



# OTHER MATERIAL INFORMATION RELATING TO THE CLARITY FUNDS

**27 JULY 2020**



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# 1. IMPORTANT INFORMATION

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This is an important document in relation to an investment in the Clarity Funds. It contains material information that is not contained in the Product Disclosure Statement (PDS) or other documents available on the Scheme Register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

Clarity Funds Management Limited is the Manager of the Clarity Funds and is referred to as “Clarity”, “Manager”, “us” or “we”, in this document. Any reference to “you” or “your” refers to you, or any other investor in the Scheme.

We refer in some places to things that we “generally”, “normally” or “currently” do. This describes our practice as at the date of this document only. We can review and change our practices without notice to you, so long as we comply with the requirements set out in the Trust Deed.

This document has been prepared to meet the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 and components of clause 52 of Schedule 4 of the Financial Markets Conduct Regulations 2014.

All legislation referred to in this Document can be viewed at [www.legislation.govt.nz](http://www.legislation.govt.nz).

Capitalised words that appear in this document have the same meaning as stated in the Clarity Funds Trust Deed dated 12 August 2019 (**Trust Deed**), unless they are otherwise defined.

## 2. MORE INFORMATION ON THE SCHEME AND THOSE INVOLVED

The Clarity Funds are governed by the Trust Deed and invested in accordance with the Statement of Investment Policy and Objectives dated 27 July 2020 (SIPO).

The Funds are established within a registered managed investment scheme under the Financial Markets Conduct Act 2013 (FMC Act), scheme number SCH10600 (Scheme). The operation of the Scheme is governed by the FMC Act. The FMC Act may be amended from time to time and any such amendment may have an impact on the Scheme.

The Scheme currently comprises eight investment funds (Clarity Funds or Funds), as detailed in the Clarity PDS:

Fund Name	Fund Establishment Date	Performance Inception Date
Fixed Income Fund	13 May 2014	11 July 2014
Dividend Yield Fund	29 October 2013	15 November 2013
New Zealand Equity Fund	20 September 2019	14 November 2019
Trans-Tasman Value Fund	1 November 2007	7 November 2007
Global Shares Fund	15 March 2017	25 April 2017
New Perspective Fund	20 September 2019	6 November 2019
Diversified Income Fund	15 March 2017	23 May 2017
Diversified Growth Fund	15 March 2017	9 May 2017

Each of the Clarity Funds is a separate and distinct trust fund with its separate assets and liabilities governed by the terms and conditions detailed in each Fund's Establishment Deed. All investments made for a Fund are held by the Supervisor, or its nominee, as the exclusive property of the relevant Fund and exclusively for the benefit of investors.

The process for investing in one or more Clarity Fund is set out in the PDS.

There is no maximum number or amount of units that may be issued in a Fund.

Subject to the terms of the Trust Deed, each unit in a Fund confers an equal interest in the Fund and is of equal value. Units do not confer on any investor any interest in any particular part of a Fund nor any other Fund. Investors have no right to participate in the management of the Clarity Funds.

We use best endeavours to ensure that the PDS and Register Entry for each Fund at all times complies with the terms of the Trust Deed, Financial Markets Legislation and any other applicable legislation.

You can review a copy of the Trust Deed, SIPO and PDS at any time by contacting us or electronically on the Scheme's register on [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

## 2. MORE INFORMATION ON THE SCHEME AND THOSE INVOLVED - CONTINUED

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### About The Manager

The Manager of the Clarity Funds is Clarity Funds Management Limited. We are responsible for:

- Offering the Funds;
- Issuing Units in each Fund;
- Managing and investing each Fund's investments; and
- Administering the Funds.

We have delegated some of these functions to other parties as described further in this document.

In exercising or performing any of our duties as Manager, we must:

- act honestly in our capacity as Manager of the Funds;
- act in the best interests of investors;
- treat investors equitably;
- not make use of information acquired through being the Manager to gain an improper advantage for ourselves or any other person or cause detriment to investors;
- exercise the care, diligence and skill that a prudent person engaged in the profession of a manager of a registered scheme would exercise in the same circumstances;
- carry out the function of Manager in accordance with the Trust Deed, each SIPO and all other 'issuer obligations'; and
- comply with the terms of the Management Agreement with the Supervisor.

Clarity is a registered financial services provider, FSP174204. You can find more information about us at [www.business.govt.nz/fsp](http://www.business.govt.nz/fsp).

The Financial Markets Authority (**FMA**) granted Clarity a licence under the FMC Act, effective 1 August 2016, as a Manager of a registered scheme (other than a restricted scheme). The licence is subject to standard licence conditions that apply to all other managers of managed investment schemes. Further information about this licence can be found on the FMA's website, [www.fma.govt.nz](http://www.fma.govt.nz).

Neither we, nor any of our directors and senior managers have, during the five years before the date of this document, been adjudged bankrupt or insolvent, convicted of any crime involving dishonesty, prohibited from acting as a director of a company, placed in statutory management or, in respect of us, placed in voluntary administration, liquidation or receivership.

### Directors and Senior Managers

#### Alan David Lee - Auckland

Alan is an Authorised Financial Adviser. He is a founding shareholder and director of JMIS Limited, the precursor to JMI. Alan became a shareholder and director of ISG in 2017.

Alan has been working in financial and investment markets since 1978 having held fund management roles with NZI Investment Services Limited in both New Zealand and Australia, subsequently becoming Investment Manager for NZI Investment Services Limited in New Zealand.

He has also developed a strong commercial background in general management across a wide range of industries. Alan was previously executive director of Mainzeal Group Limited and chief executive of Mair Astley Holdings Limited.

## 2. MORE INFORMATION ON THE SCHEME AND THOSE INVOLVED - CONTINUED

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### Andrew Martin Kelleher - Auckland

Andrew is an Authorised Financial Adviser. He joined JMIS Limited as a shareholder and director in 2008. Andrew also became a shareholder and director of ISG in 2017.

Andrew has worked in the financial markets for over 25 years. Andrew started his career in the financial sector starting as a money market trader for ASB Bank Treasury in 1987. By 2000 he held the position of Senior Manager - Risk. He assisted with the development of ASB Securities and the development of financial services to financial intermediaries. Andrew also had responsibility for the ASB Bank Private Portfolio Service (the ASB high net worth investment service).

In 2004 he pursued an independent career, consulting to the ASB Group and other financial organisations but returned to ASB Securities to act as Managing Principal and Managing Director in 2006.

### Andrew Wallace - Auckland

Andrew Wallace is a professional director and corporate advisory consultant, following an investment banking career of over 25 years. Andrew was appointed to the Clarity Board as an independent director on 27 July 2016.

As part of his investment banking career, Andrew has spent 15 years providing corporate finance advice to companies and government entities in areas of mergers, acquisitions and divestments. Sectors that Andrew has advised on during his career include funds management, dairy and agri related business and infrastructure.

Prior to working in the corporate advisory industry in New Zealand, Andrew spent 10 years working for Bankers Trust in New Zealand, London and New York in the treasury and global markets trading areas managing foreign exchange, interest rate and equities risk for the bank.

### Mel Firmin - Auckland

Mel is a professional consultant and investor involved in a broad range of clients and industries. He is skilled in business strategy and implementation, client relationships, governance, operational strategy and risk and compliance. Mel was appointed to the Clarity Board as an independent director in April 2019 and subsequently assumed the Chairperson role for the Audit, Risk and Compliance Committee.

Mel has over 25 years of experience in the financial services industry holding many senior positions. Mel was previously a Managing Director for Devon Funds Management and Chief Operating Officer for Brook Asset Management. Prior to this Mel was responsible for compliance and operations at Arcus Investment Management and held a senior management role at New Zealand Guardian Trust.

### Josh Wilson - Auckland

Josh Wilson is the Chief Investment Officer of Clarity Funds Management Limited, and Portfolio Manager of the Dividend Yield Fund, Trans-Tasman Value Fund and New Zealand Equity Fund. Josh joined Clarity in 2019.

He began his career in financial markets in 2004 as an investment analyst at AMP Capital in Wellington. From 2007 to 2011 he worked as an equity analyst in London for Collins Stewart, a stock broker. From 2011 until he joined Clarity, Josh worked for NZ Funds Management as a portfolio manager.

Josh is a CFA charterholder and also holds a Bachelor of Commerce from the University of Otago.

Our directors may change from time to time, without notice. The list of directors can be found at [www.companiesoffice.govt.nz](http://www.companiesoffice.govt.nz).

Additional information about the Manager and its directors and senior managers can be found on our website, [www.clarityfunds.co.nz](http://www.clarityfunds.co.nz).

## 2. MORE INFORMATION ON THE SCHEME AND THOSE INVOLVED - CONTINUED

### About The Supervisor

The New Zealand Guardian Trust Company Limited (**Guardian Trust**) is the Supervisor of the Clarity Scheme.

On 17 March 2018, the Supervisor was granted a licence pursuant to the Financial Markets Supervisors Act 2011. The licence is subject to reporting conditions and expires on 16 March 2023. Further information on Guardian Trust and its role as the Clarity Scheme Supervisor can be found on <https://www.guardiantrust.co.nz/services/managed-investment-schemes/>.

As Supervisor, Guardian Trust is responsible for:

- Acting on behalf of investors in relation to matters connected to the Clarity Scheme including any contravention of our issuer obligations.
- Supervising the performance of our functions as Manager of each Fund, our compliance with our Manager obligations, our financial position and the financial position of the Fund to ascertain that it is adequate.
- Custody of the Scheme's assets, or ensuring that investments are held, in accordance with the FMC Act.
- Performing or exercising any other functions, powers, and duties conferred or imposed on it as a Supervisor under the FMC Act, the Financial Markets Supervisors Act 2011, and the Trust Deed.

Guardian Trust has nominated BNP Paribas Fund Services Australasia Pty Limited (**BNP Paribas**) as the custodian to hold the Scheme's assets. Guardian Trust retains primary responsibility for the custody of the Scheme's assets.

As required by the FMC Act, the Supervisor and Custodian are independent of us.

### Who else is involved?

In addition to those set out in the PDS, below are the key persons involved in the Scheme.

Name	Role	Description
PwC Auckland	Auditor	<p>PwC Auckland are the auditors of the Clarity Funds. PwC is a registered audit firm under the Auditor Regulation Act 2011. Additional details can be found at <a href="http://www.business.govt.nz/companies/auditors-register">www.business.govt.nz/companies/auditors-register</a>.</p> <p>Neither PwC Auckland, nor any employee of PwC Auckland is a director, officer or employee of the Manager or the Supervisor.</p>
DLA Piper New Zealand	Solicitors	DLA Piper New Zealand are the solicitors for the Manager.



## 3. MORE INFORMATION ABOUT HOW THE FUNDS WORK

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### Asset Valuations

We will determine the market value of each investment and the Net Asset Value (**NAV**) of a Fund on a consistently applied basis approved by the Supervisor and in accordance with the provisions of the Trust Deed.

The current value of each Fund is calculated each business day.

The value is calculated by adding:

- the market value of the investments;<sup>1</sup> and
- income accruing from the investments; and

by deducting:

- Liabilities determined by the us, from time to time, in agreement with the Supervisor; and
- any costs, charges, or other amounts incurred or accrued.

We may make an adjustment or provisions for any amounts which in our opinion should be included or excluded to make an equitable and reasonable determination of NAV.

We may, with the approval of the Supervisor make special determinations of the NAV of a Fund if we consider that special circumstances have arisen to warrant such a determination.

Determinations of NAV take effect from the time they are made and remain in force until the next NAV determination has been made by us.

### Restrictions on Withdrawals

Where there is a material adverse change in the position (financial, economic or otherwise) of either a Fund, or the Manager or the Supervisor, the Manager may defer or suspend the withdrawal of all or any units in a Fund. Where withdrawal is deferred, the Manager must notify the Supervisor and where withdrawal is suspended, the Manager must:

- Notify the Supervisor of our intention to suspend withdrawal requests, sending a suspension notice to all investors;
- Where we wish to suspend withdrawal requests for a period of more than two weeks we must obtain the Supervisor's prior agreement;
- There is no limit set to the length of time such restrictions can be in place.

While restrictions are allowable under the terms of the Trust Deed, Clarity does not currently place any restrictions on withdrawals and does not intend to, except where in its opinion a material circumstance arises.

### Borrowing

The Supervisor has the power to arrange for moneys to be borrowed from any person, including investors, and enter into the agreements necessary for that purpose. In certain circumstances we may direct the Supervisor to borrow money on behalf of a Fund.

The aggregate of the principal moneys borrowed or secured against the assets of a Fund together with any moneys proposed to be borrowed must not exceed the amount set out in the relevant Fund Establishment Deed.

As at the date of this document no borrowing has ever occurred for any of the Funds. Our policy is that borrowing is not permitted, however this may change in the future, in consultation with the Supervisor.

### Closure of a Fund

We may resolve to close or wind up a Fund at any time. Upon termination of a Fund the Supervisor must sell and realise the relevant Fund assets as soon as reasonably practicable, pay all liabilities, fees, costs and other expenses and distribute the balance amongst unitholders in proportion of the units held. The claims of all investors will rank equally.

The Supervisor must on a wind up of a Fund comply with the requirements of the FMC Act.

## 4. LIMITATION OF SUPERVISOR'S AND MANAGER'S LIABILITIES

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Subject to proper performance of their duties under the FMC Act, the Supervisor and the Manager are entitled to be indemnified against any expense or liability incurred in performing any of their respective duties or exercising any of the functions in relation to the relevant Fund under the provisions of the Trust Deed. The indemnity does not extend to where any such expense or liability is caused by the failure of the Supervisor or Manager to show the care and diligence required by relevant legislation.

Further information in relation to the Supervisor's and the Manager's liabilities is set out in the Trust Deed.

## 5. INVESTOR LIABILITY

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No investor is liable personally for any debt or liability (contingent or otherwise) of a Fund or liable to indemnify the Manager for debts or liabilities of the Fund.

Each investor indemnifies the Supervisor and us for tax paid or payable to an investor by a Fund.

## 6. CAN THE INVESTMENT BE ALTERED?

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Together with the Supervisor we can, in certain circumstances, make an alteration or addition to the provisions of the Trust Deed and any Establishment Deed. These circumstances include when amendments are minor, non-prejudicial or required for compliance with relevant legislation. All changes are subject to the requirements of the FMC Act.

We can change the investment objectives and policies as set out in the SIPO. Before making any change we will consider investors' best interests and consult with our Supervisor.

Notice of any material change to the Trust Deed or SIPO will be sent to investors in advance of the change.

We may alter investment minimums at any time, accept amounts less than the required minimums and may at any time determine that no further Units will be issued at our discretion.

We, with the approval of the Supervisor, may impose new fees to those stated in the PDS. Three months' written notice must be given to investors.

Payment of withdrawal requests may be suspended or deferred, as detailed in this document and further in the Trust Deed.

We may resolve to wind up the Fund. In that case, all assets of the Fund will be realised and after the deduction of liabilities permitted in the Trust Deed, each investor will be paid out their share of the Fund proportionate to the number of Units held by them in the Fund.

We may take any action we deem appropriate to ensure the Fund remains eligible to be a PIE. This includes our ability to compulsorily withdraw an investor's Units and pay the proceeds to that investor (and Inland Revenue, as appropriate) if that investor's PIE tax liability in the Fund exceeds 50% of the value of Units held by that investor in the Fund.

If any investor's holding in any of the Clarity Funds falls below the minimum investment stated in the PDS, we may redeem the investment on your behalf, after giving you one month's notice in writing.

## 7. MATERIAL CONTRACTS

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The following is a summary of the contracts that we consider to be material in relation to the operation of the Clarity Funds.

### Trust Deed

The Funds are governed by the Trust Deed for the Clarity Funds dated 12 August 2019. Each of the Clarity Funds is a separate and distinct trust fund governed by its terms and conditions detailed in each Fund's Establishment Deed. The Trust Deed is a contract between us and the Supervisor for the benefit of investors. The Trust Deed may be amended from time to time.

A copy of the Trust and Establishment Deeds are available on the Scheme's Register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). The Trust Deed replaces previous trust deeds that governed the Funds.

### Management Agreement

We have entered into a Service Level Agreement with our sister company, JMI. Under this agreement, we have delegated investment management functions for the Funds to them. They are required to perform the functions to the standards required by the agreement and by legislation and manage the Funds in accordance with the requirements of the SIPO.

A Management Agreement between us and the Supervisor dated 1 April 2018 (as amended from time to time) sets out the arrangements between us and the Supervisor in relation to certain operational matters relating to the Scheme and the funds. The Management Agreement specifies the reporting and information to be provided by us to the Supervisor and the requirements for record keeping. Nothing in the Management Agreement limits or alters the powers of the Supervisor or our duties under the Trust Deed and applicable law.

### Administration Agreement

We have entered into an agreement with MMc Limited (**MMc**) with respect to a range of administrative services required for Fund operations. This includes delegation of unit pricing and fund accounting functions to MMc.

We have also entered into a Service Level Agreement with our parent, ISG. Under this agreement, we have delegated certain middle and back office functions that enable Clarity to meet its obligations as Manager of the Funds. These functions are operationally focused including accounting, legal support, IT, marketing and HR.

Nothing in either the Management or Administration Agreements limits or alters our duties under the Trust Deed, our MIS Manager Licence and applicable law.

### Registry Services Agreement

We have entered into an agreement with MMc for the provision of registry services for the Clarity Funds. These services include the keeping and maintaining of an up-to-date register of unitholders for each Fund and responsibilities of a PIE Investor Proxy (**PIP**) as set out in the Taxation (Savings Investment and Miscellaneous Provisions) Act 2006.

### Investment Management Agreement

We have entered into an investment management agreement with MFS Australia. Under this agreement, we have delegated investment management functions for the Clarity Global Shares Funds to them. They are required to perform the functions to the standards required by the agreement and by legislation and manage the Fund in accordance with the requirements of the SIPO.

### Distribution Agreement

We have entered into a Distribution Agreement with Capital International Management Sarl in respect of the Clarity - Capital Group New Perspective Fund<sup>1</sup>. Under this agreement we have been appointed as a distributor in New Zealand on behalf of Capital Group. The agreement includes terms and conditions which are relevant to the types of assets held by the Fund, and the Fund's investment objectives.

1. Capital Group and Capital Group New Perspective are trademarks of The Capital Group Companies, Inc.

## 8. CONFLICTS OF INTEREST

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Our directors, employees and other associated persons may choose to invest in the Clarity Funds.

Clarity has in place a Conflicts of Interest Policy to manage potential or actual conflicts of interest in a way that is fair to investors. This policy provides the process to identify, declare and monitor a potential conflict of interest.

The FMC Act imposes statutory duties on us as the Manager of the Funds to manage conflicts of interest:

- We must in performing any duties or exercising any powers, exercise the care, diligence and skill that a prudent person engaged in that profession would exercise in the circumstances; act honestly in acting as a manager; act in the best interests of investors; and treat investors equitably.
- Where we delegate out some or all of our functions as manager to other parties we must ensure that those functions are performed in the same manner, and subject to the same duties and restrictions, as if we were performing them directly. We must also monitor the performance of those functions.

We have built these statutory controls into our internal compliance processes and procedures.

We will not enter into transactions with related parties who may benefit from those arrangements, except as agreed with our Supervisor and as permitted under the provisions of the FMC Act.

## 9. FURTHER INFORMATION ABOUT FEES AND EXPENSES

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The total annual fund charges payable by an investor are detailed in the PDS.

We and the Supervisor may also recover expenses from each Fund. Expenses chargeable to a Fund include brokerage, accounting fees, legal fees, valuation fees, audit fees, Supervisory fees, FMA levies and any other costs incurred by us in administering a Fund. We have assumed that these fees and costs will not materially alter from year to year.

The cap on management and administration charges does not include any extraordinary expenses as permitted by the Trust Deed.

Charges and expenses are deducted from the applicable Fund, and reflected in that Fund's unit price.

Actual fund charges for the previous 12 months will be available in the latest Fund Update.

We do not currently impose, nor intend to introduce, any performance fees for any of the Clarity Funds. Under the terms of the Trust Deed we may do so. If Clarity invests in other funds, those funds may charge fees, including performance fees. These fees are included in the total annual fund charges in the PDS.

We may agree with our Supervisor to vary or introduce new fees at any time, subject to the provisions set out in the Trust Deed.

All fees and expenses are stated on a GST exclusive basis. Further information on GST can be found on the IRD website: [www.ird.govt.nz](http://www.ird.govt.nz)

Details of any Manager, Supervisor or other fees deducted from the Fund will be included in the annual financial statements for the Fund.

### Buy/Sell Spread

Generally, Clarity does not apply buy/sell spreads on entry and exit to the Funds. However, there are times, for example in stressed market conditions, when trading costs may materially increase due to investors transacting in the Fund. To achieve fair treatment of all unitholders, we may determine in these circumstances that it is more appropriate to have the trading costs borne by those transacting investors, not other investors in the Fund. If we reach this view, we will then begin to apply spreads to whichever of the Funds are being affected by these stressed market conditions.

## 9. FURTHER INFORMATION ABOUT FEES AND EXPENSES - CONTINUED

The actual spread applied will reflect the estimated trading expenses incurred by the Fund in carrying out the market transactions to meet the unitholder application or redemption requests. The buy spread will be added to the unit price on entry to the Fund, and the sell spread will be deducted from the unit price on exit from the Fund. The proceeds of the buy/sell spreads will be retained within the Fund(s) and are not fees paid to Clarity or any investment managers.

When applying spreads, Clarity will determine buy spreads and sell spreads separately to ensure that they reflect trading costs incurred due to the relevant unitholder action (application or redemption).

As at the date of this document, there are no spreads applied to any of the Clarity funds. However, Clarity has the discretion to apply spreads without notice if we consider this is warranted by market conditions. For more information on current buy/sell spreads, contact us at [info@clarityfunds.co.nz](mailto:info@clarityfunds.co.nz) or **0800 990 055** or refer to [www.clarityfunds.co.nz](http://www.clarityfunds.co.nz).

In accordance with the relevant establishment deeds, Clarity is permitted to apply spreads up to the following levels, as percentages of the relevant Net Asset Values per unit:

Fund Name	Buy Spread	Sell Spread
Fixed Income Fund	Any amount	Any amount
Dividend Yield Fund	0.5%	0.5%
New Zealand Equity Fund	0.5%	0.5%
Trans-Tasman Value Fund	0.5%	0.5%
Global Shares Fund	0.5%	0.5%
New Perspective Fund	0.5%	0.5%
Diversified Income Fund	0.25%	0.25%
Diversified Growth Fund	0.25%	0.25%

\* There is no dollar value cap but this must reflect the estimated trading expenses incurred by the Fund.

### Example of how fees apply to an investor

Sarah invests \$10,000 in the Dividend Yield Fund. The \$10,000 is invested in shares, generating transaction costs of \$50.

She is charged buy spread of \$50 (0.5% of \$10,000) to recoup the transaction costs incurred.

This brings the starting value of her investment to \$9,950.

She is also charged management and administration fees, which work out to about \$99.50 (1% of \$9,950). These fees might be more or less if her account balance has increased or decreased over the year.

#### Estimated total fees for the first year:

\* Individual action fees: \$50

\* Fund charges: \$99.50 plus GST

The \$50 is retained by the Dividend Yield Fund and is not paid to Clarity Funds Management Limited.

See the latest fund update for an example of the actual returns and fees investors were charged over the past year.

This example applies only to the Dividend Yield Fund. If you are considering investing in other funds or investment options in the scheme, this example may not be representative of the actual fees you may be charged.

## 10. WHAT TAXES WILL YOU PAY?

This section briefly summarises the taxation regime as it applies to the Clarity Funds as at the date of this document. It is intended as a general guide only. All investors have different taxation positions and tax law changes frequently which may impact each investor differently. You should always seek independent professional taxation advice prior to investing.

### Portfolio Investment Entities

Clarity Funds are registered multi-rate Portfolio Investment Entities (PIEs). This means that all taxable income, losses and tax credits related to a Fund's investments must be attributed to you in proportion to your interest in a Fund. The income attributed to you will be taxed at your Prescribed Investor Rate (PIR) of either 0%, 10.5%, 17.5% or 28%. To determine your PIR, go to <https://www.ird.govt.nz/roles/portfolio-investment-entities/find-my-prescribed-investor-rate>. If you are unsure of your PIR, we recommend you seek professional advice or contact the Inland Revenue Department (IRD).

It is your responsibility to tell us your PIR when you invest or when your PIR changes. If you do not tell us, a default rate of 28% may be applied. If the advised PIR is lower than the correct PIR, you will need to complete a personal income tax return and pay any tax shortfall, interest and penalties. A tax credit can be claimed for any PIE tax that has already been paid to the IRD by the Fund on your behalf, when filing your personal income tax return.

For tax years ending on or before 31 March 2020, if your default rate or the advised PIR is higher than the correct PIR, you will not get a refund of any overpaid tax. From 1 April 2020, if you were eligible to elect a lower PIR or notified a higher PIR in error, you may be eligible for a refund of the excess tax paid. Where the correct PIR has been used, no further tax is payable to the IRD on the PIE income.

The IRD can instruct us to apply a different PIR to the one notified by you if they believe it is incorrect. If this occurs, we must begin to use that rate as soon as reasonably practicable. If you disagree with this rate, you can provide us with a different PIR but you must also contact the IRD to resolve the difference.

To help us comply with tax requirements, you must also advise us of your IRD number, contact details and tax residency information. Where the Fund investment is jointly owned by you and other investors, the same information is also required for all joint investors. If you do not provide this information within six weeks, we may suspend your withdrawals and/or terminate your investment with the balance of your investment being paid out to you after accounting for tax. Where we reasonably determine that the continued holding of units by you may contribute to a Fund ceasing to be eligible to be a PIE, we may require you to give, or deem you to have given a redemption notice in respect of such holding.

We arrange for all taxes that apply to your investment account to be paid or refunded by cancelling or issuing units to you. This is done by redeeming or issuing units in your investment account either at the end of the tax year (following 31 March), or earlier if you withdraw, transfer or switch all of your investment from a fund.

### Individuals

Individual investors who are New Zealand tax residents will have a PIR of either 10.5%, 17.5% or 28%.

To qualify for the 10.5% or the 17.5% PIR, you must provide us with a valid IRD number and meet the following criteria in either of the preceding two tax years (generally, a tax year is the 12-month period beginning 1 April and ending 31 March):

PIRs	New Zealand tax resident individuals who are eligible
10.5%	New Zealand tax residents who have in either of the two preceding income tax years before the current tax year earned: <ul style="list-style-type: none"><li>\$14,000 or less in taxable income (excluding attributed PIE income); and have also earned</li><li>\$48,000 or less in total taxable income and attributed PIE income.</li></ul>
17.5%	New Zealand tax residents who do not qualify for the 10.5% rate and have in either of the two preceding income years before the current tax year earned: <ul style="list-style-type: none"><li>\$48,000 or less in taxable income (excluding attributed PIE income); and have also earned</li><li>\$70,000 or less in total taxable income and attributed PIE income.</li></ul>
28%	New Zealand tax residents who do not qualify for the 10.5% or 17.5% rates or who do not notify a PIR.

## 10. WHAT TAXES WILL YOU PAY? - CONTINUED

If you are investing jointly with another person, you must provide both of your IRD numbers and PIRs, or the default rate of 28% will apply. Where the PIRs are not at the same rate, tax will be deducted at the higher PIR with PIE income evenly attributed to each joint investor.

### Trustees and Trusts

PIRs	Trustees <sup>1</sup> who are eligible
0%	New Zealand tax resident trustees and all trustees of charitable trusts.
10.5%	New Zealand tax resident trustees of testamentary trusts who notify this rate.
17.5% or 28%	New Zealand tax resident trustees who notify this rate.
28%	Non-New Zealand tax resident trustees.

If you have a 0% PIR you will be required to include your PIE income (or loss) in your tax return and you will be liable for the income tax on the PIE income attributed to you.

### Companies

PIRS	Companies who are eligible
0%	New Zealand tax resident companies.
28%	Non-New Zealand tax resident companies.

If you have a 0% PIR you will be required to include your PIE income (or loss) in your tax return and you will be liable for the income tax on the PIE income attributed to you.

### Foreign Residents

If you are not a New Zealand tax resident your allocated income will be taxed at 28%. We will account to Inland Revenue directly for tax on a non-resident investor's allocated income.

### Taxation of Share Investments

As the Fund is a PIE, any capital gains made by a Fund in respect of shares in New Zealand resident companies and certain Australian resident listed companies will be excluded from the calculation of taxable income. Dividends received in relation to these shares will be taxable.

Shares in Australian resident companies that do not meet the criteria exclusion from the calculation of taxable income are generally not held by the Funds. If such shares are held, they will be taxed pursuant to the fair dividend rate (**FDR**) calculation method. Under FDR, the Fund will be deemed to have derived income equal to 5% of the opening market value of the relevant shares. Any dividends or other distributions flowing from the relevant shares will not be separately taxed in New Zealand under FDR.

Any losses in respect of holdings in the relevant shares are not deductible to the Fund for tax purposes.

Other income of the Fund will be subject to the relevant normal tax rules. Tax may be imposed in overseas jurisdictions in relation to overseas investments (although this may give rise to a tax credit in New Zealand). Fees charged by the Fund for the ongoing management and administration of your investment will be treated as tax deductible expenditure. These fees will be deducted from your PIE income to calculate the tax payable and will be detailed on your annual tax statement.

1. in this table, excluding trustees of unit trusts or charities

## 11. ADDITIONAL INFORMATION ABOUT RISKS

All investments carry some level of risk. The main risks faced by you as an investor is that you may not receive the returns you expect, that the capital value of your investments may end up less than you originally invested, or that you may be unable to withdraw your money when you need it. In any event, no investor will be required to pay more money than the amount they invest into a Fund.

No person, including the Supervisor or the Manager or their respective directors and shareholders guarantees the performance of a Fund, any particular rate of return, or the return of an investor's capital. An investor's investment is not secured against any assets.

The risks set out below are supplemental to the general risks disclosed in the PDS. We describe what steps we take to mitigate these risks (where possible). There may be other risks that arise from time-to-time which are not included, therefore we recommend that you seek professional advice before investing in any of the Clarity Funds to understand what risks are associated with this type of investment, especially in relation to your personal circumstances.

Risk	Likelihood of Impact	Magnitude of Impact
<b>General Risks</b>		
<b>Tax risk</b> Changes in taxation rates and tax rules may materially impact your investment returns. The taxation assumptions used are based on existing New Zealand tax legislation. You should consult your tax adviser before investing in the Fund.	Low	Low
<b>Operational Risks</b>		
<b>Operational risk</b> This is the risk resulting from the failure of processes, systems and people or external events. This can include business systems or process failures; human error or failure; fraud; data integrity risk; security risk and non-compliance with legal and regulatory obligations. We have established processes to mitigate these risks, where possible.	Medium / Low	Low
<b>Service provider risk</b> If any parties involved in the operation of the Fund (including the Custodian and Administration Manager) fail to perform their obligations, there is the risk that this could adversely affect investors.	Low	Medium
<b>Investment manager risk</b> This risk is related to the key professionals involved in the Funds whose departure could impact its performance. The Manager will only appoint investment managers who have taken appropriate steps to address key person risk. This reduces the potential effect on your investment if one key professional leaves the investment manager.	Medium / Low	Medium / Low



## 12. FINANCIAL STATEMENTS AND AUDITOR'S REPORT

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Clarity is responsible for preparing the Financial Statements in respect of the Funds at the end of each financial year. The Funds all have 31 March balance dates. The Funds' financial statements for the most recent accounting period will be uploaded to the Scheme Register by 31 July that year.

The Funds' financial statements are audited by a qualified auditor, currently PwC Auckland. The auditor's audit report on the financial statements will accompany the financial statements uploaded to the Scheme Register each year. The auditor's report on the most recent financial statements was not qualified in any respect.

We provide a copy of the financial statements to investors.

## 13. INFORMATION ON MARKET INDICES

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The Funds' returns are measured against appropriate market indices as set out in the SIPO and the PDS. The use of market indices can assist investors to compare a Fund's returns.

More information about these market indices can be found at the following web pages:

- S&P/NZX Bank Bills 90-Day Index: <https://us.spindices.com/indices/fixed-income/sp-nzx-bank-bills-90-day-index>
- S&P/NZX 50 High Dividend Index: <https://us.spindices.com/indices/strategy/sp-nzx-50-high-dividend-index>
- S&P/NZX 50 Index: <https://us.spindices.com/indices/equity/sp-nzx-50-index>
- S&P/NZX 50 Portfolio Index: <https://us.spindices.com/indices/equity/sp-nzx-50-portfolio-index>
- S&P/ASX200 Accumulation Index: <https://us.spindices.com/indices/equity/sp-asx-200>
- MSCI All Country World ex-Tobacco Index: <https://www.msci.com/msci-ex-tobacco-involvement-indexes>
- MSCI All Country World Index: <https://www.msci.com/acwi>

All the equity indices used in our benchmarks assume that all dividends are reinvested and so measure both capital appreciation and dividend income. The New Zealand indices also include imputation credits in the return calculation.

The indices used may be replaced from time to time, in consultation with our Supervisor and in accordance with the FMC Act, without notice to investors.

## 14. NO GUARANTEE

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None of the Manager, the Supervisor, their respective directors or any other person guarantees any particular return nor the repayment of your investment in a Clarity Fund.



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