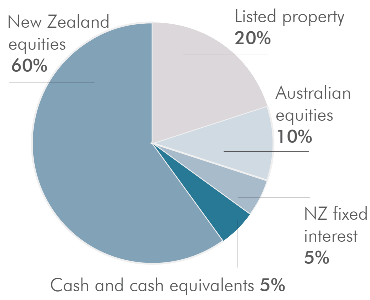
MONTHLY FUND COMMENTARY

March 2021

CLARITY DIVIDEND YIELD FUND

The Fund's Australian investments contributed the lion share of its 2.8% return in March, with New Zealand dividend yielding shares remaining languid after a very strong run in the second half of 2020. This highlights the diversification benefit of the Fund's allocation to Australian shares. Of the 25% of the Fund invested there, the top performer for the month was Centuria Industrial REIT (Real Estate Investment Trust), which returned 14%. As the name suggests, Centuria invests in industrial property, which includes a wide variety of buildings: manufacturing sites, distribution centres, logistics warehouses, data centres and cold storage facilities. Generally, industrial property is not visited by large numbers of people (unlike shopping centres, offices or hotels), which has seen it less affected by the mobility restrictions introduced during the Covid-19 pandemic, and highlighted the asset class's defensive qualities. The accelerated move to online shopping during this time has also increased demand for well-located warehouse space. All this means that industrial property prices have been rising, which in turn has diluted the yield to be earned from these assets. Again we've seen the benefit of the Fund being able to invest in Australia, because yields have been particularly compressed in New Zealand, where the prospective cash dividend yield from shares in the very similar Property for Industry (another holding in the Fund) is only 2.9%. In contrast, Centuria Industrial offers a much healthier prospective yield of 5.2%, and we have been adjusting the Fund's exposure accordingly in recent months, with a positive impact on performance to date.

Target investment mix[1]



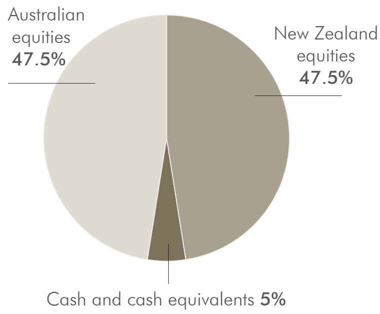
Performance

As at 31 March 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Dividend Yield Fund*	2.8%	-1.2%	33.9%	8.8%	9.2%	12.1%
Benchmark Index**	1.0%	-3.6%	38.3%	9.8%	8.8%	7.0%

CLARITY TRANS-TASMAN VALUE FUND

The Trans-Tasman Value Fund returned a pleasing 4.4% in March, ahead of its benchmark and again the best performing of Clarity's Australasian equity funds, helped by its approximately 50% exposure to Australian shares which continue to climb (ASX200 +2.7%) and also benefitting from a decline in the NZD:AUD exchange rate during the month. A key contributor in Australia was Aristocrat Leisure (+13%), one of the largest makers of electronic gaming machines in the world. Reopening casinos in the US and a fast-growing digital gaming division bode well for the company's financial performance this year. Financial administration company Computershare (+14%) was another strong riser in Australia, and towards the end of the month announced the $US800m acquisition of Wells Fargo Corporate Trust Services, a business which administers corporate bond issues. This looks like the perfect kind of acquisition for Computershare – a small, potentially unloved unit within a much larger organisation that will benefit from Computershare's management attention and technology expertise. Computershare has successfully completed many of these types of acquisitions in the past. A rights issue was launched to help finance the acquisition, and the Fund participated. In New Zealand, Tower (+10%) continued to perform strongly with a share broker issuing a favourable research report, and the RBNZ reducing the amount of extra capital it requires the company to hold against the possibility of further Christchurch earthquake claims. Elsewhere retirement village stocks Summerset (-5%) and Oceania Healthcare (-12%) gave up some recent gains following the government removing the tax deductibility of interest expenses for residential property investors, which is viewed as likely to cool the residential property market for some time.

Target investment mix[1]



Performance

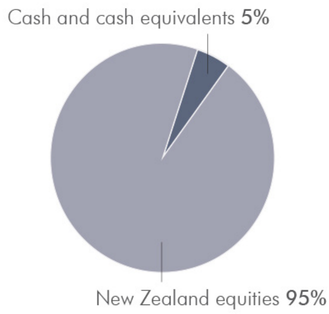
As at 31 March 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Trans-Tasman Value Fund*	4.4%	2.7%	37.1%	3.9%	6.8%	8.8%
Benchmark Index**	3.7%	1.6%	43.1%	13.3%	12.1%	5.7%

[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

Target investment mix[1]



Key contributors to the Fund's return of 2.8% in March were Fisher & Paykel Healthcare and Fletcher Building (both +10% during the month). F&P shares bounced after a period of weakness due to investors started to factor in the end of Covid-19 driven demand for its products. But F&P remains a very high-quality healthcare business with a promising growth outlook, and with the share price bottoming out it in March at 27% below its August 2020 peak, it was natural to see some interest coming back in to the name. It is also becoming clear that whilst the UK and the US are going well with their vaccine rollout and declining infection rates, other parts of the world, both developed and developing, are continuing to struggle, and F&P may benefit from elevated demand for a period of time yet. Elsewhere, Fletcher Building shares continue to go from strength to strength as construction and residential housing boom in New Zealand, and start to warm up in Australia. The shares remain reasonably valued, and attractive relative to Australian peers. We believe they could maintain their momentum for some time yet.

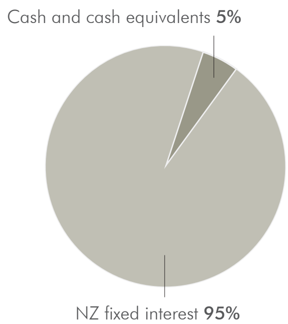
On the other side of the ledger we saw a very weak debut from meal kit company My Food Bag (-14%), whose NZX IPO was the biggest since 2014. My Food Bag is a profitable, cash generative, recurring revenue business with a strong brand and market position in a defensive sector. It offers a relatively attractive dividend yield, strong balance sheet and potential for 5-10% earnings growth. After analysing the company prospectus, speaking to management and various analysts, we decided to invest in the IPO. Nothing has fundamentally changed for the company since then and we continued to hold the position and expect it will come right over time.

Performance

As at 31 March 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception
Clarity New Zealand Equity Fund*	2.8%	-3.4%	25.7%	N/A	N/A	11.5%
Benchmark Index**	2.9%	-3.9%	28.9%	N/A	N/A	11.5%

CLARITY FIXED INCOME FUND

Target investment mix[1]



After an extremely volatile month for wholesale interest rates, with large moves seen across the yield curve, a late sell-off in rates (rise in bond prices) towards the end of the month caused the Fund to finish in positive territory, up 0.3%.

Looking closer at this month's volatility and using the 5-year swap rate as an example, it traded at a low of 0.93% and a high of 1.27%, a 34-basis point range. Initially, global interest rates were driven higher following the approval of President Biden's massive US fiscal stimulus package, prompting expectations of higher economic growth and potentially inflation. But later in the month New Zealand interest rates fell after the government's announcement of its new housing policy, one of the most significant changes to the residential property market in over thirty years. The changes are expected cool rising house prices and reduce the pressure on the Reserve Bank of New Zealand to increase interest rates. We also saw the RBNZ taper its purchases in its Large-Scale Asset Purchase programme, because Treasury is currently issuing fewer government bonds than expected.

Generally, as the economic outlook improves we are becoming confident to take a little more credit risk. As well as this we are also comfortable adding a bit of duration (time to maturity) after months of shortening. This saw the addition of two new bonds during the month: a Mercury 5-year bond with a 2.16% yield and a BBB+ credit rating, and a Transpower 5-year bond with a 1.52% yield and an AA credit rating. Despite the unprecedented challenges faced over the last year the Fund posted a pleasing 1-year return to March of 4.5%.

Performance

As at 31 March 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Fixed Income Fund*	0.3%	-0.8%	4.5%	4.0%	3.9%	4.6%
Benchmark Index**	0.0%	0.1%	0.3%	1.3%	1.6%	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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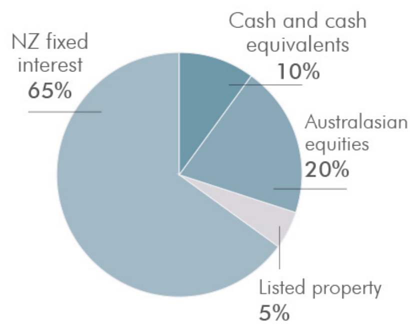
CLARITY DIVERSIFIED INCOME FUND

The Fund gained 1.3% in March, and is up 13.2% over the past year. The investment team continues to maintain an underweight position in bonds, instead favouring shares.

The underlying Clarity Dividend Yield Fund benefitted from investment in Australian companies with Centurial Industrial (+14%) and Dexus (+9%) performing well. Centuria Industrial invests in industrial property, which includes a wide variety of buildings: manufacturing sites, distribution centres, logistics warehouses, data centres and cold storage facilities. Dexus predominantly owns high quality office space. During the month the underlying Clarity Fixed Income Fund saw the addition of two new bonds as the portfolio manager looked to add duration and is becoming more confident taking a little more credit. The two purchases were a Mercury 5-year bond with a 2.16% yield and a BBB+ credit rating, and a Transpower 5-year bond with a 1.52% yield and an AA credit rating.

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

Target investment mix[1]



Performance

As at 31 March 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Income Fund*	1.3%	-1.0%	13.2%	5.6%	N/A	5.2%
Benchmark Index**	0.2%	0.4%	1.8%	2.8%	N/A	3.0%

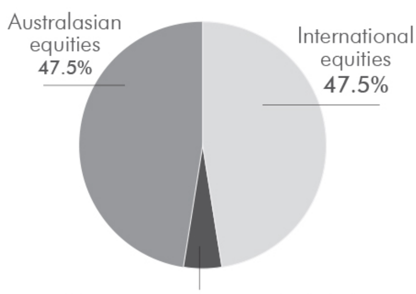
CLARITY DIVERSIFIED GROWTH FUND

The Fund returned 5.0% in March outpacing its benchmark by 0.6%. During the month shares performed well on supportive news of vaccine rollouts and governments slowly relaxing restrictions. The NZX 50 Gross Index and the ASX 200 Index both rose 2.7% while the MSCI World Index was even stronger with a return of 3.4%.

Key contributors to performance included Tilt Renewables (+23%) which is held within the underlying TAHITO Te Tai o Rehua (Trans-Tasman) Fund. It was announced that Tilt will be acquired for $7.80 through a Scheme of Arrangement with Powering Australia Renewables acquiring its Australian business and Mercury NZ acquiring the New Zealand business. The deal represents a 99% premium to Tilt's closing share price on of $3.92 per share on 4 December 2020, being the last trading day prior to Infratil's announcement of its strategic review.

At the beginning of the month the investment team decided to increase the allocation to the Clarity Global Shares Fund while reducing investment in the Clarity – Capital Group New Perspective Fund given the greater exposure to value and cyclical stocks in the Global Shares Fund.

Target investment mix[1]



Performance

As at 31 March 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Growth Fund*	5.0%	4.3%	39.4%	8.0%	N/A	8.2%
Benchmark Index**	4.4%	4.1%	41.7%	13.1%	N/A	12.0%

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