

CLARITY GLOBAL SHARES FUND

Performance Comments

The asset value of the Fund at 30 June 2018 was \$90.2 million and the base price was \$2.793 per unit, an increase of +3.4% over the quarter. This compares with the Fund's composite index return of +5.1%, which was an underperformance of -1.7%.

The manager MFS advises as follows, "Global equity returns, in local currency terms, ended the second quarter close to where they began the year but well above the March low. Global leading economic indicators continued to signal economic expansion; however, momentum since the beginning of the year has clearly decelerated, particularly in Europe. Key drivers of the more subdued economic outlook include trade tensions, diverging global monetary policies and higher energy prices. The outlook for earnings, which have historically been correlated with leading economic indicators, is also moderating from the extremely elevated levels seen late last year.

Geographically emerging markets, the Q1 performance leaders, broadly lagged as countries with high dollar-denominated debt retreated in concert with a strengthening US dollar, while countries with supply chains tied to China reacted to the increasing trade tensions between the United States and China. Late-cycle strength in commodities, particularly oil, benefited commodity-sensitive markets like New Zealand, Canada and Norway, which all outperformed significantly during the quarter. European equities outperformed overall with strong performance from France, Ireland and the United Kingdom offsetting weaker results from Germany, Italy and Spain—which were impacted by political challenges during the quarter. US equities, which have historically been considered defensive by regional allocators, moderately outperformed during the quarter.

The MFS Blended Research Global Equity portfolio struggled a little in the most recent quarter as disappointing results from our quantitative models, particularly in North America and emerging markets, overwhelmed strong performance from our fundamental research.

Uncharacteristically, a significant number of the individual stock detractors were intersection holdings, or companies deemed attractive by both fundamental and quantitative research sources. Historically, intersection holdings have been a significant contributor to the portfolio's overall alpha.

Fund performance

The Clarity Global Shares Fund has performed as follows:

To 30 June 2018	3 months (%)	12 months(%)***
Fund net return *	+3.4	+14.5
Benchmark Index **	+5.1	+16.3
Difference	-1.7	-1.8

* 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.

Benchmark index details are included in the Quarterly Fund Update which is available at <https://clarityfunds.co.nz/funds/global-shares-fund>.

Outlook

Looking forward, economic and earnings data coupled with style and factor leadership suggest that we are in the later stages of the market and economic cycle. Potential headwinds to global markets include an escalation of trade tensions or an all-out trade war, US Federal Reserve rate increases, the winding down of quantitative easing by the European Central Bank, narrowing market leadership and, finally, complacency around the level and sustainability of growth for technology leaders that are vulnerable to restrictions on trade and investment.

With this macro backdrop, expectations should be for continued strength in markets, sectors and stocks that exhibit defensive and/or quality attributes, despite their elevated valuations. At the factor level earnings and business quality metrics historically have performed best at this part of the cycle. Therefore, we would expect the portfolio to benefit from the quality focus of our fundamental research analysts and the quality factors in our quantitative model, while managing relative risk by maintaining our valuation discipline and employing our disciplined portfolio construction process."

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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