QUARTERLY FUND COMMENTARY

For the quarter ended 30 September 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 0.2% for the 3 months ending 30 September 2021 compared to its benchmark return of -0.1%. The asset value of the Fund as at 30 September 2021 was $124 million.

To 31 December 2020	1 month (%)	3 months (%)	12 months (%)	3 years (%)	Since inception (% p.a.)***
Fund net return *	-3.2	-0.2	28.5	9.8	11.0
Benchmark Index **	-2.9	-0.1	24.5	11.4	12.5
Difference	-0.3	-0.1	4.0	-1.6	-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

- Following a strong rally, the global equity market pulled back in September 2021 amid signs of peaking economic and earnings growth, supply chain disruption and ongoing concerns over COVID variants.
- The market pullback coincided with US Federal Reserve Chair Powell's indication of late 2021 tapering, which weighed on high-multiple growth stocks.
- Debates about transitory versus permanent inflation continue as investors await developed market central banks' next moves after a long period of ultra-loose monetary policy.
- With economic momentum peaking after a post-pandemic recovery, it is even more important to identify companies whose earnings are more durable.

Portfolio Outlook and Positioning

Performance Summary

The portfolio performed in line with the benchmark in the third quarter of 2021.

Detractors

- Intersection holdings Stock selection in information technology and materials
- Stock selection in North America and Japan

Contributors

- Quantitative models — valuation, earnings momentum and sentiment

- Stock selection in industrials and communication services
- Stock selection in Europe ex UK and emerging markets

Market review

Strong Q2 earnings surprises propelled global equities higher in July to August despite the COVID Delta variant, inflation and peak growth concerns, as well as a regulatory crackdown in China. Late in August, the US Federal Reserve chair signalled that the tapering of bond purchases was likely to begin by year-end, which prompted a reversal higher in global bond yields and an ensuing sell-off in global equity markets. Growth stocks, which are heavily weighted in market indices and very sensitive to interest rates due to their stretched valuations, led the sell-off which more than erased the gains made earlier in the quarter.

Regional performance generally reflected the macro dynamics referred to above, resulting in developed markets outperforming emerging markets. Japan equities, which were negatively impacted by COVID-related issues early in the quarter, outperformed significantly as investors responded positively to the resignation of Prime Minister Suga and a robust recovery in the earnings outlook. US and European markets modestly outperformed while Asia Pacific ex Japan markets lagged due largely to the rapidly spreading Delta variant and low vaccination rates in Australia and New Zealand. A strong US dollar and central bank rate hikes to contain inflation, coupled with the regulatory tightening and real estate market turmoil in China, resulted in the significant underperformance of emerging markets. Bucking this trend, the EEMEA region benefited from broad-based strength in Eastern European markets as well as the strong performance of the Russia and Saudi Arabia markets, which benefited from the late-quarter surge in energy prices.

The narrow growth/defensive sector shift that began in Q2 continued through most of Q3 due to the headwinds mentioned above. The late August shift in tapering guidance by the Fed coincided with a shift higher in global bond yields and a rotation towards cyclical sectors, most notably financials. Coincidently, a spike in energy prices caused by supply shortages and robust demand enabled the energy sector to significantly outperform for the quarter overall. The information technology, health care and utilities sectors, which dominated performance early in the quarter, also outperformed for the quarter overall but notably lagged in the September rotation to cyclicals. The consumer discretionary and industrials sectors, while lagging for the quarter, outperformed in September alongside peaking Delta variant cases and a constructive outlook for capital spending. The materials sector significantly underperformed as concerns about peak growth weighed on most industrial commodities while a stronger US dollar negatively impacted gold.

Factor performance aligned generally with historical mid-cycle tendencies, with momentum factors such as analyst revisions producing strong results for the quarter overall. However, price momentum factors lagged in the rotation to cyclicals that occurred alongside rising bond yields. A composite of value factors outperformed overall, as forward-looking and quality valuation metrics such as forward price/earnings and dividend yield produced strong results while trailing and more early-cycle metrics such as price/book and price/sales lagged. Profitability, earnings quality and growth factors outperformed early in the quarter, but their performance reversed as the Delta variant peaked and interest rates moved higher. Volatility factors (high volatility) underperformed early in the quarter but outperformed as expected during the rotation to cyclicals late in the quarter.

Portfolio performance review

The portfolio performed in line with the benchmark in the third quarter. Intersection holdings — stocks that are buy-rated from both our fundamental and quantitative research — detracted from results. The quality-focused fundamental research input produced neutral results overall for the quarter as the September risk-on rotation to cyclicals weighed on the performance of the fundamental research input as expected. The quantitative models notably outperformed, with earnings momentum factors such as revisions consistently producing strong results throughout the quarter. Valuation factors such as price/earnings and price/cash flow were weak early in the quarter on Delta variant-related growth concerns but outperformed significantly as COVID cases peaked and bond yields moved higher. Quality factors such as ROE and margins outperformed significantly in the early part of the quarter, benefiting from the defensive shift that began in Q2. Sentiment factors, which include share buybacks, also aided performance. While it was a very short period, the performance profile through a volatile market environment demonstrated the advantage of our diversified research approach.

The outcome of the research input performance described above was a notable contribution from stock selection in the Europe ex UK industrials sector, and in emerging markets, where underweight and strong stock selection in the consumer discretionary sector more than offset weaker stock selection in the materials and information technology sectors. Prominently detracting from performance was stock selection in North America, where poor stock selection in consumer discretionary more than offset positive stock selection in the industrials and communication services sectors. Stock selection in the Japanese information technology sector also negatively impacted results.

Portfolio positioning and outlook

The global recovery generally remains on track although momentum is slowing, with supply chain bottlenecks and higher prices also impeding the outlook. Monetary support has 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. Earnings revisions (outlook), which are highly correlated with manufacturing PMIs, have similarly moderated, but they are likely to sustain at elevated levels and continue to favour cyclicals.

Despite the constructive outlook, there are several issues that require monitoring. First, inflation continues to surprise central bankers, which has led to a shift in guidance by the Fed and the Bank of England as well as rate hikes by the Norges Bank and a number of emerging market central banks; with economic momentum decelerating, some are worrying about stagflation risk. Additionally, valuations, particularly in the large-cap growth segment, are a significant risk to markets, particularly if bond yields continue to rise, as they typically do when the economy is strong, inflation is rising and central banks are hiking rates. Finally, the investment climate in China has deteriorated in recent months, with a regulatory clampdown in the technology, education and real estate sectors along with the near collapse of property giant Evergrande.

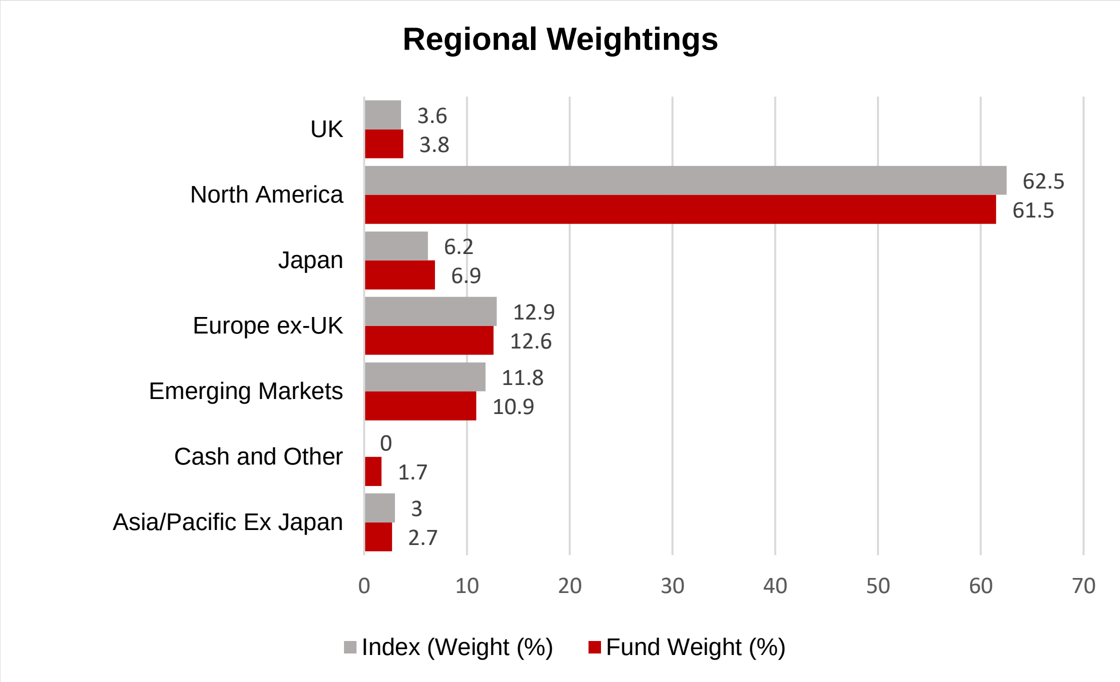
The manager continues to be encouraged by the broad market and factor leadership. As has been communicated in the past, the most challenging market environment for the investment approach is one in which a single factor/style or a limited group of stocks dominate performance. Based on our analysis of factor performance through the economic cycle, the strength of earnings momentum and growth factors is expected during the midcycle/expansion phase. Value factor leadership, which is prominent and more diverse at this stage of the cycle, typically continues until earnings growth peaks. A peak in the economic cycle would, based on history, coincide with sustained outperformance of price momentum and quality factors and the quality-focused fundamental research input to our process.

Top 10 holdings (as at 30 September 2021)

Company	Portfolio (%)	Benchmark ^ (%)
Microsoft Corp	4.5	3.1
Alphabet Inc	4.0	2.4
Amazon.Com Inc (Eq)	2.7	2.3
Apple Inc.	2.7	2.3
Facebook Inc.	2.6	1.2
Adobe Inc.	1.8	0.4
Fujitsu Ltd	1.7	0.1
Hitachi Ltd	1.6	0.1
Schneider Electric SE	1.6	0.1
HCA Healthcare Inc.	1.6	0.1
Total	24.7	

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

Regional and country weights (as at 30 September 2021)



Portfolio holdings as at date 30/06/21. Benchmark is MSCI AC World ex-Tobacco Index. Cash or cash equivalents equaled to 2.8%. Currency derivatives and any derivative offsets -1.1%.

Key Fund Characteristics (as at 30 September 2021)

Fundamentals (weighted average)	**Portfolio**	**Benchmark^**
Price/Earnings[1]	17.0X	18.9X
PEG ratio	1.3X	1.6X
Dividend Yield	2.0%	1.7%
Market Capitalisation[2]	565.7bn	519.6bn
Number of holdings	135	2,950
Tracking Error[3]	2.15%	
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**