QUARTERLY FUND COMMENTARY

For the quarter ended 31 December 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 4.7% for the 3 months ending 31 December compared to its benchmark return of 4.4%, outperforming by 0.3%. The asset value of the Fund at 31 December 2019 was $89.7 million.

To 31 December 2019	1 month (%)	3 months (%)	12 months (%)	Since inception (% p.a.)***
Fund net return *	1.0	4.7	25.3	10.2
Benchmark Index **	0.5	4.4	25.8	11.2
Difference	0.4	0.3	-0.5	-1.0
		* 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 equities delivered very strong returns with low volatility in 2019 driven primarily by multiple expansion. Accommodative monetary policies by global central banks, progress in US-China trade negotiations, continued employment growth and consumer spending have provided support to equity markets.
- Earnings growth has slowed across regions although there are signs of bottoming.
- The market is exhibiting symptoms of late-cycle dynamics where investment demand outstrips supply. Prudent security selection will be critical in this environment.

Portfolio Outlook and Positioning

The portfolio outperformed the benchmark in the fourth quarter of 2019.

Contributors

- Intersection holdings
- Fundamental research input
- Quantitative models – valuation and earnings momentum
- Stock selection in retailing, health care and industrial goods & services
- Stock selection in Europe ex-UK, emerging markets and North America

Detractors

- Portfolio underweight in mega-cap stocks
- Moderate underweight to lowest-yielding stocks
- Stock selection in the utilities and leisure sectors
- Currency hedging

Performance review

Very strong Q4 global equity performance culminated one of the best calendar year returns for the MSCI All Country World Index since its inception in 1987. The strong result was driven primarily by positive trade and geopolitical developments, coupled with easy monetary policy and increasing evidence that the global economy is bottoming. On the trade front, the Phase 1 trade deal between the United States and China and the passage of the US-Mexico-Canada Agreement on trade by the US House of Representatives removed two significant headwinds to economic growth. Major central banks, whose actions appear to have aided in preventing a recession, signalled rates would remain low and stable throughout 2020. Leading economic indicators, which lag monetary policy changes, are signalling the global economy is bottoming; this is evidenced by the robust global manufacturing PMI new orders data which is outpacing inventories in close to 70% of countries and is indicative of a strong demand environment. Finally, the decisive win by Boris Johnson's Conservative party in UK elections significantly reduced the uncertainty around the Brexit issue and buoyed already-improving investor sentiment.

Emerging market equities posted the strongest regional results during the quarter benefitting from reduced trade tensions, an improved global growth outlook and the weakening US dollar. US and Japanese equities also outperformed the broader global benchmark during the quarter, while European, Asia Pacific ex-Japan and Canadian equities all lagged significantly.

For the quarter overall, sector leadership was very narrow with only the technology and health care sectors outperforming. The more cyclical semiconductor and hardware segments drove robust technology performance, while the fading prospects of Elizabeth Warren's presidential bid and her Medicare for all policy stance provided a significant boost to health care stocks. Bond proxy sectors, such as real estate, utilities and consumer staples, lagged significantly, as interest rates increased in response to reduced trade risks and improving economic data. The breadth of sector outperformance increased significantly in December with cyclical sectors, including energy, materials and consumer discretionary, joining the outperforming technology and healthcare sectors.

Style performance was also quite narrow with quality the dominant theme throughout the quarter, while growth continued to outperform value, despite the improving economic outlook. Notably the price momentum and low volatility indexes underperformed significantly again during the quarter, not surprising, given the overall strong performance and the significant weight of bond proxies in the momentum index.

Factor level performance generally mirrored the style indexes and reflected the improving macro environment. Volatility factors such as beta were notably strong, as were trailing valuation metrics like price/book. Quality factor performance, including Return on Equity, posted strong returns while growth and earnings revision factors also produced good results. Forward-looking valuation metrics such as forward price/earnings underperformed, and price momentum factors were particularly weak.

The portfolio outperformed the benchmark in the fourth quarter. Strong results from stocks that are buy rated by both fundamental and quantitative research were the most significant performance driver. Independently, both the fundamental and quantitative research inputs made significant contributions. Within the quantitative models, the valuation components were notably strong, which aligns with evolving economic soft landing and an improving macro outlook. Dividend yield, a more defensive value factor, lagged significantly in parallel with the backup in interest rates. Earnings momentum metrics also aided results, as stocks with improving earnings estimate revisions outperformed significantly. Quality factors in the models also performed well, and price momentum factors underperformed significantly; however, the portfolio's exposure to both resulted in a neutral impact on performance.

An outcome of the performance of research inputs described above was strong stock selection at both the region and sector levels. In particular, strong stock selections in the US retail and industrial sectors and US and European health care sectors were significant contributors to relative results. Also having a meaningful contribution was stock selection in the emerging markets technology and financial sectors. Weak stock selections in the US utilities and leisure sectors were significant detractors from performance during the period.

Outlook

Looking ahead, while a number of geopolitical issues, including impeachment proceedings and elections in the US, the Iran-US conflict and civil unrest in many countries, remain unresolved, the improving economic outlook should support equities. Also bolstering the outlook is supportive global central banks and a constructive view on fiscal policy by many governments. While multiple expansion was an important driver of equity market performance throughout 2019, we expect investors to shift their focus to the improving earnings outlook in 2020, which should benefit more cyclical value stocks and factors.

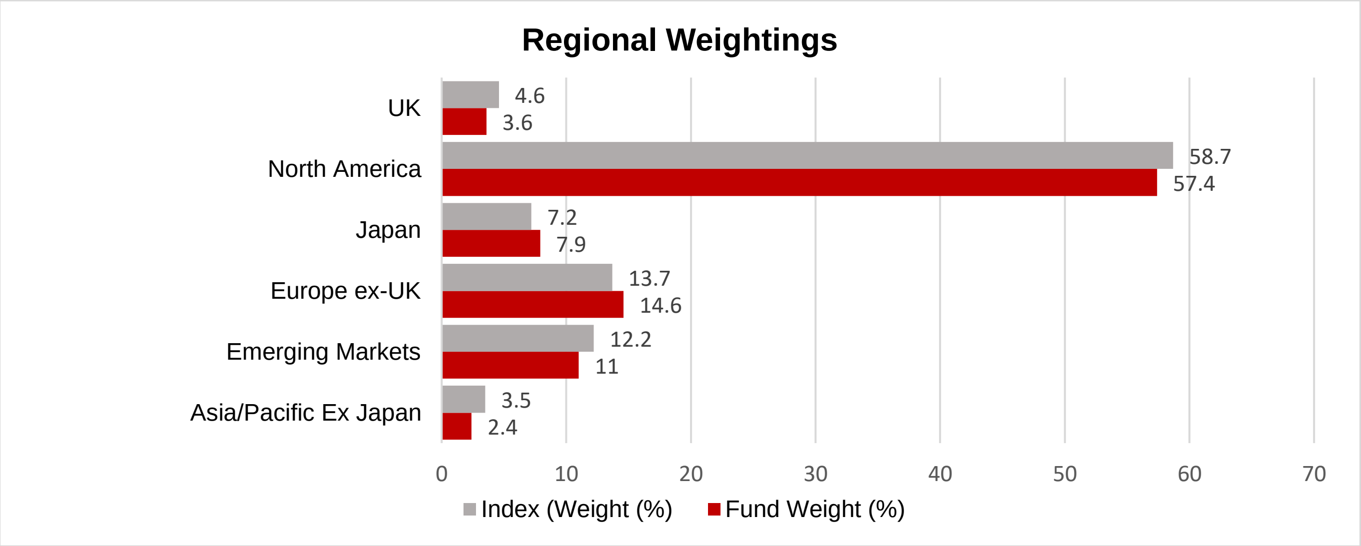
Within the Blended Research® process (which is strategy adopted by this Fund), the Manager expects the quality metrics of the quantitative models, coupled with the unique, quality focused fundamental research input, to benefit relative performance in the current transitioning macro environment. In addition, the valuation metrics captured in the investment process are expected to produce strong results once the economic outlook sustainably improves.

Top 10 holdings (as at 31 December 2019)

Company	Portfolio (%)	Benchmark ^ (%)
Microsoft Corp	3.5	2.3
Alphabet Inc	2.9	1.6
Taiwan Semi-Conductor Manufacturing Co Ltd	2.0	0.5
Roche Holdings AG	1.9	0.5
CitiGroup Inc	1.8	0.4
Samsung Electronics Co Ltd	1.7	0.5
Adobe Inc.	1.7	0.3
LMVH Moet Hennessy Louis Vuitton SE	1.7	0.3
Eli Lilly & Co	1.6	0.2
Target Group	1.5	0.1
Total	20.2	

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

Regional and country weights (as at 31 December 2019)



Portfolio holdings as at date 31/12/19. Benchmark is MSCI AC World ex-Tobacco Index. Cash or cash equivalents equaled to 2%. Other holdings at 1% and consists of (i) currency derivatives and/or (ii) any derivative offsets. .

Key Fund Characteristics (as at 31 December 2019)

Fundamentals (weighted average)	**Portfolio**	**Benchmark^**
Price/Earnings[1]	13.8X	16.8X
PEG ratio	1.6X	1.9X
Dividend Yield	2.6%	2.3%
Market Capitalisation[2]	269bn	282.3bn
Number of holdings	107	3,032
Tracking Error[3]	1.77%	
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**