

## CLARITY GLOBAL SHARES FUND

### Performance Comments

The asset value of the Fund at 31 March 2018 was \$82.0 million and the base price was \$2.7041 per unit, a decrease of -1.9% over the quarter. This compares with the Fund's composite index return -2.0%, which was an out-performance of +0.1%.

Since February, equity market volatility has jumped from historically low levels, although this largely seems to have been technically-driven. Continued synchronized global growth and historically low interest rates are still supportive of equity markets, while economic indicators are not yet signaling the end of the business and market cycle that started in 2009. However, with valuations remaining high by historical measures, concerns around higher inflation, increasing interest rates, peaking economic and earnings momentum, global trade friction and geopolitical risks may continue to weigh on global sharemarkets.

Growth continued to outperform value globally pushing the valuation gap to the widest point in a decade based on trailing P/E's. Despite the deteriorating market performance in the final two months of the quarter, small and mid-cap stocks generally outperformed large-cap stocks, bucking the conventional flight to large caps. However, toward the end of the quarter global markets then began to shift from cyclical to more defensive growth and higher quality leadership, which was evident in the fund's less-cyclical quality stocks.

The Fund's most significant transactions during the first quarter included: Entering a position in Microsoft, POSCO (the largest steelmaker in South Korea), and Marathon Petroleum which were driven by fundamental and quantitative research together with confidence in the strategic direction and management of the companies. The Fund eliminated positions in WellCare Health Plans, Nippon Telegraph & Telephone, Akzo Nobel primarily due to analysis suggesting deteriorating prospective valuations.

### Fund performance

The Clarity Global Shares Fund has performed as follows:

To 31 March 2018	3 months (%)	Since inception (%)***
Fund net return *	-1.9%	8.9%
Benchmark Index **	-2.0%	9.4%
Difference	+0.1%	-0.5%

\* 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.

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

### Outlook

Looking ahead, global markets face a more balanced set of tailwinds and headwinds than was the case a year ago. While the economic and earnings outlook remains strong, the peaking of leading economic indicators and earnings revisions suggest a more challenging environment as momentum for both slows. The recent weakness in equities coupled with the strong reported earnings and revisions has lowered equity valuations; however, risks have also risen which suggests multiple expansion from here is less likely. Monetary policy generally remains accommodative, but again from here, the expectations are for policy direction to be neutral at best, and more restrictive in the US with multiple rate hikes over the balance of 2018. Geopolitical issues will continue to weigh on markets as well in 2018 with the ongoing trade war concerns, the upcoming US midterm elections and the continued overhang of Brexit negotiations, to name a few.

In this type of environment, we expect stocks and sectors that have good quality and/or growth characteristics to hold up better than cyclical value stocks and sectors that tend to be faced with weakening fundamentals as economic momentum slows.

The outlook remains satisfactory.

If you have any questions please contact us on +64 09 308 1450 or visit our website [www.clarityfunds.co.nz](http://www.clarityfunds.co.nz)

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