CLARITY FUNDS MANAGEMENT

MONTHLY FUND COMMENTARY

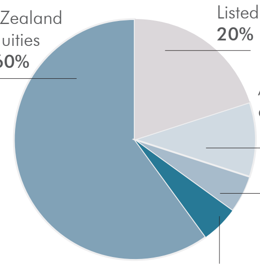
February 2021

CLARITY DIVIDEND YIELD FUND

In a weak month for dividend yielding shares in New Zealand, the Fund's standout investments were Australian mining companies BHP (+13%) and Rio Tinto (+18%). Each produced bumper financial results due to very strong iron ore prices. They also stuck to previous assurances that the bulk of these earnings would be passed through to shareholders as dividends, rather than reinvested. The mining industry has historically had a reputation for a lack of capital discipline – characterised as miners being engineers who are fond of big projects and digging holes (or buying their competitors). But lessons learned by the big miners through the GFC seem to be sticking this time around, and even record high iron ore prices have not been enough to tempt them back into outsized capital investment programmes.

Having said all that, you may be surprised to hear we sold the Fund's holding in Rio Tinto and reduced our holding in BHP late in the month. Basically we think this is as good as it gets. Current iron ore prices are a function of insatiable steel demand in China and weak production out of Brazil. But Brazilian volumes will inevitably recover as it works through coronavirus and dam safety issues, smaller producers are scrambling to increase supply as quickly as possible, and China is looking to other forms of steel production like recycling scrap steel. The current market price for iron ore is around $US160/t. Mining analysts expect this to fall below $US100/t by 2022, and just a year ago the long-term equilibrium price was estimated to be around $US60/t. We struggle to see miners' share prices rising against a back drop of falling iron ore prices. Of the two, BHP has a more diversified portfolio, hence our decision to retain a holding in this company rather than Rio Tinto.

Target investment mix[1]



Performance

As at 28 February 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Dividend Yield Fund*	-4.6%	1.7%	5.6%	7.6%	10.1%	11.8%
Benchmark Index**	-4.8%	2.3%	8.2%	9.2%	8.6%	6.9%

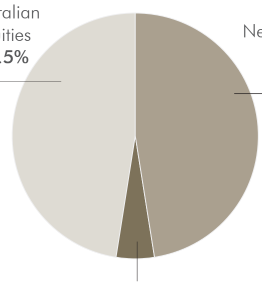
CLARITY TRANS-TASMAN VALUE FUND

The Trans-Tasman Value Fund was by far the best performing of Clarity's Australasian equity funds in February, due to its 50% allocation to the much better performing Australian share market. 2021 has seen a sharp reversal of the general trend we've seen over the last decade, where the New Zealand market outperformed the Australian market in eight out of ten years. Key drivers of Aussie strength in February were strong results from miners, and continued momentum in banks' Covid-19 recovery. As we've mentioned before, cyclical companies like these appear poised to perform well this year as the global economy returns to strong growth, driving improving earnings and accentuating the attractive valuation of these types of companies relative to very expensive structural (rather than cyclical) growth companies.

We have positioned the Fund to benefit from a continuation in this trend. The current top four holdings in the Fund are ANZ Bank, National Australia Bank, Fletcher Building and BHP. All are good value cyclical companies and in total comprise about 20% of the Fund.

However, we're not putting all our eggs in the cyclical basket, and the portfolio remains well diversified. One of our current the non-cyclical holdings in the Fund, is Cochlear, the global leader in hearing implants. The company has an impressive long-run growth trajectory (8% per annum sales growth in the ten years to 2019), but growth and the share price both took a hit last year with Covid-19 delaying elective surgery around the world. We saw this as an opportunity to benefit from a temporary effect on a great quality company. During February, Cochlear reported an encouraging pick-up in cochlear implant activity, pushing its shares up 7%. We expect activity to further normalise from here and the company to resume its long-term growth trend.

Target investment mix[1]



Performance

As at 28 February 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Trans-Tasman Value Fund*	-1.3%	3.0%	6.1%	1.1%	7.7%	8.5%
Benchmark Index**	-1.9%	2.4%	11.9%	11.0%	12.9%	5.5%

[1] The current target investment mix is shown, but variations around these targets are likely from time to time.

* These returns are after deductions for charges and before tax.
**Benchmark returns reflects no deduction for charges and tax. Details of these are included in the Quarterly Fund Update which is available at https://clarityfunds.co.nz/quarterly-fund-updates-and-commentaries.

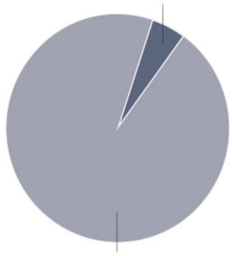
CLARITY NEW ZEALAND EQUITY FUND

The New Zealand share market fell back to earth with a thud in February (-6.9%), after gaining 34% in the ten months since the onset of Covid-19 hit share markets globally. Last month's sharp correction was the result of various factors: rising interest rates reducing the relative attraction of shares; electricity company share prices falling back from artificially inflated levels as passive clean energy funds stopped buying; and market leaders Fisher & Paykel Healthcare (-16%) and A2 Milk (-16%) coming under pressure as Covid hospitalisations declined and financial results disappointed, respectively.

The New Zealand Equity Fund modestly outperformed the falling market (-6.4%), helped by underweight positions in Meridian Energy and Mercury Energy, and good performance from our smaller and better value investments in Skellerup (+14%) and Tower (+8%).

Skellerup reported a strong half-year result during the month, with both its Agricultural and Industrial divisions performing well. Skellerup's agricultural business is particularly exposed to dairy farming (milking liners for milking cows) and will benefit from recent strength in whole milk powder prices which should encourage farmers to maximise milk production by replacing ageing liners. The Industrial division produces various rubber and silicon products and has exposure across a number of different industries including drinking water and construction. Demand in these industries is solid but management also believe they are gaining market share, and their newly developed products are seeing strong customer support. Operational efficiencies are helping improve profit margins. Overall the business is humming, and management increased their guidance for full year profitability.

Target investment mix[1]



Performance

As at 28 February 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception
Clarity New Zealand Equity Fund*	-6.4%	-3.2%	8.4%	N/A	N/A	9.9%
Benchmark Index**	-6.9%	-4.2%	9.2%	N/A	N/A	9.9%

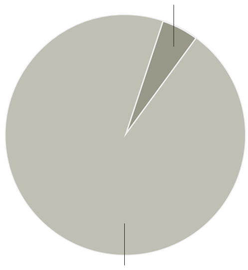
CLARITY FIXED INCOME FUND

Wholesale interest rates continued their march higher, rising sharply over the month. We saw extraordinary moves in the 10 Year New Zealand Government Bond yield which rose from 1.1% to as high as 2.0% with similar moves seen across the New Zealand Swap Curve. The Fund had a negative return of -1.1% for the month, however the Fund's short duration position continues to help mitigate some of the negative impact that rising interest rates have on the Fund (the lower a bond's duration, the less the bond's price will fall when compared to longer dated bonds).

Recently the Reserve Bank of New Zealand's (RBNZ) Monetary Policy Committee met for the first time this year. As expected, there was no change to the OCR, Large Scale Asset Purchase programme, Funding for Lending programme or the OCR forecast. The Committee re-iterated that it was important to be confident about the sustainability of an economic recovery before it considered reducing monetary stimulus. Whilst the RBNZ is sticking to its guns, market participants think differently with wholesale interest rates suggesting that there is a higher chance that interest rates will rise in the short term than not.

The Fund made one purchase over the month, a new 5 Year Westpac Bond which issued at 1.439%. With a view to keep the portfolio duration neutral, at ~2.7 years, the Fund entered into an Interest Rate Swap to counter the additional duration the new Westpac Bond adds. We effectively purchased the bond without adding any further duration to the Fund.

Target investment mix[1]



Performance

As at 28 February 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Fixed Income Fund*	-1.1%	-1.2%	1.7%	4.0%	4.0%	4.6%
Benchmark Index**	0.0%	0.1%	0.4%	1.3%	1.7%	1.9%

[1] The current target investment mix is shown, but variations around these targets are likely from time to time.

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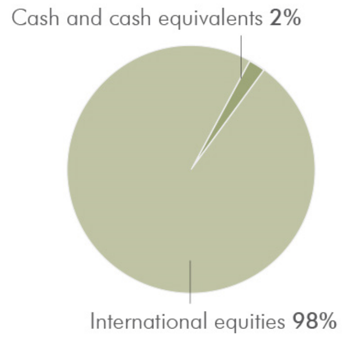
Clarity Funds Management

MONTHLY FUND COMMENTARY

February 2021

CLARITY GLOBAL SHARES FUND

Target investment mix[1]



The MSCI All Country World (ACWI) Index rallied to all-time highs in mid-February before giving up most of the gains coincident with a rapid rise in interest rates. While bond yields typically rise as economic recoveries strengthen, inflation concerns and little near-term risk of more restrictive monetary policies caused a rate spike on par with the taper tantrum in 2013. Long-duration growth stocks, which carry large weights in the index, were notably under pressure given their premium valuations. Despite a challenging near-term growth outlook in a number of geographies, better than-expected manufacturing purchasing manager surveys in most countries coupled with supportive policy and projected vaccination levels, which have increased optimism on the timing of the re-opening of economies, point to a robust outlook in the back half of 2021. Supply chain challenges and strong demand point to higher inflation pressures in the short term, but the longer-term outlook is more uncertain.

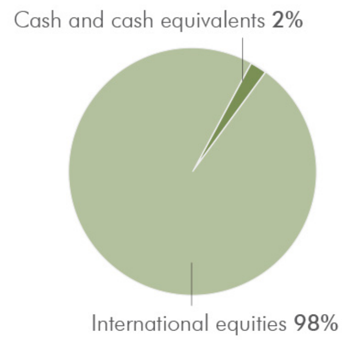
The Fund benefited from its position in automotive systems manufacturer Magna International (Canada). Shares traded higher after the company reported fourth quarter results with revenue and EPS that beat consensus estimates. The company also introduced 2021 guidance that was better than expected and increased the annual dividend. Meanwhile, shares of global information services and technology company Fujitsu (Japan) traded lower during the month after it was reported that results from October to December revealed that Covid-19 was still having a lingering impact on demand, especially in public-sector projects.

Performance

As at 28 February 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Global Shares Fund*	2.5%	5.9%	13.9%	7.8%	N/A	8.9%
Benchmark Index**	1.9%	4.6%	18.2%	10.1%	N/A	11.0%

CLARITY - CAPITAL GROUP NEW PERSPECTIVE FUND[2]

Target investment mix[1]



After a strong start to the month, the Fund lost some of its earlier gains and returned 1.1%. It maintains strong outperformance against its benchmark (+12.5%) over the year.

Key contributors to performance this month included e-commerce solutions provider Shopify (+18%). Shopify reached a record closing high after announcing it would bring its rapid checkout system to both Facebook and Instagram. During the month the company also reported fourth-quarter numbers with revenues far exceeding expectations, almost doubling year-on-year while operating margins almost quadrupled. Management did however warn that the outlook for 2021 will slow as the broader disruption of Covid-19 vaccines shift consumer spending back into physical retail and entertainment channels.

Given that they are some of the Fund's largest holdings, declines in Tesla (-15%) and Amazon (-4%) were top detractors in March as the broader market became more cautious about growth-dependent valuations. In addition to the market volatility, Tesla's share price slipped further after stating production at the company's California factory would shut down for two weeks, however this is not seen as a major issue. The portfolio managers continue to add to companies they feel are undervalued and could be well positioned for a post-coronavirus economic recovery. These include select banks that could benefit from longer-term structural dynamics and travel-related stocks that could see a re-rating as vaccine roll-out programmes ramp up across the globe and the market begins to realise a path to recovery for the industry.

Performance

As at 28 February 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception
Clarity - Capital Group New Perspective Fund*	1.1%	5.6%	30.5%	N/A	N/A	21.2%
Benchmark Index**	1.9%	4.6%	18.0%	N/A	N/A	10.3%

[1] The current target investment mix is shown, but variations around these targets are likely from time to time.

[2] Capital Group and Capital Group New Perspective are trademarks of the Capital Group Companies, Inc.

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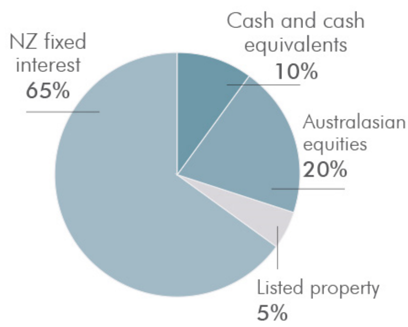
CLARITY DIVERSIFIED INCOME FUND

Target investment mix[1]



Although the Fund fell 2.5% in February, it continues to outperform its benchmark over longer periods and is ahead by 1.9% over the past year.

In a weak month for dividend yielding shares in New Zealand, the underlying Clarity Dividend Yield Fund's standout investments were Australian mining companies BHP (+13%) and Rio Tinto (+18%). They each produced bumper financial results due to very strong iron ore prices. They also stuck to previous assurances that the bulk of these earnings would be passed through to shareholders as dividends, rather than reinvested.

The underlying Clarity Fixed Income Fund made one purchase over the month, a new 5 Year Westpac Bond which issued at 1.439%. Subsequently, an Interest Rate Swap was entered into to counter the additional duration the new Westpac Bond adds, effectively purchasing the bond without adding any further duration.

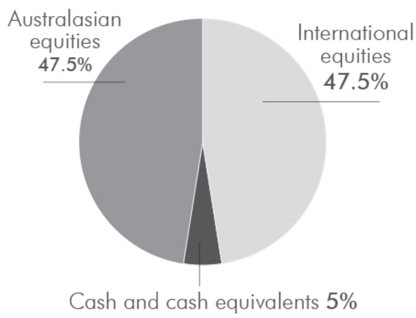
The Fund continues to maintain its tactical tilt towards holding more shares and fewer bonds.

Performance

As at 28 February 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Income Fund*	-2.5%	0.0%	3.9%	5.1%	N/A	5.0%
Benchmark Index**	0.1%	0.4%	2.0%	2.9%	N/A	3.1%

CLARITY DIVERSIFIED GROWTH FUND

Target investment mix[1]



The Fund was slightly below its benchmark for the month with a return of -0.4% as the New Zealand share market was particularly weak compared to the rest of the world with the NZX 50 Gross Index falling 6.9%. In comparison, the ASX 200 Index was up 1.6% and the MSCI World Index rose 2.6%. Although there was a substantial divergence in February this comes after a strong period of performance from New Zealand equities.

The Fund benefitted from investment in the Clarity Global Shares Fund with more cyclical shares coming into favour and a sell off in those companies whose valuations are dependent on growth expectation. Meanwhile, investment in the Tahito Te Tai o Rehua (Trans-Tasman) Fund detracted from performance. Given the framework for investment is based on indigenous ethical values, the underlying Fund does not invest in mining or non-renewable energy companies which performed well as commodity prices for iron ore, copper and oil were all up strongly.

The Investment Team continues to monitor key risks, both local and abroad, that could impact the Fund and look to position appropriately.

Performance

As at 28 February 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Growth Fund*	-0.4%	3.6%	12.7%	5.3%	N/A	7.1%
Benchmark Index**	0.0%	3.5%	15.2%	10.7%	N/A	11.0%

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