Clarity Funds Management

QUARTERLY FUND COMMENTARY

For the quarter ended 31 March 2021

CLARITY GLOBAL SHARES FUND

About the Clarity Global Shares Fund

The objective of the Clarity Global Shares Fund is to provide actively managed exposure to international equities and generate a better return than the benchmark[1] over the medium to long term. The Fund is actively managed with a value bias which means its holdings may differ considerably from the benchmark index.

Clarity has appointed global investment manager MFS as the investment manager for the Fund. MFS has constructed the portfolio in consultation with Clarity and in accordance with the Fund's objectives. Boston-based MFS, which began in 1924 as Massachusetts Investment Trust, started America's first mutual fund. Our investment mandate combines MFS's fundamental and quantitative research, focusing on high quality, large-cap global companies selling at reasonable valuations with an unrecognised catalyst.

[1]the MSCI All Country World ex-Tobacco Index (net dividends reinvested), measured in NZ dollars, 50% hedged to NZ dollars

Performance Comments

The Clarity Global Shares Fund returned 9.9% for the 3 months ending 31 March 2021 compared to its benchmark return of 6.7%. The asset value of the Fund as at 31 March 2021 was $99.3 million.

To 31 December 2020	1 month (%)	3 months (%)	12 months (%)	3 years (%)	Since inception (% p.a.)***
Fund net return *	6.8	9,.9	40.4	10.9	10.6
Benchmark Index **	5.0	6.7	40.2	12.7	12.2
Difference	1.8	3.2	0.2	-1.8	-1.6

* These returns are after deductions for charges and before tax

** Reflects no deduction for charges and tax

*** Inception date was 26 April 2017

Past performance is not necessarily indicative of future performance.

Market Commentary

- The global equity market has reached new highs in 2021, driven by improving economic data, continued stimulus policies and expanding COVID vaccination efforts.
- The cyclical/value leadership since November 2020, reflecting anticipation of a strong post-pandemic economic recovery, is characteristic of the early phase of a market cycle.
- Near-term risks to the market include a COVID resurgence, vaccine distribution issues, rising inflation and geopolitical risks.
- While valuation is a poor timing indicator, current market valuation levels based on history suggest modest returns in the next 12 months.
- The Manager believe maintaining a long-term investment time horizon, actively managing risk and focusing on companies that allocate capital responsibly will reward patient investors as the cycle matures.

Portfolio Outlook and Positioning

The Portfolio outperformed the benchmark in the first quarter of 2021.
Contributors

Intersection holdings

- Quantitative models – valuation
- Stock selection in consumer discretionary, information technology and financials
- Stock selection in North America

Detractors

- Quantitative models – quality Stock selection in energy

Performance review

The global equity rally that began a little over a year ago continued in the first quarter, buoyed by improving pandemic numbers, strong economic data and a robust earnings outlook. Monetary and fiscal policy remained broadly supportive, with the European Central Bank committing to increased bond purchases and the United States Congress passing the first of the two massive spending packages proposed by the Biden Administration. Bond yields, which typically rise as the economy strengthens, notably increased, with US investment-grade bonds suffering their worst quarterly selloff since 1980. The rise in bond yields had significant implications for sector and factor performance, as those with positive sensitivities such as financials and industrials benefited while those with negative sensitivities such as high-multiple growth stocks were punished. Widening yield differentials coupled with bearish year-end sentiment triggered a rally in the US dollar, which unsurprisingly weighed on emerging market performance in the back half of the quarter.

Despite the weakness in emerging markets referenced above, regional performance remained cyclical. Japan equities led all developed markets, benefiting from an expected pickup in vaccinations coupled with an improving economic and earnings outlook. In Europe and Canada, where the vaccination efforts have been disappointing and lockdowns are being reinstated, equity markets were broadly higher in anticipation of increasing vaccine supplies and expectations that a strong US recovery will boost the economic and earnings outlook. US equities modestly underperformed as the rotation from heavily-weighted mega-cap growth to lower-weighted cyclical value weighed on overall results. Emerging markets, the biggest laggard in the quarter, were impacted, in Asia particularly, by the same growth to value rotation experienced in the US.

Sector performance was broadly cyclical in the first quarter, with the energy sector tracking a rally in crude oil and financials benefiting from steepening yield curves and robust capital markets. Economically sensitive industrials and materials also outperformed during the period. As previously mentioned, higher-multiple growth stocks, which have significant weights in the information technology and consumer discretionary sectors, were negatively impacted by the rapid and significant backup in interest rates. Defensive sectors such as health care broadly lagged for the quarter, although utilities and consumer staples outperformed in March.

The value-beta rally that emerged in early November continued in the first quarter and broadened to include earnings momentum, as companies with strong earnings revisions were also rewarded in Q1. Growth, quality and price momentum factors, which tend to underperform in the early part of the business cycle, broadly lagged during the quarter. The rotation way from mega-caps to smaller-cap stocks continued, which was reflected in the outperformance of the equal-weighted MSCI ACWI Index over the cap-weighted index. As expected, given the typically early-cycle beta rally, the low volatility factor also underperformed. It should be noted that low-volatility and quality factors outperformed significantly in March, which may be indicative of a short-term oversold bounce or a further broadening of factor leadership.

The portfolio outperformed in the first quarter, with intersection holdings - stocks that are buy rated from both our fundamental and quantitative research sources - again the primary driver. The fundamental research input produced nearly neutral results, which isn't particularly surprising given the strong lower-quality beta-driven market environment. The quantitative models produced strong results, benefiting from strong broad-based performance of value factors as well as a solid contribution from the net share buybacks and short interest volume metrics in the sentiment component of the models. While price momentum metrics produced mixed results, the portfolio's relative allocation to price momentum factors benefited relative performance. Earnings momentum factors produced neutral results. Quality factors, as expected, detracted from performance during the period.

The outcome of the research input performance described above was stock selection strength across the majority of sectors, with particularly good results in the North American financials, consumer discretionary, industrials and health care sectors. Information technology stock selection was also notably strong in the US and Japan. Energy stock selection was the most prominent detractor from results, although the impact was quite small.

Portfolio positioning

The synchronized global recovery remains on track despite vaccination distribution challenges and renewed lockdowns in a number of regions. Policy remains broadly accommodative, and leading economic indicators such as the manufacturing PMIs are broadly strong, with 82% of covered countries above expansion levels. While services PMIs have understandably lagged, mobility data continues to improve and should accelerate when more economies open as the year progresses. Earnings revisions, which are highly correlated with leading economic indicators, are supportive of continued outperformance of cyclical-value sectors, non-US regions and smaller-cap companies.

Despite the robust outlook, there are a number of cautionary indicators and data points emerging. First, the ACWI forward P/E is at a level that, based on history, suggests modestly positive performance in the next 12 months. Additionally, manufacturing PMIs and inflation are at levels that historically have produced weaker forward results. While policymakers remain broadly supportive, the Bank of Canada has started to taper bond purchases and there have been recent policy rate hikes in Turkey, Russia and Brazil. None of these appear to be an imminent risk to markets overall, but they may impact sector and/or factor leadership.

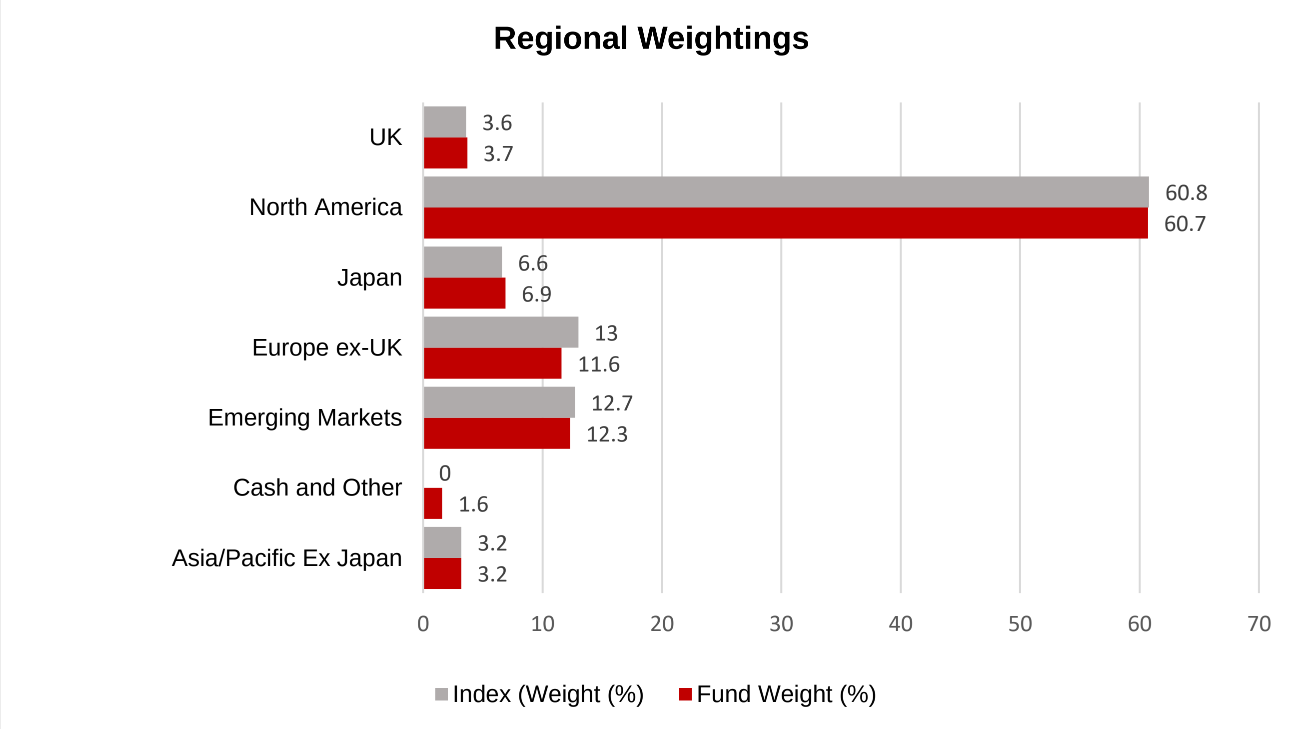
We continue to be encouraged by the broadening market leadership and factor rotation. The investment approach, which consists of a diversified combination of fundamental factors and research inputs coupled with a risk-managed portfolio construction process, seeks to produce strong relative returns through most market environments. As has been communicated in the past, the most challenging market environment for this approach is one in which a single factor/style or a limited group of stocks dominate performance. Based on our analysis of factor performance through the economic cycle, the recent low-quality, value factor leadership is not uncommon, and as we anticipated, was joined by strong performance of earnings momentum in the most recent quarter. As the recovery advances, we expect price momentum to play a more prominent role, while growth, quality and low volatility factor performance will likely lag until evidence of a peak in economic/earnings growth emerges.

Top 10 holdings (as at 31 March 2021)

Company	Portfolio (%)	Benchmark ^ (%)
Microsoft Corp	4.0	2.8
Alphabet Inc	3.3	2.0
Amazon.Com Inc (Eq)	3.0	2.2
Apple Inc	2.6	3.4
Facebook Inc	2.4	1.4
Taiwan Semiconductor Manufacturing Co Ltd	1.9	0.8
Schneider Electric Inc	1.6	0.1
HCA Healthcare Inc	1.6	0.1
Eaton Corp Plc	1.5	0.1
Adobe Inc	1.5	0.4
Total	23.3	

^MSCI AC World ex Tobacco Index 50% hedged to NZD

Regional and country weights (as at 31 March 2021)



Portfolio holdings as at date 31/03/21. Benchmark is MSCI AC World ex-Tobacco Index. Cash or cash equivalents equaled to 2.3%. Currency derivatives and derivatives -0.7%.

Key Fund Characteristics (as at 31 March 2021)

Fundamentals (weighted average)	**Portfolio**	**Benchmark^**
Price/Earnings[1]	15.8X	20.0
PEG ratio	1.7X	2.1X
Dividend Yield	2.0%	1.7%
Market Capitalisation[2]	464.8bn	433.5bn
Number of holdings	136	2,950
Tracking Error[3]	2.52%	
Active share	77%	

^MSCI AC World ex Tobacco Index 50% hedged to NZD
[1] 12 month forward ex-negative earnings
[2] Weighted average
[3] Barra predicted tracking error. Source: Barra

If you have any questions please contact us on +64 09 308 1450 or visit our website **www.clarityfunds.co.nz**