QUARTERLY FUND COMMENTARY

For the quarter ended 30 June 2020

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 12.4% for the 3 months ending 30 June 2020 compared to its benchmark return of 13.9%. The asset value of the Fund at 30 June 2020 was $79.4 million.

To 30 June 2020	1 month (%)	3 months (%)	12 months (%)	3 years (%)	Since inception (% p.a.)***
Fund net return *	0.5	12.4	0.0	6.5	5.6
Benchmark Index **	1.1	13.9	4.2	8.8	8.0
Difference	-0.6	-1.5	-4.2	-2.3	-2.4

* 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 recovered most of the loss from the Covid-19 selloff despite a steep recession and still-expanding global infections.
- The strong equity market rally since late March has been largely driven by unprecedented stimulus policies, coupled with some improvements in economic and earnings data.
- A notable feature has been increased market concentration in a handful of large technology-related stocks, which outperformed during both the selloff and the rebound, while the uncertainty of recovery has driven volatile returns across most of the market.
- Without a broad treatment or vaccine available quickly, the path forward may be bumpy as governments may be forced to slow or reverse re-opening policies.

Portfolio Outlook and Positioning

Performance summary

The portfolio underperformed the benchmark in the second quarter of 2020.

Detractors

- Quantitative models – valuation
- Stock selection in information technology and health care
- Stock selection in Japan, Europe ex-UK and emerging markets

Contributors

- Fundamental research input
- Stock section in industrials
- Currency hedging

Performance review

Global equities rebounded sharply in the second quarter, closely tracking a recovery in mobility data and driven by the re-opening of economies and a positive reversal of many leading economic indicators from extremely depressed levels. Global manufacturing PMIs, which provide an indication of the direction of economic trends and have a strong correlation to earnings, improved significantly during the quarter, with the June report suggesting a broad-based recovery is emerging. While the V-shaped recovery in equity markets and leading economic indicators are encouraging, a resurgence of COVID-19 cases in a number of geographies in June and a corresponding flattening in mobility data rattled markets, suggesting the path forward may be bumpy as governments may be forced to slow or reverse re-opening policies. Other risks that may impact the speed and strength of the recovery include ongoing trade frictions, particularly between the US and China, a lack of progress on a coronavirus vaccine and further policy support.

Market leadership during the quarter was lower quality, narrow and generally dominated by the "stay at home" stocks, which are heavily influenced by the mega-cap FANG stocks in the United States. Markets in the European and Asia Pacific regions generally lagged the broad MSCI ACWI Index, with Germany, the Netherlands and New Zealand notable exceptions. While emerging markets lagged overall, a number of countries across EM regions outperformed significantly, including South Africa, Brazil and India.

Sector performance was narrow, with the beneficiaries of economic lockdowns producing the strongest results. Information technology, led by technology software and electronic payment companies, was the strongest-performing sector. The consumer discretionary sector also outperformed, benefiting from strength in online retail and home improvement stocks. Strength in media companies drove outperformance in the communication services sector too. The massive expansion of government deficits and central bank balance sheets designed to offset the economic contraction benefited gold stocks and resulted in a notably strong performance for the materials sector. Cyclical sectors such as financials and industrials underperformed; however, performance was volatile during the quarter. Defensive sectors such as consumer staples and utilities were persistently weak.

As would be expected given the sector performance described above, factor performance was similarly narrow and with a few exceptions led by growth and price momentum globally. While profitability factors such as ROE outperformed, other quality factors such as leverage and accruals were notably weak. Market cap performance reflected the rotation away from quality, with smaller-cap stocks outperforming larger caps. Despite an increasingly supportive macro and technical backdrop, value factor performance lagged during the period as a worsening epidemiological situation in the back half of June halted what appeared to an emerging shift in market leadership. Earnings revision factor performance declined significantly in April before recovering in May. Unsurprisingly, with the robust market performance and declining global VIX indices, the low-volatility factor underperformed significantly during the period.

The portfolio underperformed the benchmark in the second quarter and continued to be challenged by the concentrated market, sector and growth factor leadership referenced above. Modestly positive results from the portfolio's intersection holdings — stocks that are buy rated from both our fundamental and quantitative research sources — coupled with continued strong performance from the fundamental research team, were more than offset by weak performance of the value factors in the quantitative models. The models' earnings momentum performance was moderately positive; however, the portfolio's relative exposure to earnings momentum factors detracted from results. Price momentum factors slightly outperformed during the period while quality and sentiment metrics had a neutral impact.

The outcome of the research input performance described above was reflected in weak stock selection in multiple sectors in the Europe ex-UK region as well as in the emerging market energy sector, Japan communication services sector and North America information technology and health care sectors. An overweight exposure and stock selection in the Japan real estate sector also hurt relative performance. Somewhat offsetting was stock selection in a number of North American sectors including communication services, financials, energy and real estate, which contributed to the portfolio's relative performance. Within North America, the portfolio's overweight allocation in consumer discretionary stocks benefited results; however, this was more than offset by the underweight allocation to information technology.

Portfolio positioning

The size, breadth and quick implementation of fiscal and monetary policy helped fuel the unprecedented rally off the March lows and has made a re-test of market lows increasingly unlikely. The reopening of economies and improving mobility data coupled with broad-based increases in leading economic indicators suggest a global economic recovery underway. The rotation into higher-beta and smaller-cap stocks along with the narrowing of credit spreads suggest that the business cycle is transitioning from contraction to the recovery phase, which should result in more cyclical sector and value factor/style leadership. The unprecedented shutdown of most of the global economy in response to the COVID-19 pandemic makes this downturn unique. However, this has resulted in investors crowding into a narrow group of mega-cap growth stocks, which has driven up the valuation spread between growth and value to the widest level since the tech bubble, setting up the potential for a substantial reversal.

While most indicators point to an economic recovery and a corresponding rotation into early cycle leadership, the economy is unlikely to continue on the current V-shaped trajectory. Many coronavirus-related risks remain, including a resurgence of the outbreak, a second wave, as well as the success and timing of the development or distribution of a vaccine. Additionally, ongoing trade frictions, social unrest and the US elections have the potential to dampen the economic recovery and impact investor confidence.

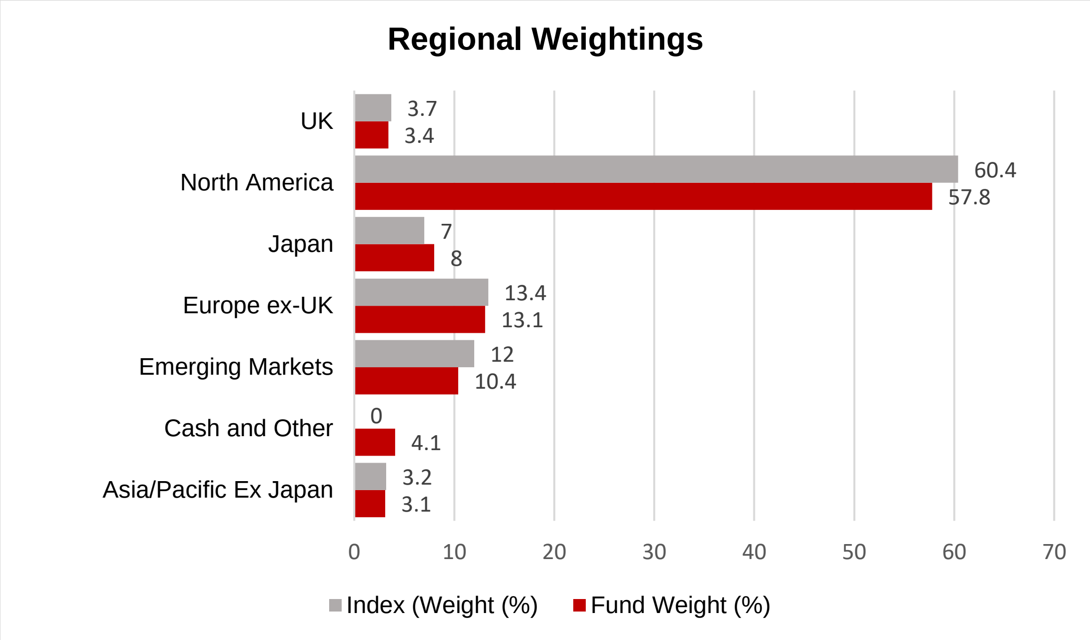
Clearly the narrow, growth-driven market environment over the past few quarters has been challenging to the investment process and the performance of the portfolio. Having said that, the valuation component, which has been a notable, but not unexpected, headwind to our investment process, should produce stronger results once the economic outlook sustainably improves. Additionally, the portfolio should benefit from the reduced concentration of performance as market breadth improves and intra-sector stock correlations fall. Quality and price momentum metrics in the process are expected to be less effective as we shift into the recovery phase of the cycle.

Top 10 holdings (as at 30 June 2020)

Company	Portfolio (%)	Benchmark ^ (%)
Microsoft Corp	4.4	3.1
Alphabet Inc	3.0	1.8
Amazon.COM Inc (EQ)	2.7	2.5
Facebook	2.4	1.2
Apple Inc	2.0	3.4
Adobe Inc	2.0	0.4
Taiwan Semi-Conductor Manufacturing Co Ltd	2.0	0.6
Samsung Electronics Co Ltd	1.9	0.6
Roche Holdings AG	1.8	0.5
LVMH Moet Hennessy Louis Vuitton SE	1.7	0.3
Total	23.9	

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

Regional and country weights (as at 30 June 2020)



Portfolio holdings as at date 30/06/20. Benchmark is MSCI AC World ex-Tobacco Index. Cash or cash equivalents equaled to 0.8%. Other holdings at 3.3% and consists of (i) currency derivatives and/or (ii) any derivative offsets.

Key Fund Characteristics (as at 30 June 2020)

Fundamentals (weighted average)	Portfolio	Benchmark^
Price/Earnings[1]	15.8X	21.0X
PEG ratio	2.2X	2.7X
Dividend Yield	2.7%	2.3%
Market Capitalisation[2]	400.5bn	387.3bn
Number of holdings	121	2,969
Tracking Error[3]	2.15%	
Active share	78%	

^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**