperforming over the month.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Fund Return	1.8%	17.6%	33.4%	14.2%	10.1%
Benchmark Return	2.3%	14.7%	28.9%	16.9%	10.8%

Ethical Trans-Tasman Fund

The Fund was down -1.9% over May, with big moves across our consumer staples holdings. Costa Group hurt portfolio performance as the fresh fruit & vegetables producer announced another profit downgrade, falling by more than -20% over the month. We have up-weighted our holding in Woolworths as it has de-merged its Endeavour drinks business and we are positive on the outlook as it should generate higher return on capital standalone, add new shareholders (ESG) and have a more focused strategy with $1.6bn - $2bn of cash to invest or return to shareholders.

CLICK HERE for the latest Factsheet.

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Fund Return	-1.9%	2.5%	25.2%	--	22.4%
Benchmark Return	-1.0%	3.5%	18.6%	--	5.9%

Global Property Fund

The fund continued to rally over May, up another +0.8%. US holdings continue to shine, led by real estate development, while hotels & resorts gave back gains after a huge rebound. Australian datacentre play Next DC had a poor month (-6%) although there has been encouraging M&A news in the sector and we remain firm believers in the stock investment thesis.

CLICK HERE for latest Factsheet.

Performance	1 month	6 months	1 year	3 years	Inception p.a.
Fund Return	0.8%	14.4%	23.2%	3.2%	3.6%
Benchmark Return	1.5%	18.2%	31.9%	7.4%	6.8%

Ethical Growth Fund

The fund lost ground, down -0.4% in May. Renewable energy remains a key theme and Contact Energy is our new largest sector holding. Interestingly, Transpower is reportedly dealing with ~10x the usual number of enquiries around potential new renewable electricity plants in New Zealand as falling costs of renewable technologies align with Climate Change targets and high wholesale electricity prices.

CLICK HERE for latest Factsheet

Performance	1 month	6 months	1 year	3 years	Since Inception
Fund Return	-0.4%	5.7%	--	--	12.2%
Benchmark Return	-0.1%	6.0%	--	--	12.6%