QUARTERLY FUND COMMENTARY

For the quarter ended 30 June 2019

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 5.1% for the 3 months ending 30 June compared to its benchmark return of 4.3%, an out-performance of 0.8%. The asset value of the Fund at 30 June 2019 was $107.6 million.

To 30 June 2019	3 months (%)	12 months (%)	Since inception (% p.a.))***
Fund net return *	5.1%	5.5%	8.3%
Benchmark Index **	4.3%	6.4%	9.8%
Difference	+0.8%	-0.9%	-1.5%

* 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

- Global equity markets have continued to advance, mainly helped by more dovish comments from the US Federal Reserve and the European Central Bank, despite geopolitical risks including continued uncertainty around the US-China trade war and heightened risk of a no-deal Brexit.
- Equity investors appear to be rewarding companies that exhibit earnings stability and defensiveness or have large structural growth opportunities – suggesting a cautious view of the economic cycle and near-term earnings growth.
- With corporate margins well above the long-term historical average, rising labour costs may become an issue for profit margin going forward.

Portfolio Review and Positioning

The MSCI All Country World (ACWI) Index added to robust first-quarter returns in a volatile second quarter, during which global equity performance was driven largely by trade developments and global central bank policy. Strong performance in April was driven by better-than-expected economic data reports in the United States and China coupled with a rate cut by the Australian central bank and signs of improving macro conditions in emerging economies. Equities retreated abruptly in May as trade talks between the US and China broke down and new tariffs were put in place. Later in the month, the US threatened to impose tariffs on Mexico, calling into question the passage of the USMCA, the successor to NAFTA; tariffs were ultimately avoided when Mexico agreed to take measures to slow the volume of undocumented migrants crossing the US southern border. Equities recovered strongly in June, as weaker economic data in combination with the above-mentioned trade concerns resulted in world central bankers signalling their intention to ease monetary policy, with a number of them, including the Reserve Bank of India, taking action.

Geographically, developed markets, again outperformed emerging markets, with particular strength in the Pacific ex Japan region and the US. Most of the larger European markets also outperformed; however, the UK and many of the smaller markets held back the region's overall return. Japan equities, despite holding up in the May selloff, lagged significantly. While a number of emerging markets, including Russia, Brazil and Thailand, posted strong results, emerging equities broadly underperformed, reflecting growth-influenced trade issues and a strong US dollar.

For the quarter overall, sector leadership had a cyclical profile; however, sector performance zig-zagged in the quarter, with more cyclical sectors such as technology and consumer discretionary among the leaders in April and June while defensives like REITs and utilities dominated during the May market decline. With continued weakness in most global economic indicators, value indices unsurprisingly continued to lag growth indices. Despite a strong rally late in the quarter, small-cap and mid-cap stocks underperformed large-cap stocks; notably, the weight of the top 40 stocks in the ACWI index are approaching levels last seen in late 2008, providing another indication of how late we are in the market cycle.

At the factor level, growth metrics were consistently strong through the quarter; however, their effectiveness has been waning in strength. Earnings revisions factors also produced strong results while quality metrics like leverage and profitability produced mixed results - performing strongly, as would be expected, in the May equity market retreat, and producing weaker performance in April and June. Volatility had the opposite performance profile. Valuation factors like price/earnings and price/sales continued to lag, as we would expect at this point in the cycle.

The portfolio outperformed the benchmark in the second quarter. The strategies' fundamental research input, which produced strong results independently, also had a significant positive influence on the performance of the intersection holdings (those that are rated buy by both the fundamental and quantitative research inputs). Holding back results were the quantitative models used in the process, weighed down by significant weakness in the valuation factors as well as the more moderate underperformance of the earnings momentum and price momentum components of the models. The middling performance of valuation metrics and the strong performance of the quality-focused fundamental research input is generally what we would expect given the late-cycle market environment.

As mentioned last quarter, the sustained atypical performance of growth factors continues to negatively impact relative performance. Growth factor leadership has historically been episodic and not a consistent driver of performance, which is the main reason why it is not included in the strategies' investment process. A similar, prolonged period of growth factor leadership occurred during the technology bubble of the late 1990s; the reversal of the factor performance over the subsequent two years was significant. While it is difficult to predict the timing of any such reversal, there is evidence in the continued weakness of global economic indicators that a shift toward more stability and quality growth may be emerging. Furthermore, the recent inversion of the US yield curve may also be signalling the end of growth dominance as the prior two inversions, in 2000 and 2006, coincided with secular shifts between growth and value.

Key contributors during the Quarter included:

- Greggs Plc - Holding shares of bakery chain Greggs (United Kingdom) contributed to relative returns during the quarter. Shares traded higher as the company's management reported favourable forward-looking guidance, citing materially higher profits for 2019.
- LVMH Moet Hennessy Louis Vuitton SE - A portfolio overweight to French luxury goods manufacturer LVMH benefited relative returns. The company's quarterly sales increased by 16%, with 11% of those gains from organic growth. This positive surprise, above consensus estimates, was driven by strength in its Fashion and Leather Goods segment. Wine and Spirits also performed better than expected.

Detractors during the Quarter included:

- Alphabet Inc. - The portfolio's overweight position in technology company Alphabet (United States) weakened relative results. The share price declined after the company reported quarterly revenues and revenue growth below estimates. The management team attributed the broad-based slowdown to product changes, in particular, network and advertising revenues.

Outlook

With a cease-fire in the US-China trade war announced during the G20 meeting coupled with the shift to easier monetary policy, two significant headwinds to global economic growth have been lifted. Having said that, the lagged effect of tighter monetary conditions and the impacts of previously implemented trade barriers and tariffs will continue to weigh on the outlook. The June JPMorgan Global Manufacturing PMI fell to its lowest level since 2012; and the percentage of individual countries with PMIs above 50, or in expansion, dropped to 40%, with broad-based weakness across developed and emerging countries. Adding to the more subdued outlook is the weakness in the more forward-looking new-orders component of the index, which declined at the fastest rate in almost seven years.

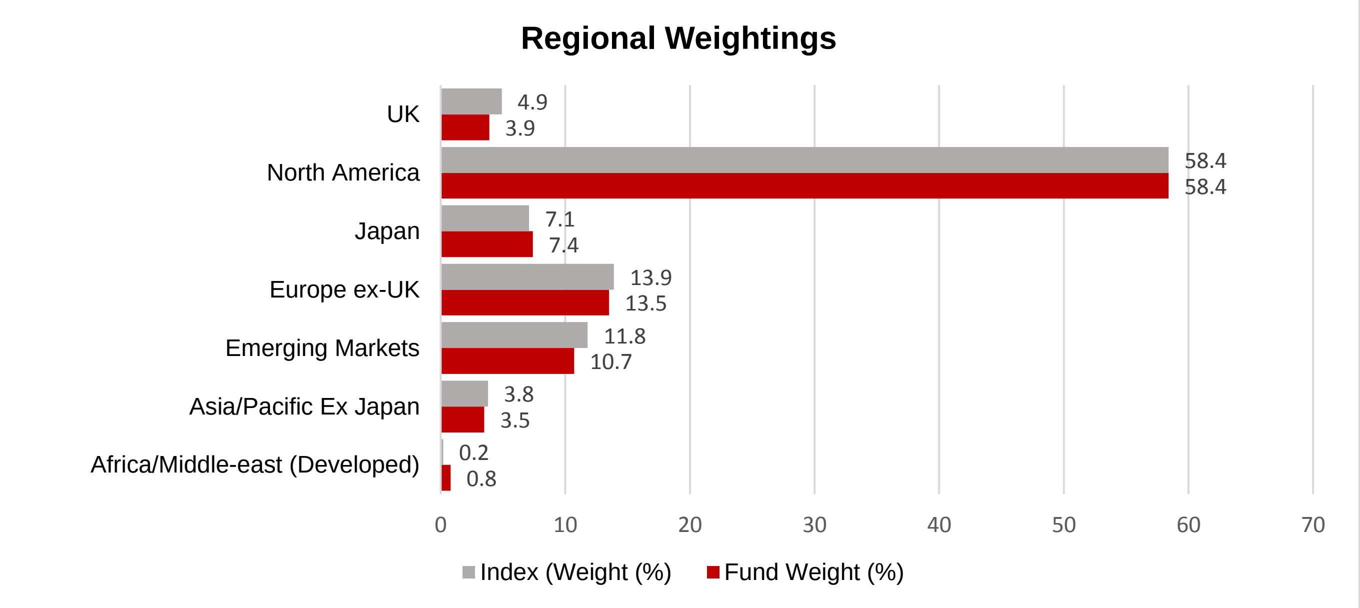
As we move into the second half of the year, the key issue facing investors is whether the cooling of trade tensions and shifting policy responses will be enough to offset the macro forces already in place. Equity valuations remain stretched on most metrics, and earnings estimate revisions, while less negative, remain a potential headwind given the continued deterioration in leading economic indicators. Against this backdrop, expect market leadership to lean defensive, with large caps, defensive sectors and quality metrics driving performance.

Top 10 holdings (as at 30 June 2019)

Company	Portfolio (%)	Benchmark ^ (%)
Microsoft Corp	3.5	2.1
Alphabet Inc	2.7	1.4
Adobe Inc	1.8	0.3
LMVH Moet Hennessy Louis Vuitton SE	1.8	0.3
CitiGroup Inc	1.7	0.4
Taiwan Semi-Conductor Manufacturing Co Ltd	1.7	0.4
Roche Holdings AG	1.6	0.4
Comcast Corp	1.6	0.4
Samsung Electronics Co Ltd	1.5	0.5
Bookings Holdings Inc	1.5	0.2
Total	19.3	

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

Regional and country weights (as at 30 June 2019)



Portfolio holdings as at date 30/06/19. Benchmark is MSCI AC World ex-Tobacco Index. Cash or cash equivalents equaled 2%.

Key Fund Characteristics (as at 30 June 2019)

Fundamentals (weighted average)	**Portfolio**	**Benchmark^**
Price/Earnings[1]	12.7X	15.5X
PEG ratio	1.4X	1.7X
Dividend Yield	2.7%	2.5%
Market Capitalisation[2]	222.4bn	236.7bn
Number of holdings	104	2,836
Tracking Error[3]	1.88%	
Active share	82%	

^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**

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