

## CLARITY NEW ZEALAND EQUITY FUND

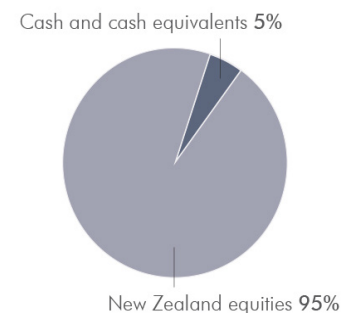
An old aphorism in investing is that if you like the store, you should buy the stock. For a long time, your Portfolio Manager didn't like Warehouse stores, and for a long time, its share price dwindled. But a recent visit (followed by a few more) suggested that things are changing for the better. The merchandise felt higher quality, with more recognisable brands. The store was tidier and better laid out. Staff were friendlier and better trained. Chief Executive Nick Grayston has been at the company for five years now and his strategic transformation plan is starting to bear fruit. Outside of the traditional red sheds, online sales are growing, and again personal experience suggests that after substantial investment in its omnichannel capabilities, the Warehouse is now very competitive in this space.

Most retailers in New Zealand are experiencing very strong demand at present, with the economy surging, interest rates low, and spending on travel restricted. For the Warehouse, sales are growing and margins improving to the point where the board felt it was right to repay its \$68m wage subsidy, and also declare a special dividend in lieu of the dividends skipped during the height of Covid uncertainty. When the current retail boom eventually subsides, we'll find out if our hunch is right and the Warehouse really is a better business than it used to be. If the answer is yes, we believe the shares offer upside. If no, the strong balance sheet (no net debt) and undemanding valuation suggest limited downside. We added a position in Warehouse shares during the month.

### Performance

As at 31 January 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity New Zealand Equity Fund*	0.4%	8.1%	11.6%	N/A	N/A	16.7%
Benchmark Index**	0.3%	8.7%	12.7%	N/A	N/A	17.2%

### Target investment mix<sup>1</sup>



## CLARITY DIVIDEND YIELD FUND

The Fund delivered a solid but unremarkable return of 0.7% in January, but this number hides the wild swings in the share prices of our electricity company investments during the month, as international 'clean energy' funds continued to dominate trading in these names. In particular, Meridian Energy traded in a range between \$6.91 and \$9.94, and finished down 4%, despite Rio Tinto announcing it would extend the life of the Tiwai Point aluminium smelter. Our strategy throughout this period of volatility was to gently sell into it, when we felt prices were reflecting short-term liquidity constraints rather than long-term fundamental value.

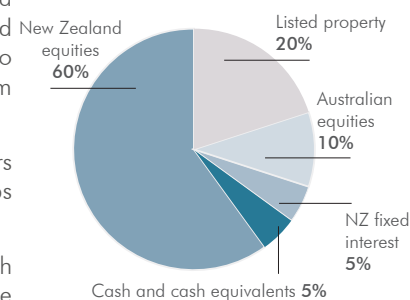
Elsewhere, courier company Freightways (+9%) was the top performing stock in the Fund as investors continued to warm to its growth prospects from increasing online commerce volumes, which also helps improve profitability as 'delivery density' increases.

A continued source of frustration for us is the share price of Z Energy (-8%) which fell during the month despite maintaining previous earnings guidance and signalling healthy fuel volumes. Short-term, the company is facing strong competition from independent fuel resellers (e.g. Gull, NPD, Waitomo), but we believe Z is well positioned to win this battle eventually, given its scale advantage. Longer term of course the spectre of electric vehicles hangs over the company, and seems to be discouraging new investors, despite any rational projection of electric vehicle growth in New Zealand allowing Z to generate enough cash over the coming decade to justify a share price far higher than today. We continue to hold, and await resumption of dividend payments later this year as a potential spur for the share price.

### Performance

As at 31 January 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Dividend Yield Fund*	0.7%	12.8%	3.2%	8.1%	10.7%	12.7%
Benchmark Index**	0.3%	14.2%	5.1%	10.5%	9.7%	7.7%

### Target investment mix<sup>1</sup>



<sup>1</sup> The current target investment mix is shown, but variations around these targets are likely from time to time.

\* These returns are after deductions for charges and before tax.

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

### CLARITY TRANS-TASMAN VALUE FUND

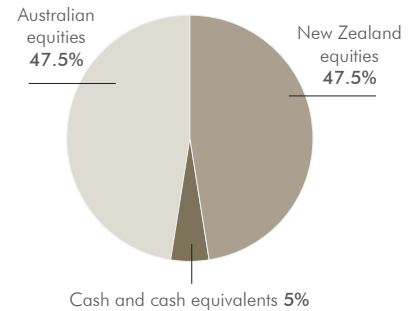
January was a quiet month for the Fund, which returned -0.2%. Unusually, not a single share held in the Fund recorded a double-digit percentage move over the month (either up or down). However, within our holdings there was noticeably stronger performance from our better value cyclical companies like Woodside Petroleum (+8%), Fletcher Building (+5%) and ANZ Bank (+4%). Each have their own macroeconomic drivers (oil prices, building consents, bad debt provisions), but their rising share prices generally reflect growing investor confidence in the economic outlook, both locally and globally. Furthermore, their valuations remain relatively attractive at a time when more and more of the market is looking expensive. The three companies mentioned trade on price to earnings ratios of between 14x and 19x, whereas the broader New Zealand and Australian markets are priced at 34x and 20x respectively. For this reason, and because we expect government stimulus and central bank interest rate policy to continue to stoke economic growth for some time yet, we see further upside in these type of shares. Around 34% of the Fund is invested in companies that we classify as 'cyclical'.

The corollary of this increasing investor interest in cyclical companies is an easing in performance of some of the faster growing or "expensive defensive" companies in the Fund. For example, Mainfreight (-3%) gave up some of its recent strong performance during January. In Australia, the world leading biotechnology company CSL (-4%) was weak on concerns about their ability to collect enough plasma (blood) during Covid lock-downs. This is a vital component for many of their key therapies.

#### Performance

As at 31 January 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Trans-Tasman Value Fund*	-0.2%	11.9%	0.1%	1.1%	7.5%	8.7%
Benchmark Index**	-0.1%	12.2%	6.6%	11.1%	13.1%	5.6%

#### Target investment mix<sup>1</sup>



### CLARITY FIXED INCOME FUND

The Fund posted an almost flat return of -0.03% for the month, a pleasing result given the rise in interest rates. Recent economic data continued to surprise to the upside with better than expected unemployment, inflation and overall economic activity figures.

As a result of this upbeat data, most major banks and market commentators are no longer forecasting any further rate cuts to the Official Cash Rate (OCR) – this change in expectations has been a contributing factor to the rise in wholesale interest rates – which continued through January. We also believe that no further cuts to the OCR are required. It's fair to say that the Reserve Bank of New Zealand's (RBNZ) Quantitative Easing efforts have worked and are providing plenty of liquidity and cheap funding, this monetary policy support, combined with the Governments' fiscal policy measures have lent considerable support to the domestic economy.

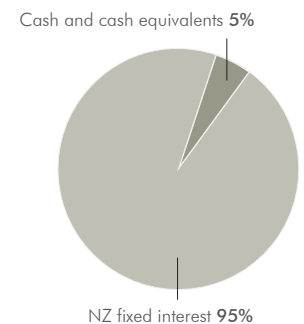
There were no major changes in the Fund during the month and we remain reluctant to make any significant changes in a rising interest rate environment. We are comfortable maintaining the status quo for the time being and continue to monitor the market for any new opportunities that may arise.

Looking ahead, the market is waiting with bated breath on the outcomes of the RBNZ Monetary Policy Committee meeting on February 24. We will get a better understanding of the RBNZ's thoughts and it will be interesting to see whether they adapt their view and interest rate forecast considering the recent upbeat data.

#### Performance

As at 31 January 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Fixed Income Fund*	0.0%	-0.7%	3.7%	4.4%	4.3%	4.8%
Benchmark Index**	0.0%	0.1%	0.6%	1.4%	1.7%	2.1%

#### Target investment mix<sup>1</sup>



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### CLARITY GLOBAL SHARES FUND

Early optimism on Covid cases, vaccine rollouts, strong Q4 earnings and the passing of another round of fiscal support in the United States gave way to rising volatility, as short squeeze on a number of hedge fund positions and signs of a double-dip recession in Europe tempered investor sentiment, which had been running hot.

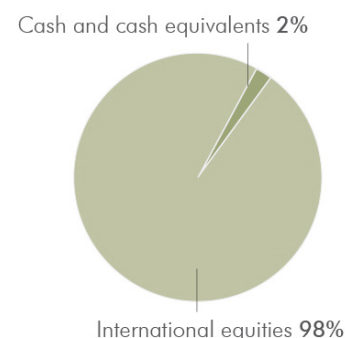
Shares of pharmaceutical company Eli Lilly (United States) contributed to relative Fund returns. Shares of the company rose after an announcement that it had positive phase two study results when using their drug donanemab as a potential therapy for slowing the progression of Alzheimer's disease. The firm also announced that it had a 70% efficacy rate in preventing Covid-19 related hospitalizations after vaccinating patients with its new treatment. Shares of semiconductor company Intel (United States) finished higher for the month after the company announced a CEO change effective February 15. Later in the month, the company also released solid fourth quarter 2020 results led by notebook and cloud data centre demand, but mid to long-term views remain mixed as the company attempts to regain lost manufacturing market share.

The underweight position in internet-based, multiple services company Tencent (China) detracted from relative returns. Shares traded higher as game sales surged during the month. The company also announced it would prioritize video and livestream in 2021 as the new medium of personal expression, raising potential advertisement growth.

#### Performance

As at 31 January 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Global Shares Fund*	0.4%	12.1%	4.4%	6.1%	N/A	8.4%
Benchmark Index**	-0.4%	11.1%	9.0%	8.5%	N/A	10.7%

#### Target investment mix<sup>1</sup>



### CLARITY - CAPITAL GROUP NEW PERSPECTIVE FUND<sup>2</sup>

The Fund returned -0.1% in January and was ahead of its benchmark by 0.3% as the MSCI All Country World Index finished a volatile month in negative territory. Recently reported PMIs show continued strength, with improving breadth in the manufacturing sectors while continued lockdowns in multiple geographies weighed on service sectors. While near-term hiccups in vaccine distribution and ongoing lockdowns could be a near-term impediment, the outlook remains constructive supported by sustained and increasing policy stimulus plus the re-opening of global economies

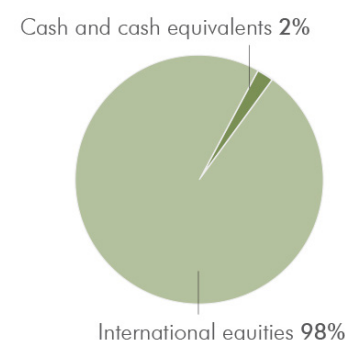
The Fund's largest holding and electric vehicle manufacturer Tesla (+12%) contributed to relative performance as shares gained as the company's fourth quarter deliveries beat consensus expectations, helped by strong November data out of China. Microsoft (+4%) rose after releasing quarterly results with revenues and earnings far above expectations. A boom in PC sales, growing demand for video gaming, and increased use of its cloud services combined to produce a 17 per cent surge in revenue.

Detractors from performance included American financial services company Mastercard (-11%). Cross-border volume remains depressed at just 70% of the previous year's level as the pandemic continues to force the closure of borders and restrict travel. With infection rates remaining high in many parts of the world, it's unlikely that cross border volumes will recover anytime soon.

#### Performance

As at 31 January 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity - Capital Group New Perspective Fund*	-0.1%	14.3%	22.7%	N/A	N/A	21.6%
Benchmark Index**	-0.4%	11.1%	8.8%	N/A	N/A	9.3%

#### Target investment mix<sup>1</sup>



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<sup>2</sup> Capital Group and Capital Group New Perspective are trademarks of the Capital Group Companies, Inc.

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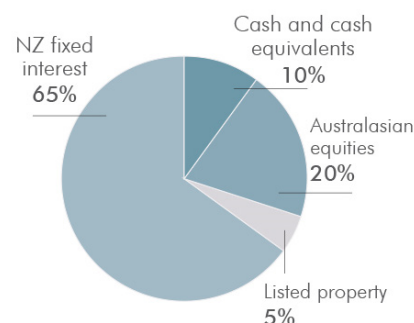
### CLARITY DIVERSIFIED INCOME FUND

The Fund returned a modest 0.3% in January supported by the investment in the Clarity Dividend Yield Fund. The underlying Fund experienced wild swings in the share prices of the electricity company investments during the month, as international 'clean energy' funds continued to dominate trading in these names. Courier company Freightways (+9%) was the top performing stock in the underlying Fund as investors continued to warm to its growth prospects from increasing online commerce volumes.

Interest rates continued to climb higher during January as recent economic data surprised to the upside with better than expected unemployment, inflation and overall economic activity figures. This creates an increased risk of further rises in interest rates and has sparked a "risk on" (buys shares, sell bonds) mood for investors.

The Investment Committee maintained the current tactical asset allocation with an overweight to income generating Australasian shares, and an underweight to fixed income securities.

#### Target investment mix<sup>1</sup>



#### Performance

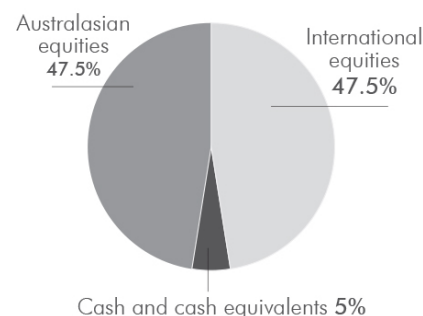
As at 31 January 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Income Fund*	0.3%	4.6%	4.8%	5.8%	N/A	5.8%
Benchmark Index**	0.1%	0.4%	2.1%	2.9%	N/A	3.1%

### CLARITY DIVERSIFIED GROWTH FUND

A weaker month for markets globally resulted in the Fund falling 0.2%, in line with its benchmark. Locally, the NZX 50 Gross Index was slightly up returning 0.3% while the ASX 200 Index was down 0.3%.

During the month, the Investment Committee decided to lower cash within the Fund, with the allocation being spread evenly across the underlying investments. With strong signs of recovery in the economy and vaccinations continuing to make steady progress holding less cash means that the Fund will participate more in a rising share market. The Fund's performance this month was driven predominantly by investment in the Clarity Global Shares Fund. The underlying Fund outperformed in January driven by strong results from the quantitative models while the fundamental research input modestly detracted from results. The reestablishment of lockdowns in a number of geographies, vaccine distribution hiccups and political uncertainties are near-term risks that could, in the short-term, reverse the rotations that have been seen recently into cyclical sectors.

#### Target investment mix<sup>1</sup>



#### Performance

As at 31 January 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Growth Fund*	-0.2%	12.0%	6.3%	4.9%	N/A	7.3%
Benchmark Index**	-0.2%	11.6%	7.9%	9.9%	N/A	11.3%

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