QUARTERLY FUND COMMENTARY

For the quarter ended 30 June 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 7.0% for the 3 months ending 30 June 2021 compared to its benchmark return of 7.4%. The asset value of the Fund as at 30 June 2021 was $118 million.

To 31 December 2020	1 month (%)	3 months (%)	12 months (%)	3 years (%)	Since inception (% p.a.)***
Fund net return *	3.4	7.0	33.7	12.1	11.7
Benchmark Index **	3.9	7.4	32.2	13.6	13.3
Difference	-0.5	-0.4	1.5	-1.5	-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 rally continued in Q2 of 2021, helped by the further reopening of economies and expanding vaccinations despite the spread of COVID variants around the world.
- Investors' focus has begun to shift from the post-pandemic recovery to longer-term earnings growth.
- The growing debate around inflation, even if transitory, is likely to increase volatility in the market as short-term investors try to switch from growth to value and vice versa based on near-term news.

Portfolio Outlook and Positioning

The portfolio slightly underperformed the benchmark in the second quarter of 2021.

Detractors

- Intersection holdings
- Quantitative models – sentiment
- Stock selection in North America
- Stock selection in financials

Contributors

- Fundamental research input
- Quantitative models – quality and earnings momentum

- Stock selection in Japan
- Stock selection in communication services and industrials

Performance review

Global equities ended the second quarter close to all-time highs, bolstered by a record improvement in earnings surprises and robust forward-looking economic indicators. That said, market leadership was impacted by pandemic, inflation and policy crosscurrents. Optimism regarding generally successful vaccination efforts in the United States and Europe was somewhat offset by the emergence of the more contagious COVID delta variant, which resulted in renewed lockdowns and restrictions in some countries. Reopening-related supply constraints have many countries experiencing sharp increases in inflation, and their policy responses are diverging. Developed market central banks generally view the increased pricing pressures as transitory, and policy remains accommodative. However, mixed messaging from the most recent US Federal Reserve meeting had the yield curve and market leadership signalling a more hawkish policy outlook. Emerging market central banks, which are less confident in the transitory narrative, have been hiking rates.

Regional and country performance was prominently impacted by COVID vaccination levels, delta-variant-related lockdowns and restrictions and robust energy prices. Only the North American region outperformed the MSCI All Country World Index during the quarter, with the US market benefiting from high vaccination levels, a quicker reopening and higher growth-oriented exposure while the Canadian market was aided by the persistent climb in oil and gas prices. Despite an impressive vaccination effort, the emergence of the delta variant has delayed or called into question reopening plans in Europe and weighed on equity market performance. In the Asia Pacific region lagging vaccination numbers tempered the near-term economic outlook, which also restrained markets. Fed taper talk, weak currencies and COVID challenges held back emerging markets overall; however, energy-levered markets in Brazil, Russia and the Middle East were notable outperformers.

Sector leadership was a mix that reflected the crosscurrents mentioned above. Good global economic and earnings revisions data coupled with the more hawkish views of future central bank policy resulted in a rotation from cyclical sectors such as financials, consumer discretionary and industrials to growthier sectors such as information technology, health care and communication services. The energy sector unsurprisingly outperformed, benefiting from the strong performance of the underlying commodities mentioned above. Defensives such as utilities and consumer staples, which typically outperform in the late stages of a cycle, lagged significantly.

Factor performance broadened in the quarter, shifting away from the predominantly beta and value leadership that had been in place since early November. Growth and quality factors produced the strongest results while earnings revisions and price momentum also outperformed. Value factors, including dividend yield and (high) leverage, were the most prominent underperformers. Despite the strength in quality performance, beta and volatility factors continued to outperform.

The portfolio slightly underperformed the benchmark in the second quarter. Despite positive contributions from both the fundamental and quantitative research inputs independently, intersection holdings — stocks that are buy rated from both the fundamental and quantitative research — notably detracted from results. The rotation mentioned above benefited the quality-focused fundamental research input, with analysts' buy-rated stocks significantly outperforming during the period. The shift in leadership was also evident in the quantitative models, with earnings momentum factors such as revisions and quality factors such as operating margins the most notable contributors to relative performance. Valuation performance was more mixed as both the cheapest and most-expensive stocks outperformed during the period. Price momentum factors had a neutral impact on results while sentiment modestly detracted.

The outcome of the research input performance described above was significant stock selection contributions in the Japan industrials and information technology sectors, as well as the financials sector in emerging markets. North America stock selection was the most significant detractor from results, with weakness in the financials and health care sectors more than offsetting strength in the communication services sector. Stock selection across other regions was mixed.

Portfolio positioning

The synchronized global recovery generally remains on track and is likely to broaden as economies re-open. Monetary support has likely peaked but remains broadly accommodative, and fiscal support is passing the baton to the private sector as economies reopen. Bond yields, central bank rate actions and market leadership point to leading economic indicators such as manufacturing PMIs remaining at elevated levels through the end of the year. The Global Services PMI, which is an important indicator of the success of the vaccination programs and reopening of economies, also remains strong. Earnings revisions, which are highly correlated with manufacturing PMIs, have similarly peaked but they are likely to sustain at elevated levels and continue to favour cyclicals. Nigel Tupper at B of A Securities indicates that the MSCI All Country World Index rose 12.7% on average in the 12 months following an earnings revision ratio at current levels, and returns were positive in all previous eight occurrences.

Despite the robust outlook, there are several issues that bear watching. The emergence of the COVID delta variant is already altering reopening plans, although vaccines, particularly in developed economies, have so far proven effective against the known variants. Inflation continues to surprise central bankers, which could lead to earlier-than-expected policy tightening if it persists longer and rises higher than currently projected. Valuations, which remain close to 20-year highs, have contracted as they typically do in this phase of the cycle with the strong reported and projected earnings. On a related note, an inflection lower in economic and earnings momentum is likely to occur in Q4 2021 or Q1 2022; however, this is likely to drive rotation as opposed to being a dire risk to markets overall.

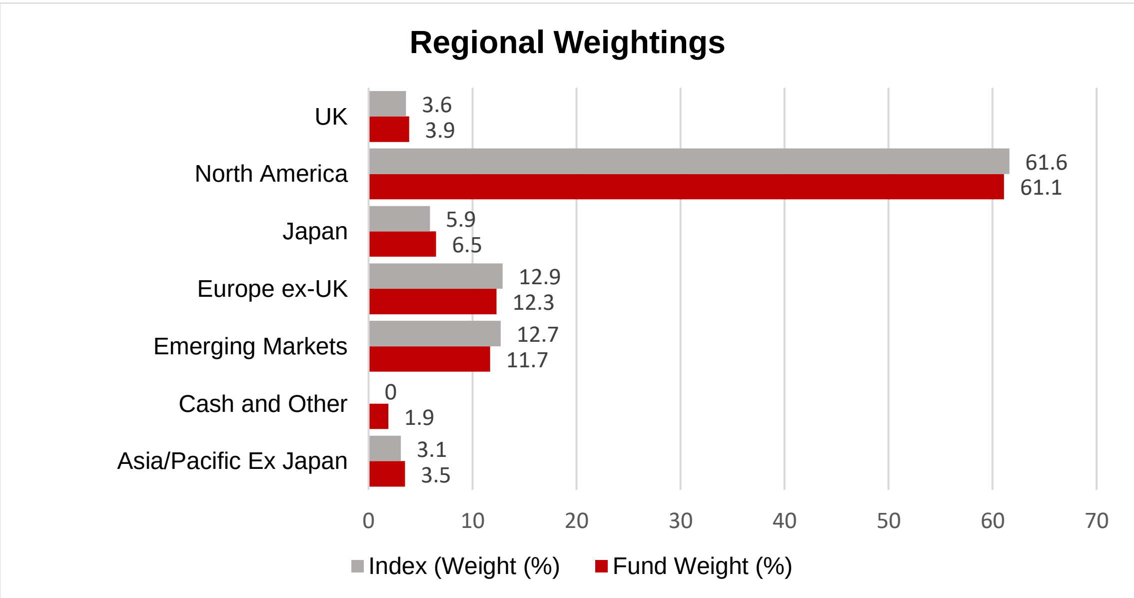
The Manager continues to be encouraged by the broadening market leadership and factor rotation. As communicated in the past, the most challenging market environment for the Manager's approach is one in which a single factor or style or a limited group of stocks dominate performance. Based on analysis of factor performance through the economic cycle, the recent broadening of factor performance to include growth and momentum factors is expected as the cycle transitions to the midcycle/expansion phase. The recent underperformance of value factors, which typically outperform until earnings growth peaks, is likely only a tactical correction commonly seen in value cycles. A peak in the economic cycle would, based on history, coincide with sustained outperformance of quality factors and the quality-focused fundamental research input to our process

Top 10 holdings (as at 30 June 2021)

Company	Portfolio (%)	Benchmark ^ (%)
Microsoft Corp	4.3	2.9
Alphabet Inc	3.7	2.2
Amazon.Com Inc (Eq)	3.1	2.2
Facebook Inc	2.6	1.3
Apple Inc	2.5	3.5
Taiwan Semiconductor Manufacturing Co Ltd	1.8	0.8
Adobe Inc	1.8	0.4
Fujitsu Ltd	1.7	0.1
Hitachi Ltd	1.7	0.1
Eaton Corp Plc	1.6	0.1
Total	24.8	

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

Regional and country weights (as at 30 June 2021)



Portfolio holdings as at date 30/06/21. Benchmark is MSCI AC World ex-Tobacco Index. Cash or cash equivalents equaled to 1.9%. Currency derivatives and any derivative offsets -0.8%.

Key Fund Characteristics (as at 30 June 2021)

Fundamentals (weighted average)	**Portfolio**	**Benchmark^**
Price/Earnings[1]	15.0X	19.4X
PEG ratio	1.6X	1.8X
Dividend Yield	2.0%	1.7%
Market Capitalisation[2]	546.4bn	495.8bn
Number of holdings	136	2,947
Tracking Error[3]	2.31%	
Active share	75%	

^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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