

CLARITY GLOBAL SHARES FUND

Performance Comments

The asset value of the Fund at 31 December 2017 was \$73.2 million and the base price was \$2.76 per unit, an increase of +5.7% over the quarter. This compares with the Fund's composite index return +6.7%, which was an under-performance of -1.0%.

Global equity markets generated strong returns with low volatility in 2017, helped by synchronized global growth, improved earnings, and still-accommodative monetary policies. Cyclical sectors generally outperformed defensive sectors, growth outperformed value, and emerging markets outperformed developed markets.

As global central banks gradually remove liquidity from the system, interest rates may face upward pressures. However, we continue to believe that long rates will likely be contained in a lower range relative to history, given our views of subdued long-term growth and inflation.

Late-cycle signs in the US, coupled with elevated valuations by historical measures, may warrant a more cautious equity market outlook for 2018 and judicious security selection.

Key contributors to performance during the quarter included the Fund's position in Owens Corning, a residential and retail building materials manufacturer. Despite having reported disappointing third-quarter earnings due to one-time items, revenues came in ahead of estimates. Additionally, the company reiterated strong guidance figures on the basis of stronger-than-expected volume growth in roofing shingles. In addition, the Fund's overweight position in retailer Best Buy also contributed. Shares advanced in the latter half of the period as the company delivered solid third-quarter results, despite headwinds from natural disasters and a later-than-expected launch of the new iPhone. Management raised its outlook for the fourth-quarter on the back of solid underlying trends heading into the holiday selling season.

Key detractors from the performance during the quarter included Celgene Corp (a US based biopharmaceutical firm). Sales of the company's psoriasis product Otezla were lower than consensus analyst estimates, due to

reimbursement challenges. Management adjusted 2017 total revenue guidance to the lower end of prior guidance, and adjusted 2020 guidance downward due to weakness in the company's Inflammation and Immunology segment. The portfolio's overweight position in shares of seafood company Marine Harvest (Norway) held back relative results. The stock declined after the company lowered its harvest guidance for 2017.

Fund performance

The Clarity Global Shares Fund has performed as follows:

To 31 December 2017	3 months (%)	Since inception (%)***
Fund net return *	+5.7	+11.1
Benchmark Index **	+6.7	+11.7
Difference	-1.0	-0.6

* 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.

Outlook

The earnings outlook remains generally supportive in the intermediate term, with earnings estimate revisions strong overall, evidenced by more upward than downward revisions on a global basis.

Looking ahead, 2018 is likely to be a more challenging environment than 2017 as economic and earnings momentum decelerate, inflation pressures build and central banks' normalization efforts put upward pressure on interest rates. We believe late-cycle leadership from a style, sector and factor perspective will likely persist.

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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