



# STATEMENT OF INVESTMENT POLICY AND OBJECTIVES FOR THE CLARITY FUNDS

**EFFECTIVE FROM 25 OCTOBER 2019**



# CONTENTS

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DESCRIPTION OF THE MANAGED INVESTMENT SCHEME .....	4
INVESTMENT PHILOSOPHY .....	5
INVESTMENT STRATEGY AND OBJECTIVES.....	6
CLARITY FIXED INCOME FUND .....	6
CLARITY DIVIDEND YIELD FUND.....	8
CLARITY NEW ZEALAND EQUITY FUND.....	10
CLARITY TRANS-TASMAN VALUE FUND .....	11
CLARITY GLOBAL SHARES FUND .....	12
CLARITY - CAPITAL GROUP NEW PERSPECTIVE FUND .....	14
CLARITY DIVERSIFIED INCOME FUND.....	16
CLARITY DIVERSIFIED GROWTH FUND.....	17
INVESTMENT POLICIES AND PROCESSES .....	18
INVESTMENT STRATEGY REVIEW.....	18
TACTICAL ASSET ALLOCATION AND REBALANCING .....	18
EXTERNAL INVESTMENT MANAGERS AND ADVISERS .....	18
JMI INVESTMENT MANAGEMENT APPROACH .....	18
EXTERNAL INVESTMENT MANAGER SELECTION AND MONITORING .....	19
CURRENCY MANAGEMENT (HEDGING) .....	20
LIQUIDITY AND CASH FLOW MANAGEMENT .....	21
MARKET RISK MANAGEMENT .....	21
TRADE ALLOCATION AND EXECUTION .....	21
SETTLEMENT RISK MANAGEMENT.....	21
PRICING AND VALUATION .....	22
VOTING POLICY .....	22
CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS .....	22
BORROWING .....	22
INVESTMENT PERFORMANCE MONITORING .....	23
REVIEW OF SIPO .....	23

## DESCRIPTION OF THE MANAGED INVESTMENT SCHEME

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Clarity Funds Management Limited (referred to as **Clarity**, the **Manager**, **us**, **our** or **we**) is the licensed manager of the managed investment scheme (**Scheme**). This statement of investment policy and objectives (**SIPO**) sets out the philosophy, strategies, objectives and management frameworks of the Scheme's eight investment funds (**Clarity Funds** or **Funds**):

- Clarity **Fixed Income Fund**
- Clarity **Dividend Yield Fund**
- Clarity **New Zealand Equity Fund**
- Clarity **Trans-Tasman Value Fund**
- Clarity **Global Shares Fund**
- Clarity - Capital Group **New Perspective Fund**<sup>1</sup>
- Clarity **Diversified Income Fund**
- Clarity **Diversified Growth Fund**

As a managed investment scheme, your money will be pooled with other investors' money and invested in various investments as described in this document. The Fund is divided into Units and you invest by buying Units. The value of Units fluctuates according to the changing value of the assets in which the Fund has invested.

Each of the Funds is a Portfolio Investment Entity (**PIE**).

Clarity was incorporated in New Zealand under the Companies Act 1993 on 13 September 2007. Clarity is a boutique funds management business committed to helping our clients achieve their investment objectives.

Clarity's parent company is Investment Services Group Limited (**ISG**). ISG provides operational functions on an outsource basis to its subsidiaries, including Clarity.

Clarity outsources some of the investment management functions to its sister company JMI Wealth Limited (**JMI**). JMI is an investment adviser to high net worth individuals, and family and charitable trusts.

Clarity undertakes the management of the Australasian equity investments, currency hedging and strategic asset allocation. Clarity is supported by the resources of JMI in these activities, and JMI is also responsible for the management of cash and fixed interest investments.

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

The effective date for this SIPO is 25 October 2019, replacing the SIPO dated 3 April 2018. We may amend the investment policy and objectives for the Scheme from time to time, in consultation with the Supervisor. We will notify you of any significant changes to the SIPO and when they will take effect. The most current version is available on the scheme's register at <https://disclose-register.companiesoffice.govt.nz/> or at [www.clarityfunds.co.nz](http://www.clarityfunds.co.nz).

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

# INVESTMENT PHILOSOPHY

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Our clients' interests are our first priority. We are proud of our company and undertake to provide quality investment decisions and services.

Clarity's investment philosophy is based on the following principles;

1. We take a long term view.
2. We are value investors. We actively seek investments that analysis has determined are fairly priced or under-priced.
3. We are conservative investors. We focus as much on conserving capital as on growing it.
4. We focus on buying high quality investments and generally hold them for long term capital growth and income.
5. We have a disciplined approach to risk management.
6. We strongly believe in diversification of capital.
7. Markets frequently follow trends. If we believe the current investment trend is not in our clients' best interest, we are happy to be different and to sit on the sidelines.

Clarity believes in an active investment management approach to generate alpha (return over the benchmark index). We employ a combination of qualitative, macro-economic and fundamental research approaches when selecting New Zealand and Australian securities for inclusion in the fund portfolios.

In selecting equity securities, Clarity generally has a value bias. In other words, shares are selected on a basis to favour those securities with higher earnings and dividend yields. As a result, the Clarity funds tend to have lower volatility resulting from a focus on yield and value, but still with some potential for capital growth. The Clarity funds can be characterized as a blend of value and growth, but towards the value end of the spectrum. In particular, our strategies:

- do not necessarily seek to closely adhere to the benchmark index weightings;
- focus on absolute risk; and
- provide full transparency.

In managing the fixed interest portfolio our primary concern is the protection of capital. Internationally recognised credit ratings are used to assist in the construction of the portfolio. Investment grade securities are preferred although from time to time, unrated securities will be considered for a small part of the portfolio. Consideration is also given to the complexity of the structure of the instrument, with preference given to less complicated, vanilla instruments, the maturity of the instrument and also secondary market liquidity.

We do not use leverage in our Funds and we do not short sell securities, however underlying funds in which the fund invests may utilise leverage or short sell securities.

We believe in using investment experts to advise or manage our Funds and for some asset classes we may use external experts.

# INVESTMENT STRATEGY AND OBJECTIVES

The investment objectives for each of the Clarity Funds are set out below including target asset allocation and ranges. Higher levels of cash may be held in the event of large contributions or withdrawals. In such an event should the cash and cash equivalents exceed the range limits below it will not be treated as a SIPO limit breach:

## Clarity Fixed Income Fund

**Objective:** The Fund aims to provide income in excess of bank deposits and capital stability over the medium term (three years or longer) by investing mainly in New Zealand fixed interest securities. We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund will primarily invest in a well-diversified portfolio of New Zealand fixed interest securities but may also invest in international fixed interest securities and exchange traded funds.

**Benchmark:** S&P/NZX Bank Bills 90-Day Index.

The objective of the Fund is to exceed the return from bank term deposits. This is why we use the S&P/NZX Bank Bills 90-day Index rather than a corporate bond index for comparison purposes. As a result of this objective, the interest rate duration of the portfolio may be shorter than a traditional fixed income bond portfolio.

**Holdings:** The Fund will primarily be comprised of New Zealand corporate bonds, bank securities, local authority stock and cash investments (call deposits and term deposits); however, other forms of fixed interest securities (including hybrid securities) may also be included. Some investments may be made through subordinated instruments and some investments in international fixed interest securities may be included. The portfolio will be predominantly invested in investment grade rated securities.

**Suitability:** This Fund may be suitable for investors who are looking for a low risk investment and want to achieve returns over time that are slightly higher than a bank deposit.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	5	0 - 40
NEW ZEALAND FIXED INTEREST Including NZ Government, local authority, corporate and non-government securities	95	60 - 95
INTERNATIONAL FIXED INTEREST International bonds including government, local authority, corporate and non-government securities rated investment grade	0	0 - 20
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a marketable security that tracks published market indices	0	0 - 10
	100	

We may also participate in underwriting and sub-underwriting contracts for issues of permitted fixed interest securities.

**Capital volatility** will be managed through a diversified portfolio of holdings (generally each holding will be less than 5% of the total portfolio) with particular attention given to interest rate risk, maturity risk, credit risk, and industry sector risk. In addition, the structure of the particular fixed interest securities will be considered.

## INVESTMENT STRATEGY AND OBJECTIVES - CONTINUED

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**Maturity risk** will be addressed by managing a “laddered” portfolio to ensure that there are regular maturities and lowered maturity concentration risk. Maturity risk will be monitored primarily by reference to the duration and maturity characteristics of the underlying benchmark index. The Fund may use hedging instruments to manage interest rate risk. These could be an asset or liability for the Fund depending on the type of instrument selected such as interest rate swaps.

A primary consideration for managing **credit risk** will be external ratings (e.g. S&P and Moody’s), with internal guidelines used to manage and monitor portfolio exposure to different credit grades. The portfolio will be predominantly invested in investment grade rated securities, however the Fund will, on a case by case basis, have the ability to consider non-rated, or non-investment grade securities. Non-rated or non-investment grade securities are those rated BBB- and below. “Investment grade” is generally considered to be ‘BBB’ rating or better (S&P). The Manager will attempt to restrict exposure to the lower end of the investment grade spectrum. **Industry sector risk** considerations will be managed with internal guidelines, supported by internal and external research.

**Hedging:** Any foreign currency exposure arising from international fixed interest securities will be fully hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management Policy section of this SIPO for more details.

**Distribution:** We intend to make quarterly distributions from the Fixed Income Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors have the option to reinvest the distributions into additional units or to have these direct credited into their nominated bank account.

# INVESTMENT STRATEGY AND OBJECTIVES

## Clarity Dividend Yield Fund

**Objective:** The Fund will provide actively managed exposure to dividend paying New Zealand and Australian equities. The Fund aims to generate higher dividend income than the benchmark over the medium to long term (five years or longer). We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund will generate income from a diversified portfolio of companies that we consider provide an attractive and sustainable dividend yield.

**Benchmark:** 75% S&P/NZX 50 High Dividend Index Gross with Imputation and 25% S&P/ASX 200 Accumulation Index.

**Holdings:** The Fund will typically hold 30-60 securities. Although the intention is to fully invest in New Zealand and Australian shares, the Fund may invest in shares in other international sharemarkets, New Zealand and Australian cash or other fixed interest securities, depending on market conditions and the application and redemption of units.

**Suitability:** The Fund may be suitable for investors seeking the regular distribution of income from their diversified investment with exposure across Australasian equities, who are comfortable with medium to high risk in the short-term.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	5	0 - 30
NEW ZEALAND EQUITIES Any company listed on the NZX Stock Exchange	60	0 - 80
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange	10	0 - 50
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	0	0 - 5
LISTED PROPERTY Any property company listed on the NZX or Australian Stock Exchange	20	0 - 40
NEW ZEALAND FIXED INTEREST Including NZ Government, local authority, corporate and non-government securities	5	0 - 10
INTERNATIONAL FIXED INTEREST International bonds including government, local authority, corporate and non-government securities rated investment grade	0	0 - 10
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a marketable security that tracks published market indices	0	0 - 10
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity and fixed interest securities.



## INVESTMENT STRATEGY AND OBJECTIVES - CONTINUED

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There are a number of general restrictions that apply to the stated objectives:

- Investments should be capable of conversion into cash without delay and without significantly affecting the price.
- No borrowing is permitted.
- No more than 10% of the Fund in any single equity or bond holding.

**Hedging:** The Australian dollar exposure arising from Australian equities will generally be fully hedged to the New Zealand dollar to mitigate the impact of currency fluctuations. Please refer to the Currency Management Policy section in this SIPO for further details.

**Distribution:** We intend to make quarterly distributions from the Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors will have the option to reinvest their distributions into additional units or to have these direct credited into their nominated bank account.

# INVESTMENT STRATEGY AND OBJECTIVES

## Clarity New Zealand Equity Fund

**Objective:** The Fund will provide actively managed exposure to New Zealand equities. The Fund aims to generate a better return than the benchmark over the medium to long term (five years or longer). We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund will invest in a diversified portfolio of primarily New Zealand equities.

**Benchmark:** S&P/NZX 50 Index Gross with Imputation.

**Holdings:** The Fund will typically hold shares in 25-35 companies. Although the intention is to primarily invest in New Zealand equities, the Fund may invest in cash or equivalent investments and Australian equities, depending on market conditions and the application and redemption of units. The Fund is actively managed, which means the holdings may differ considerably from the relevant benchmark index.

**Suitability:** The Fund may be suitable for investors who want a diversified investment with exposure across New Zealand equities, who are comfortable with a higher risk in the short-term for improved longer-term returns.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits	5	0 - 20
NEW ZEALAND EQUITIES Any company listed on the NZX Stock Exchange	95	60 - 100
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange	0	0 - 20
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	0	0 - 5
LISTED PROPERTY Any property company listed on the NZX or Australian Stock Exchange	0	0 - 20
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a marketable security that tracks published market indices	0	0 - 10
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- Investments should be capable of conversion into cash without delay and without significantly affecting the price.
- No borrowing is permitted.
- No more than 15% of the Fund can be held in any single security.

**Hedging:** We do not intend to hedge the foreign exchange exposure, if any. Please refer to Currency Management Policy section in this SIPO for further information.

**Distribution:** We intend to make quarterly distributions from the Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors will have the option to reinvest their distributions into additional units or to have these direct credited into their nominated bank account.

# INVESTMENT STRATEGY AND OBJECTIVES

## Clarity Trans-Tasman Value Fund (previously referred to as the Clarity Trans-Tasman Fund)

**Objective:** The Fund will provide actively managed exposure to New Zealand and Australian equities. The Fund aims to generate a better return than the benchmark over the medium to long term (five years or longer). We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund employs a value investing strategy, typically favouring companies which offer higher earnings yields.

**Benchmark:** 50% S&P/NZX 50 Portfolio Index Gross with Imputation and 50% S&P/ASX 200 Accumulation Index in NZ dollars.

**Holdings:** The Fund will typically hold shares in 25-35 companies. Although the intention is to fully invest in Australasian shares, the Fund may invest in cash or equivalent investments, depending on market conditions and the application and redemption of units. The Fund is actively managed, which means the holdings may differ considerably from the relevant benchmark index.

**Suitability:** The Fund may be suitable for investors who want a diversified investment with exposure across Australasian equities, who are comfortable with a higher risk in the short-term for improved longer-term returns.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits	5	0 - 40
NEW ZEALAND EQUITIES Any company listed on the NZX Stock Exchange	47.5	20 - 70
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange	47.5	20 - 70
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	0	0 - 5
LISTED PROPERTY Any property company listed on the NZX or Australian Stock Exchange	0	0 - 10
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a marketable security that tracks published market indices	0	0 - 10
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- Investments should be capable of conversion into cash without delay and without significantly affecting the price.
- No borrowing is permitted.
- No more than 10% of the Fund can be held in any single security.

**Hedging:** Typically we do not intend to hedge the foreign currency exposure; however, there may be circumstances under which we elect to use foreign exchange contracts to reduce the level of exposure to foreign currencies.

**Distribution:** We intend to make quarterly distributions from the Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors will have the option to reinvest their distributions into additional units or to have these direct credited into their nominated bank account.

# INVESTMENT STRATEGY AND OBJECTIVES

## Clarity Global Shares Fund

**Objective:** The Fund will provide actively managed exposure to international equities, and aims to generate a better return than the benchmark over the medium to long term (five years or longer).

**Strategy:** We use a global investment manager for this Fund, being MFS. Clarity has engaged MFS through its Australian entity, MFS International Australia Pty Limited (**MFS Australia**). MFS use a mix of fundamental and quantitative analysis to select companies.

**Benchmark:** MSCI All Country World ex-Tobacco Index (net dividends reinvested) in New Zealand dollars with 50% hedged to the New Zealand dollar.

**About MFS:** Established in 1924, MFS Investment Management (**MFS**) is an active, global asset manager with investment offices in Boston, Hong Kong, London, Mexico City, São Paulo, Singapore, Sydney, Tokyo and Toronto. Our investment mandate combines MFS' fundamental and quantitative research, focusing on high quality, large-cap global companies selling at reasonable valuations.

**Holdings:** The Fund invests in a portfolio of well-diversified global securities listed on sharemarkets around the world. These assets may include listed equities and exchange traded funds, as well as currency positions and cash. Securities of companies which are traded or due to be listed on international stock exchanges may be considered for inclusion in the Fund. As the Fund is actively managed, the holdings may differ considerably from the relevant benchmark index. The Fund's custodian holds the assets directly.

**Suitability:** This Fund may be suitable for those investors who are comfortable with a higher risk in the short-term for improved longer-term returns.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. The Fund will be managed within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	2	0 - 5
NEW ZEALAND EQUITIES Any company listed on the NZX Stock Exchange	0	0 - 10
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange	0	0 - 10
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	98	80 - 100
LISTED PROPERTY Any property company listed on the NZX or Australian Stock Exchange	0	0 - 10
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a marketable security that tracks published market indices	0	0 - 5
	100	

## INVESTMENT STRATEGY AND OBJECTIVES - CONTINUED

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The Fund is typically fully invested in equity securities, either directly or via investment in other funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- No more than 5% of the fund can be held in any single security.
- No borrowing or short selling is permitted
- We exclude companies that are directly involved in the following activities:
  - the manufacture of cluster munitions;
  - the manufacture or testing of nuclear explosive devices;
  - the manufacture of anti-personnel mines;
  - the manufacture of tobacco;
  - the processing of whale meat; and
  - recreational cannabis.

**Hedging:** The foreign currency exposure arising from overseas equities will be partially hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management Section of this SIPO for further information.

**Distribution:** We do not make any cash distributions from the Fund.

# INVESTMENT STRATEGY AND OBJECTIVES

## Clarity - Capital Group New Perspective Fund

**Objective:** The Fund aims to achieve long-term growth of capital (five years or longer) by investing in shares of companies located around the world.

**Strategy:** We use Capital Group as the investment manager for this Fund. Capital Group conducts in-depth proprietary company research and favours companies expected to benefit from structural trends in the global economy.

**Benchmark:** MSCI All Country World Index (net dividends reinvested) in New Zealand dollars, 50% hedged to the New Zealand dollar.

**About Capital Group:** Capital Group is one of the largest and most experienced investment management firms in the world. Since 1931 Capital Group has been focused on delivering superior, consistent results for long-term investors using high-conviction portfolios, rigorous research and individual accountability. We have engaged Capital Group through its affiliate Capital International Management Sarl, which is the management company responsible for the operation of the Capital Group New Perspective Fund (LUX).

**Holdings:** The Fund provides access to an actively managed portfolio of international listed equities, including emerging markets, through its investment in the Capital Group New Perspective Fund (LUX), a Luxembourg based open-ended collective investment scheme (SICAV), and cash. The Capital Group New Perspective Fund (LUX) will invest in a portfolio of well-diversified global securities listed on sharemarkets around the world. As the investment is actively managed, the holdings may differ considerably from the relevant benchmark index. Initially the Fund will invest in the Capital Group New Perspective Fund (LUX) until such time as scale permits a direct investment.

**Suitability:** This Fund may be suitable for those investors who are comfortable with a higher risk in the short-term for improved longer-term returns (five years or longer).

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. The Fund will be managed within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	2	0 - 5
NEW ZEALAND EQUITIES Any company listed on the NZX Stock Exchange	0	0 - 10
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange	0	0 - 10
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	98	80 - 100
LISTED PROPERTY Any property company listed on the NZX or Australian Stock Exchange	0	0 - 10
INTERNATIONAL FIXED INTEREST International bonds including government, local authority, corporate and non-government securities rated investment grade	0	0 - 15
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a marketable security that tracks published market indices	0	0 - 5
	100	

Where the Fund invests in an external fund the amount invested in the external fund will be allocated to the principal asset sector in which the external fund invests for the purposes of calculating the asset allocation proportions above.

## INVESTMENT STRATEGY AND OBJECTIVES - CONTINUED

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The Fund is typically fully invested in equity securities, via investment in Capital Group New Perspective Fund (LUX). We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- No more than 10% of the underlying fund can be held in any single security.
- No borrowing or margin purchases are permitted.

**Hedging:** The foreign currency dollar exposure arising from overseas equities will be partially hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management section of this SIPO for further information.

**Distribution:** We do not make any cash distributions from the Fund.

# INVESTMENT STRATEGY AND OBJECTIVES

## Clarity Diversified Income Fund

**Objective:** The Fund aims to provide income in excess of the benchmark over the medium term (four years or longer) by investing in fixed income securities and dividend paying New Zealand and Australian equities. We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund will primarily invest in managed funds (including the Dividend Yield Fund and the Fixed Income Fund) to achieve a well-diversified portfolio of New Zealand fixed interest securities and New Zealand and Australian equities.

**Benchmark:** S&P/NZX Bank Bills 90-Day Index + 1.5% per annum.

**Holdings:** The Fund is actively managed, which means the holdings may differ considerably from the relevant benchmark index.

**Suitability:** This Fund may be suitable for those investors who are willing to accept a higher risk than bonds and cash deposits and who desire income from their investment.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	10	0 - 45
NEW ZEALAND FIXED INTEREST Including NZ Government, local authority, corporate and non-government securities	65	0 - 90
INTERNATIONAL FIXED INTEREST International bonds including government, local authority, corporate and non-government securities rated investment grade	0	0 - 20
AUSTRALASIAN EQUITIES Any company listed on the NZX or Australian Stock Exchange	20	0 - 50
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	0	0 - 20
LISTED PROPERTY Any property company listed on the NZX or Australian Stock Exchange	5	0 - 20
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a marketable security that tracks published market indices	0	0 - 20
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other managed funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity and fixed interest securities.

There are a number of general restrictions that apply to the stated objectives:

- No more than 10% of the Fund in any single underlying equity or bond holding.
- No borrowing or short selling is permitted.

**Hedging:** The foreign currency exposure arising from overseas equities will be partially hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management section of this SIPO for further details.

**Distribution:** We intend to make quarterly distributions from the Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors will have the option to reinvest their distributions into additional units or to have these direct credited into their nominated bank account.



# INVESTMENT STRATEGY AND OBJECTIVES

## Clarity Diversified Growth Fund

**Objective:** The Fund will provide actively managed exposure to New Zealand, Australian and international equities, and aims to generate a better return than the benchmark over the medium to long term (five years or longer).

**Strategy:** The Fund will primarily invest in managed funds (including the Trans-Tasman Value Fund and the Global Shares Fund) to achieve a well-diversified portfolio of equities. It may also invest in other assets on listed sharemarkets.

**Benchmark:** 25% S&P/NZX 50 Portfolio Index Gross with Imputation, 25% S&P/ASX 200 Accumulation Index in New Zealand dollars, and 50% MSCI All Country World ex-Tobacco Index (net dividends reinvested) in New Zealand dollars with 50% hedged to the New Zealand dollar.

**Holdings:** The Fund is actively managed, which means the holdings may differ considerably from the relevant benchmark index.

**Suitability:** This Fund may be suitable for those investors who are comfortable with a higher risk in the short term but want a diversified exposure to shares.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	5	0 - 25
AUSTRALASIAN EQUITIES Any company listed on the NZX or Australian Stock Exchange	47.5	0 - 70
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	47.5	0 - 70
LISTED PROPERTY Any property company listed on the NZX or Australian Stock Exchange	0	0 - 10
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a marketable security that tracks published market indices	0	0 - 10
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other managed funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- No more than 10% of the Fund can be held in any single security.
- No borrowing or short-selling is permitted.

**Hedging:** The foreign currency exposure arising from overseas equities will be partially hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management section of this SIPO for further information.

**Distribution:** We do not make any cash distributions from the Fund.

# INVESTMENT POLICIES AND PROCESSES

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We set out below a summary of the key investment management processes and policies that are relevant to the administration of the Clarity Funds.

## Investment Strategy Review

The mix of asset allocation and the composition of underlying securities held in each of the Fund portfolios will change over time. The investment strategy review process sets the medium to long term target asset allocation for each of the Funds. These target asset allocations are in line with the stated objectives and expected risk profiles.

We take into account the risk and returns likely from the various asset classes. This analysis is sourced from quantitative analysis carried out by an independent statistician. The analysis provides a set of correlations, volatilities and expected returns for each asset class for review and consideration.

This formal strategic review and assessment of the target asset allocations and ranges occurs annually or at other times should market conditions change significantly.

## Tactical Asset Allocation and Rebalancing

We may occasionally engage in tactical deviations from the strategic asset allocation. This process allows us to adjust portfolio positions should market conditions change or in reaction to other material short-term events, such as worthwhile investment opportunities. These deviations will be short-term adjustments and portfolios will be rebalanced to the target asset allocation as soon as practicable.

Each Fund's holdings are reviewed at least monthly to ensure the individual security positions and asset allocations for each fund are aligned with the Investment Committee's (as defined below) current investment view. Where security positions are considered to be not aligned then security positions will be rebalanced as soon as practicable.

## External Investment Managers and Advisers

Clarity has the ability to appoint external investment managers or advisers. As at the date of this SIPO we work with the following external managers;

- We have appointed JMI, our sister company, as the investment manager for the Clarity Funds.
- JMI engaged the specialist services of MFS Australia as a sub investment manager to manage the Global Shares Fund.
- JMI engaged the specialist services of Capital Group as a sub investment manager to manage the New Perspective Fund.

## JMI Investment Management Approach

The JMI Investment Committee (**Investment Committee**) is the body responsible for selecting and allocating securities in accordance with the requirements set out in this SIPO. The Investment Committee is chaired by Alan Lee, a Clarity Director. It meets once per week, or more frequently if required.

The scope of this Committee includes:

- Analyse and research securities, markets and economic conditions
- Review of investment and economic performance for asset sectors
- Monitor performance and investment strategy
- Strategic/tactical asset allocation reviews
- Investment economic outlook
- Risk and compliance management.

# INVESTMENT POLICIES AND PROCESSES - CONTINUED

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## External Investment Manager Selection and Monitoring

We have established a process for selecting our external investment managers. We take the following criteria into consideration;

- A sound and disciplined investment process;
- Investment style is consistent with Clarity's investment philosophy;
- Experience and capability of investment team;
- Performance and track record;
- Ability to supply appropriate mandate compliance information as required;
- Access to the investment management team; and
- Governance and compliance arrangements.

An investment management agreement is established between the Manager and any external investment manager. These agreements detail the requirements and constraints in place for the relevant Fund.

Clarity will consider the suitability and performance of any external investment manager from time to time and reserves the right to add further managers and remove any manager.

# INVESTMENT POLICIES AND PROCESSES

## Currency Management (Hedging)

Clarity's Funds face currency risk when they invest in international assets denominated in foreign currencies. A Fund's value may be negatively or positively impacted by the appreciation or depreciation of that currency in New Zealand dollar terms. This is because the value of the Fund is calculated in New Zealand dollar terms.

We may seek to mitigate the risk of currency exposures by offsetting the impact of currency fluctuations by the use of forward contracts that will lock in an exchange rate for a currency transaction at a future date, known as 'hedging'. Currency hedging provides some protection against changes in currency exchange rates.

We follow the ranges set out below:

Clarity fund	Asset Class	Hedging Target (%)	Hedging Range (%)
<b>Fixed Income Fund</b>	International fixed interest	100	0 - 100
<b>Dividend Yield Fund</b>	Australian shares	100	0 - 100
	International shares (excluding Australia)	50	0 - 100
	International fixed interest	100	0 - 100
<b>New Zealand Equity Fund</b>	Australian shares	0	0 - 100
	International shares (excluding Australia)	0	0 - 100
<b>Trans-Tasman Value Fund</b>	All	0	0 - 100
<b>Global Shares Fund</b>	Australian shares	50	0 - 100
	International shares (excluding Australia)	50	0 - 100
	International fixed interest	100	0 - 100
<b>New Perspective Fund</b>	Australian shares	50	0 - 100
	International shares (excluding Australia)	50	0 - 100
<b>Diversified Income Fund</b>	Australian shares	100	0 - 100
	International shares (excluding Australia)	50	0 - 100
	International fixed interest	100	0 - 100
<b>Diversified Growth Fund</b>	Australian shares	0	0 - 100
	International shares (excluding Australia)	50	0 - 100
	International fixed interest	100	0 - 100

# INVESTMENT POLICIES AND PROCESSES - CONTINUED

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We note that underlying funds may have different hedging arrangements.

We may adjust the level of our currency hedging within the ranges above depending on our view of the relative strength or weakness of the New Zealand dollar. While we have the flexibility, we do not often take tactical hedging positions and generally stay on or very close to the targets stated on the previous page. The hedging of foreign currency exposure and the level of this hedging impacts the value of the funds.

## Liquidity and Cash Flow Management

Clarity will seek to ensure sufficient liquidity to fund redemptions and meet any payments as they fall due. Asset allocations for cash and other assets for each fund are determined to ensure an adequate level of liquidity.

For our Australasian equity funds, we generally concentrate our investments in large market capitalisation companies to retain portfolio liquidity.

## Market Risk Management

Clarity Funds may face decreases in value from adverse movements in the market value of securities held by the Funds. These adverse movements in securities values can be caused either by broader market type movements and events, or security specific performance and events. We look to reduce the negative impact on the Fund value of poor company specific performance by diversification and research and scrutiny by the Investment Committee.

Within the Funds, care is taken to avoid excessive exposure and concentration in a single security or industry.

## Trade Allocation and Execution

Clarity's trading will be conducted in the best interests of clients and we will take all reasonable steps to achieve the best possible results, taking into account the following trading criteria:

- Size and nature of the trade including price and cost of the transaction
- Liquidity and the likelihood of execution
- Counterparty credit rating and quality
- Any other relevant considerations

Third parties or 'counterparties' are used by Clarity to execute trades. We have agreements in place with selected counterparties. These arrangements are subject to review and approval by the Investment Committee.

From time-to-time trading for the Clarity Funds and JMI clients will occur at the same time. In such instances, trades will be allocated to ensure that no instruction receives preferential treatment. Trades are generally allocated proportionally as a share of the total trade executed. This ensures the trade is allocated on an equitable basis.

It's important to note that if an order is not fully executed, due to lack of liquidity, then the part of the order that is executed is generally allocated across JMI clients and the Clarity Funds in proportion to the relative size of each order.

This process applies to all investments including initial public offerings and private placements.

## Settlement Risk Management

Clarity Funds may be exposed to settlement risk associated with default at settlement time and any timing differences in settlement between the trade counterparties.

We have adopted a settlement process to ensure that trade settlements occur as agreed. This includes reconciliation of trade instructions to contract notes both by BNP Paribas, as the trade counterparty and custodian, and MMc, as the administration manager and registrar.

# INVESTMENT POLICIES AND PROCESSES

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## Pricing and Valuation

MMc manage the pricing and valuations of all fund assets and calculating the Net Asset Value (NAV) of the Funds on behalf of Clarity. Whilst this task has been outsourced, Clarity is ultimately responsible for the pricing and valuation of fund assets. We have established processes for resolving any pricing errors or non-compliance with pricing methodologies by MMc.

## Voting Policy

We do not generally vote on company resolutions, unless a direct request is made to us from a company official. Should this occur, we will consider our position on any contentious issues.

## Conflicts of Interest and Related Party Transactions

Clarity expects that our directors and employees will conduct themselves ethically and in accordance with what are generally accepted as 'good business practices'. To this end, we have adopted a number of internal policies and procedures that set out the company's expectations and guiding principles. These include, Conflicts of Interest; Staff Investment Transactions; and Related Party Transactions policies. The purpose of these policies is to ensure that:

- our employees act in the best interest of our clients
- our employees undertake their duties with care and diligence
- Clarity meets its legislative and regulatory obligations

All dealings with, or through, a related party are reported to our compliance manager. Where a related party transaction provides a related party benefit, as prescribed under legislation, we must notify the Supervisor and provide them with reporting quarterly.

## Borrowing

The Fund's Establishment Deeds allow us to make all decisions relating to borrowing by or lending from any Fund (including stock lending).

As at the date of this SIPO 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.

## INVESTMENT PERFORMANCE MONITORING

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The asset allocation ranges, objectives and other limits stated in this SIPO act as the limits of our investment approach. Our internal processes measure and report against these limits.

We review all asset allocation targets and specified limits daily to ensure they are within the parameters stipulated in this SIPO.

Higher levels of cash may be held in the event of large contributions or withdrawals. In such an event should the cash and cash equivalents exceed the asset allocation range limits above it will not be treated as a SIPO limit breach.

Where the Fund invests in an underlying fund the amount invested in the underlying fund will be allocated to the principal asset sector in which the underlying fund invests for determining compliance with the SIPO.

Investment performance (active returns versus benchmark returns) is formally monitored monthly, with analysis of our over or under performance undertaken by the Investment Committee. Exceptions, including unexpected performance or negative outcomes are highlighted and any recommended actions are noted.

This monthly review considers whether the individual security positions and asset allocations for each fund are aligned with the Investment Committee's current investment view.

Depending on the information required by the Investment Committee our investment analysts are also able to provide additional reports on performance statistics (including volatility and tracking error); attribution analysis as well as absolute and relative performance returns.

Additionally, Clarity is required to provide a monthly report and a quarterly director's certificate to the Supervisor to monitor SIPO compliance.

Investment performance is reported quarterly to investors. Performance returns are measured over the previous year, five-years (where applicable) and since fund inception. Actual performance is measured net of fees and expenses.

## REVIEW OF SIPO

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This SIPO was approved by the Directors on 23 October 2019 and is effective from the 25 October 2019. While it is not expected to change frequently the SIPO will be reviewed and approved annually by the Directors. The review will consider the factors shown under the Investment Strategy Review section above or as a result of adverse market conditions or other events.

We will consult with the Supervisor prior to making changes to the SIPO. We will not implement any significant changes until we give investors notice of the changes.



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