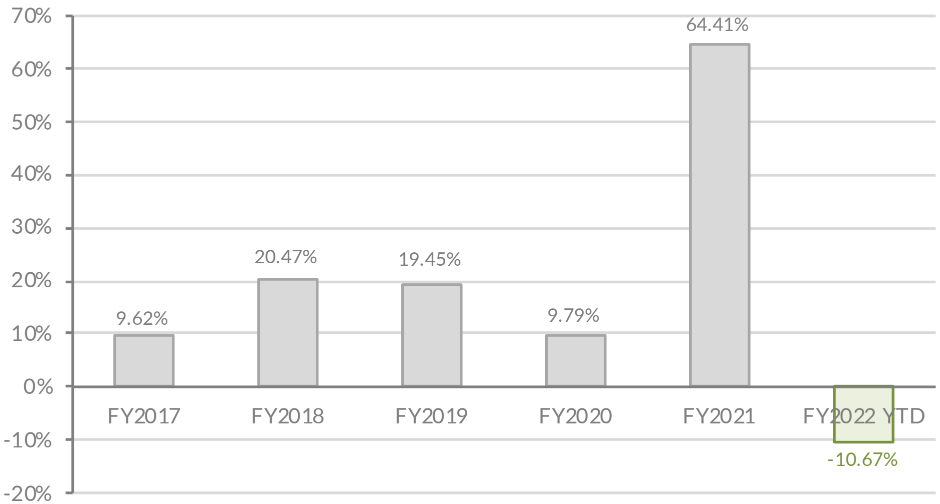
LIGHTHOUSE FUNDS

Lighthouse Global Equity Fund

Monthly factsheet for May 2021

As at 31 May 2021	1 month	6 months	1 year	2 years	3 years	5 years
Lighthouse Global Equity Fund, net returns, after fees but before tax	-9.96%	-3.14%	13.49%	31.92% pa	20.22% pa	19.64% pa
MSCI All Country World Index, net, in NZD	0.09%	11.97%	20.66%	15.72% pa	12.47% pa	12.51% pa

NET RETURNS BY FINANCIAL YEAR



CUMULATIVE NET RETURNS

FUND OVERVIEW

Objective:	To out-perform the MSCI All Country World Index (net, in NZD) by at least 2% pa
Approach:	Invests in international equities listed on the major United States exchanges

FUND FACTS

Base fee:	1.05% pa (including GST)
Performance fee:	30% of the Fund's returns above the MSCI All Country World Index (net in NZD) plus 2% pa, subject to a high water mark

Risk indicator:	1	2	3	4	5	6	7

This factsheet provides key information about the Lighthouse Global Equity Fund. It tells you how the fund has performed and it will help you to compare it with other investments. It is based on information that we believe to be accurate and reliable but we can't guarantee that this is the case. The returns information uses a blend of this fund, across its full history, and returns from a wholesale fund Lighthouse Funds manages that uses the identical strategy. Values that include returns from the wholesale fund are shown in lighter grey. Past performance does not guarantee future returns. For more information refer to the Product Disclosure Statement, the latest Quarterly Fund Update, or contact us at enquiries@lighthousefunds.nz

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LOOKING BACK OVER MAY 2021

May was a challenging month for the Fund, with the Fund falling nearly 10% in New Zealand dollars. The losses happened in the first half of May, with the beginning of a recovery in the second half of the month. But those late rises weren't near strong enough to give us a positive result in May. Stepping back to look beyond just this month, the Fund hit its most recent high in mid-February and then lost ground through to mid-May. We suspect the sudden drop at the beginning of May was the markets' final capitulation in a multi-month correction.

Meanwhile the Fund's benchmark index, the MSCI ACWI, was flat through May. We've had a few months in the past when the Fund has under-performed the MSCI ACWI to a similar extent (and also several where it's out-performed by a similar extent too) but it is rare - about once every two years. On average the Fund beats the MSCI ACWI by 0.65% each month, although there are very few "average" months.

There's both an immediate explanation for why the Fund fell in May, and also a more philosophical one.

The immediate explanation is that the pace of the economic rebound from Covid-19 lockdowns has sparked fears of inflation, which in turn has financial markets expecting central banks will have to raise interest rates in coming years. Higher interest rates tend to lead to lower share prices. And, supposedly, growth stocks are more sensitive to interest rate rises than are more conservative value-oriented stocks.

That certainly was the narrative at play in May, but we think it's a weak narrative. Firstly, although economists have been pushing that storyline we haven't seen the bond market react strongly to inflation concerns. Our experience has been that the bond market is better at picking inflation than economists are - largely because the bond traders have real money at stake. When the bond market moves then we'll believe the inflation concerns are real, but so far it hasn't moved much. Secondly, while it's true that share prices should fall as interest rates rise we don't think that growth stocks are materially more vulnerable to rising interest rates than, say, dividend paying stocks. The corporate finance doesn't point in that direction. We've made a note to write some insight pieces on what drives share prices, and we'll cover the role of interest rates in more depth there. But for now, without wanting to get too mathematical about it, the common sense is that if a company is growing profits at 15-20% pa then whether inflation is at either 1% pa or 3% pa shouldn't have anything like the effect on valuation that we saw in May.

The more philosophical explanation is that if you want to have returns that beat the market then you have to do something that's different to the market. But once you are doing something different then there will be periods of time when your different will perform worse than the market. At which point you need to have a clear-eyed assessment of whether the long-run strategy will deliver overall performance that beats the market.

We know from our investing history that our Fund will have occasional periods of under-performance, like we've seen in May. But we also know that overall it should out-perform its benchmark index by 1.5 times or so. If we try to avoid the short-term drawdowns then we will also at the same time neuter the out-performance. The drawdowns are the price of entry. Our conviction is that our investment approach will quickly recover from drawdowns (as the cumulative returns chart on the previous page shows) and still go on to beat the market. We still hold that view here at the end of May 2021.