QUARTERLY FUND COMMENTARY

For the quarter ended 30 September 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 4.4% for the 3 months ending 30 September compared to its benchmark return of 4.0%, an out-performance of 0.4%. The asset value of the Fund at 30 June 2019 was $88 million.

To 30 September 2019	1 month (%)	3 months (%)	12 months (%)	Since inception (% p.a.)***
Fund net return *	3.3%	4.4%	3.5%	9.3%
Benchmark Index **	2.5%	4.0%	4.7%	10.5%
Difference	+0.8%	+0.4%	-1.2%	-1.2%
		* 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

- Helped by Fed interest rate cuts, the US equity market continued to lead the global market despite ongoing political uncertainties, US-China trade tensions and concerns about slowing global growth.
- Global central banks have taken accommodative measures to help boost economies. Secular trends continue to push global interest rates lower.
- Equity investors have rewarded 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.
- Growth stocks have significantly outpaced value stocks YTD although there was a brief reversal in September.
- The outlook for slowing earnings growth may impact the equity market going forward as rising labour costs and slowing top-line growth become headwinds for maintaining margins.
- Higher-valuation quality stocks and bond proxies may face downside risks if an economic recovery becomes more sustained or interest rates move upwards.

Portfolio Review and Positioning

Global equities, as measured by the MSCI All Country World Index, finished the third quarter modestly higher; however, results fluctuated significantly throughout the period, impacted by trade issues, monetary policy and geopolitical issues. Leading economic indicators, while showing signs of bottoming, remain weak with the Global

OECD Leading Indicator signalling the weakest global growth outlook since 2009. Trade data continues to be a significant headwind, with the latest Global PMI data showing that export orders declined for the 13th consecutive month. Additional tariffs on Chinese goods announced by the administration of US President Donald Trump in August, coupled with US MCA (Mexico, Canada and US trade agreement) delays and a trade dispute between Japan and South Korea, remain key risks to the growth outlook. Geopolitical issues including Brexit, the bombing of a large Saudi Arabian oil refinery, escalating civil unrest in Hong Kong and a potential impeachment trial in the United States drove the Global Economic Policy Uncertainty Index to an all-time high. The global monetary response to the weak outlook has been significant, with 82% of central banks in easing mode, including the European Central Bank who restarted quantitative easing recently.

Developed markets were broadly strong for the quarter overall, with notable strength in a number of European and Asian markets and more moderate outperformance by North American equities. Trade- impacted markets like Germany, Singapore and Hong Kong underperformed. With the exception of the markets in Turkey, Taiwan and Brazil, emerging markets underperformed significantly during the quarter.

At the sector level, mostly defensive/bond proxy sectors such as utilities, consumer staples and real estate outperformed for the quarter overall. That said, volatility was a prominent theme, with more cyclical growth sectors such as technology, telecommunication services and consumer discretionary benefiting in July from the anticipation of US Federal Reserve rate cuts and the outlook for weak but still positive growth. Post the rate cut and more tempered guidance on future rate cuts, market leadership shifted quickly to bond proxy/defensive sectors such as consumer staples, utilities and real estate as bond yields retreated on weaker economic data and the announced tariff hike on Chinese goods. A swift reversal higher in interest rates in the first half of September caused cyclical/value sectors to rally significantly, with financials in particular benefiting from the steepening yield curve. Interest rates retreated again in the back half of the month as uncertainty over impeachment increased, which shifted market leadership back to defensive/bond proxy sectors.

The volatility story also played out in the style and size indices as weak economic growth and the corresponding retreat in interest rates weighed on value and small-cap stock performance for most of the quarter, with the exception of the financials-led reversal mentioned above in the first half of September. Growth stocks continued to benefit from their superior and durable growth profile while large-cap stocks showed typical late-cycle relative strength. Factor level performance generally mirrored the risk-on/risk-off profile of the sectors and style indices throughout the quarter, with value and beta producing very strong results during the September reversal. However, for the quarter overall, quality factors such as ROE produced very strong results. Quality was also evident in the performance of value factors, which produced weak results overall, albeit with the more defensive dividend-related metrics posting strong results. Volatility factors such as beta, as expected, produced very weak results during the period.

The portfolio outperformed the benchmark in the third quarter, driven largely by the quality emphasis of the Manager’s fundamental research, which produced very strong results, particularly in Europe and the emerging markets. The quantitative models detracted from results, with notable weakness in emerging markets, the United States and Japan, more than offsetting the strong results in Europe ex UK. The weak results from the quantitative models also weighed on the performance of the portfolio's intersection holdings, which are stocks deemed attractive by both research sources. Within the quantitative models, the performance of valuation metrics continued to improve and posted moderately positive results; sentiment factors, which include share buybacks, also contributed to relative results.

Momentum and quality metrics in the models produced middling results. The moderately positive performance of valuation metrics and the strong performance of the quality-focused fundamental research input is generally what is expected given where we are in the business cycle. At the region and sector level, stock selection was the dominant driver of performance, as intended. Specifically, strong stock selection in Europe ex UK more than offset weak stock selection in North America (which was primarily driven by overweight positions in DXC Technology and Methanex). Positive stock selection in the leisure sector (led by US Food Holdings) and the technology sector (led by Taiwan Semiconductor), coupled with broad stock selection strength in the energy sector, more than offset weaker stock selection in the industrial goods & services sector. US retailer Target was another top contributor to the portfolio's relative performance.

Outlook

While recession risks remain elevated, components of recent economic indicators have signalled the potential beginning of a bottoming process. Having said that, until more evidence of a sustained recovery in forward-looking economic indicators is in place, we expect high-quality and defensive leadership to persist. The forceful September reversal of value and cyclicals versus growth and momentum, which is currently synonymous with bond proxies, may have been a preview of what market leadership will look like once we shift into the recovery phase of the business cycle.

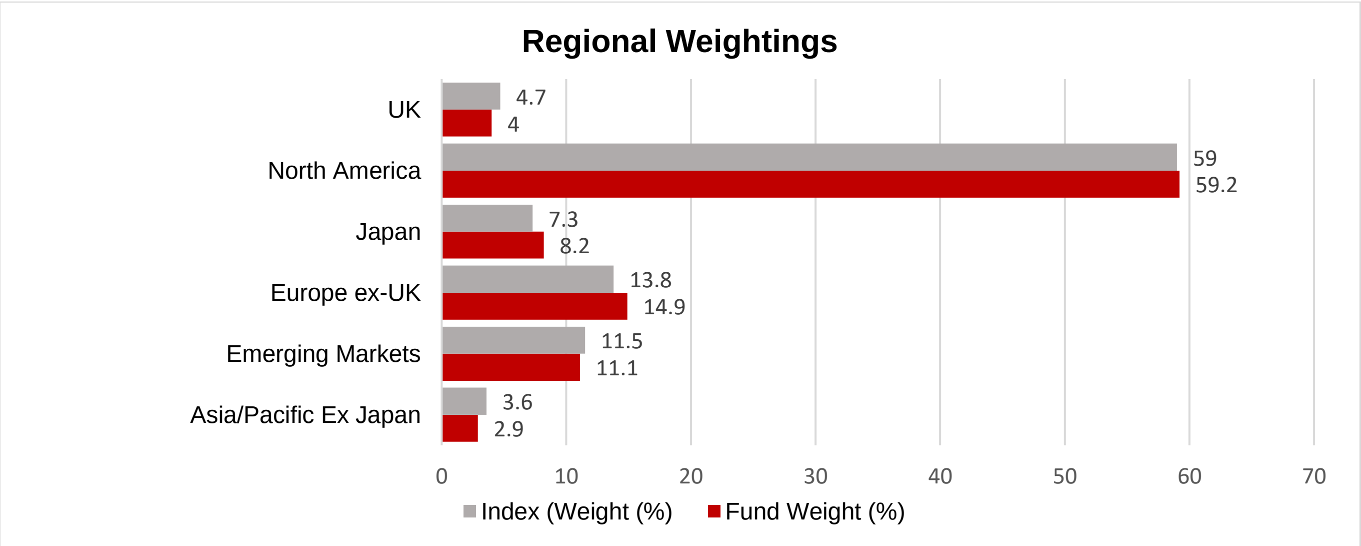
Historically, value stocks outperformed growth stocks the most when the economy and earnings were reaccelerating. Given the duration of value underperformance this cycle and the resulting wide dispersion in valuations, the potential for reversion is significant. When investors are faced with more abundant growth in a recovery, they tend to be more valuation-conscious, and that will benefit value and cyclicals that have de-rated significantly this cycle. Furthermore, as noted above, momentum currently has a very high correlation with defensive bond proxies, which, given their elevated valuation levels, could present significant downside risk once the cycle inflects.

Top 10 holdings (as at 30 September 2019)

Company	Portfolio (%)	Benchmark ^ (%)
Microsoft Corp	3.7	2.2
Alphabet Inc	3.1	1.6
Taiwan Semi-Conductor Manufacturing Co Ltd	2.1	0.5
Roche Holdings AG	1.9	0.4
CitiGroup Inc	1.7	0.3
Zurich Insurance Group	1.6	0.1
Adobe Inc.	1.6	0.3
LMVH Moet Hennessy Louis Vuitton SE	1.6	0.2
Bookings Holdings Inc.	1.6	0.2
Samsung Electronics Co Ltd	1.6	0.5
Total	20.5	

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

Regional and country weights (as at 30 September 2019)



Portfolio holdings as at date 30/09/19. Benchmark is MSCI AC World ex-Tobacco Index. Cash or cash equivalents equaled to 1.7%Other holdings at -2.1% and consists of (i) currency derivatives and/or (ii) any derivative offsets. .

Key Fund Characteristics (as at 30 September 2019)

Fundamentals (weighted average)	Portfolio	Benchmark^
Price/Earnings[1]	13.0X	15.7X
PEG ratio	1.6X	1.8X
Dividend Yield	2.8%	2.5%
Market Capitalisation[2]	249.2bn	262.1bn
Number of holdings	106	2,836
Tracking Error[3]	1.91%	
Active share	83%	

^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**