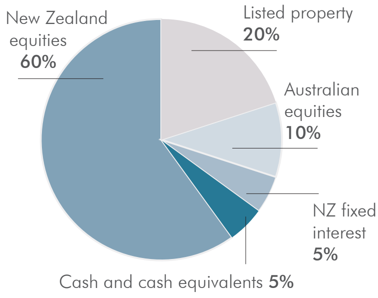
CLARITY DIVIDEND YIELD FUND

A sharp rise in market interest rates during the month put some pressure on our dividend yielding shares, with the Fund returning -1.9%. For over a year since Covid hit and interest rates plummeted, bonds have not been a realistic option for investors seeking a respectable income from their investments. This has driven up demand for stable, dividend yielding shares resulting in an excellent return for the Fund of 16.5% over the last 12 months. With the Reserve Bank of New Zealand now signalling rising interest rates, bond yields have increased to a point where they are verging on providing a real alternative again, potentially reducing demand for shares. While this effect is impossible to completely avoid, our approach to mitigating it is to bias our holdings within each sector towards companies with higher dividend yields. Mathematically, their share prices are less exposed to rising interest rates than those companies trading on a tighter 'spread' to bonds. Examples within the Fund are higher weightings to Spark (estimated dividend yield including imputation credits of 7.5%) over Chorus (5.9%) in telecommunications; Argosy Property (6.1%) over Property for Income (3.9%) in commercial property; and Genesis Energy (7.1%) over Mercury Energy (4.6%) in electricity. The current weighted average estimated dividend yield for the Fund is 6.0%, a healthy margin above current New Zealand 'A' grade corporate bond yields at around 2.5%. The dividends received funds the payment of a 1.5 cents per unit quarterly distribution with no further tax or fees to pay (implying a 3.9% yield, in the hand). Company share prices may move up or down, but we expect this distribution to remain stable and sustainable based on our current projections (although please note this is not guaranteed).

Target investment mix[1]



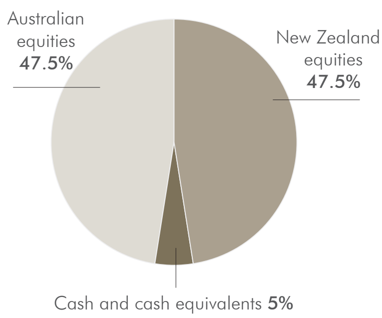
Performance

As at 31 October 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Dividend Yield Fund*	-1.9%	1.0%	16.5%	9.5%	9.5%	11.8%
Benchmark Index**	-0.5%	3.3%	18.5%	10.8%	11.4%	7.5%

CLARITY TRANS-TASMAN VALUE FUND

The overarching trend in 2021 of Australian shares outperforming New Zealand resumed in October, after a couple of months off. The New Zealand share market (as measured by the S&P/NZX Portfolio Index) fell 1.0% during the month, to be up only 3.4% for the year. In contrast, the S&P/ASX200 fell only -0.1% in October and is up a very strong 14.7% for the year. Having said that the best performing stock and biggest contributor to returns during the month was a New Zealand company with a strong local heritage: Scott Technology (+16%). Scott has been listed on the NZX since 1997 when it was spun out of Donaghy's in Dunedin. It provides automation solutions to companies in a variety of sectors including meat processing and mining. Scott reported full year results last month which showed a strong bounce back from a Covid affected 2020, as well as good progress against the company's 2025 strategic plan, which seeks to improve profit margins by positioning the company to sell more standardised products and services and fewer customised 'systems' which add complexity and risk. With strong demand across their end customer sectors, Scott's outlook is positive. In Australia, long-term holding Macquarie Group continued its good run, up 9% after reporting strong financial results during the month. Known to many as Macquarie Bank, these days a third of group earnings come from its asset management business, which reported a 31% jump in assets under management to $A737bn due to positive fund flows, the acquisition of another fund manager and supportive markets. Macquarie continues to run rings around the big four Australian banks from a shareholder return perspective and is not far off eclipsing some of them in terms of market value.

Target investment mix[1]



Performance

As at 31 October 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Trans-Tasman Value Fund*	-0.3%	3.1%	23.2%	6.8%	6.8%	9.0%
Benchmark Index**	-0.4%	2.6%	21.2%	13.4%	12.8%	5.9%

[1] The current target investment mix is shown, but variations around these targets are likely from time to time.

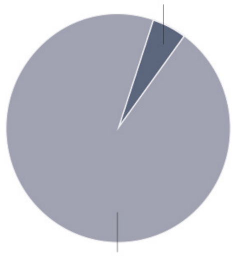
* These returns are after deductions for charges and before tax.
** Benchmark returns reflects no deduction for charges and tax. Details of these are included in the Quarterly Fund Update which is available at https://clarityfunds.co.nz/quarterly-fund-updates-and-commentaries.

MONTHLY FUND COMMENTARY

October 2021

CLARITY NEW ZEALAND EQUITY FUND

Target investment mix[1]



We've recently added two new companies to the Fund – AFT Pharmaceuticals and New Zealand Refining. They are both smaller companies that sit outside the S&P/NZX50 Index, but that is where the similarities end.

New Zealand Refining is the owner of the oil refinery at Marsden Point near Whangarei, as well as the pipeline that connects the refinery to Auckland. Built in the 1960's and enlarged under the Think Big programme of the 1980's, it was previously one of the largest companies in New Zealand. But the refinery's glory days are long gone. The construction of mega refineries in Asia has left it uncompetitive and reliant on subsidy payments from its customers (petrol companies) to keep it afloat. However, New Zealand still uses a lot of petrol, diesel and jet fuel and the most efficient way to get this into Auckland and Northland (over one third of total demand) is through Marsden Point and the pipeline. The next best option is shipping to Tauranga and trucking from there, which is vastly less efficient. So the company has proposed to shareholders and customers that it shuts down the crude oil refinery and converts itself purely into a shipping terminal for finished fuels. Once this process is complete, earnings will improve and stabilise, and we calculate the shares will be worth more than the current share price.

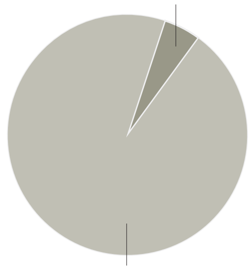
In contrast AFT Pharmaceuticals is a much younger company, founded in 1998 by Dr Hartley Atkinson and listed in 2015. They are the company behind Maxigesic pain relief and Crystaderm ointment. With a Kiwi DIY approach to pharmaceuticals that keeps costs low and allows quick innovation, plus a long track record of sales growth, we like the future prospects for this company.

Performance

As at 31 October 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity New Zealand Equity Fund*	-1.5%	3.6%	8.8%	N/A	N/A	10.4%
Benchmark Index**	-1.3%	4.3%	9.1%	N/A	N/A	10.5%

CLARITY FIXED INCOME FUND

Target investment mix[1]



This month's move in wholesale interest rates was one for the record books. For example the 2-year interest rate recorded its largest single day move since 1997 (+0.28%) as well as posting the largest monthly move since 1994 (+0.83%). Several factors led to these moves including the New Zealand Consumer Price Index release (a much higher than expected result showing annual inflation of 4.9%), a rapid upwards adjustment of Reserve Bank of Australia interest rate hike expectations, and rising interest rates in other markets too. As a result, the fund had a negative return of -1.5% for the month of October.

Despite being negative, the Fund outperformed the S&P Corporate Bond and Government Bond Indices which posted negative returns of approximately -2.3% and -3.3% respectively. Part of this outperformance can be attributed to Fund's hedging positions (duration management through interest rate swap contracts) which significantly dampened the effects of the large interest rate rises.

New bond issuance was plentiful, a welcome changed after months of little issuance. The Fund participated in some quality new issues this month adding names such as the New Zealand Local Government Funding Agency, Auckland Council and Christchurch City Holdings. Although interest rates have increased significantly (bonds are priced lower) each new purchase was funded by selling lower yielding bonds (bonds that are priced higher) therefore being yield accretive for the Fund. These new bonds were also slightly longer in duration when compared to the Fund's average duration, but we were comfortable with the trade-off for overall improved credit and liquidity.

Performance

As at 31 October 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Fixed Income Fund*	-1.5%	-1.9%	-3.3%	2.5%	3.1%	4.0%
Benchmark Index**	0.0%	0.1%	0.3%	1.0%	1.4%	1.7%

[1] The current target investment mix is shown, but variations around these targets are likely from time to time.

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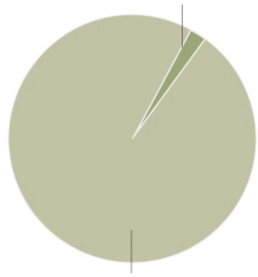
CLARITY GLOBAL SHARES FUND

Despite slightly lagging its benchmark in October, the Fund posted a positive return of 2.5%, and is up 34.4% over the past year. Over the course of the month stocks were buoyed by earnings and increased risk appetite as US congressional leaders pushed towards a robust spending package. US inflation figures came out higher than expected and if prices continue to rise, the Federal Reserve could begin to cut back on its monetary support for the economy and raise rates, which tends to be a headwind for stocks.

Key contributors for the month included Microsoft (+18%) after releasing strong quarterly results beating analyst expectations. The company's Intelligent Cloud segment (which comprises the Azure public cloud and Windows Server among others) delivered almost $17 billion in revenue, up 31% year over year. Canadian oil producer Suncor Energy (+27%) reported an improved operating environment with oil production increasing 13% compared to a year ago, along with much higher oil prices. Subsequently, management announced it would buy back more shares than previously planned, repay debt faster and double the company's dividend payment, reversing a cut made last year when Covid lockdowns hammered fuel demand.

Intel (-8%), the world's largest semiconductor chip manufacturer by revenue, fell in the month with management noting a slowdown in its PC business caused by supply chain issues. Intel has seen manufacturing delays recently causing it to fall behind other chip designers that use outsourced factories.

Target investment mix[1]



Performance

As at 31 October 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Global Shares Fund*	2.5%	1.1%	34.4%	13.2%	N/A	11.4%
Benchmark Index**	3.1%	2.2%	31.6%	15.2%	N/A	13.0%

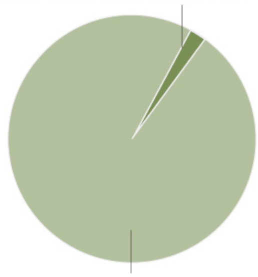
CLARITY - CAPITAL GROUP NEW PERSPECTIVE FUND[2]

The Fund performed very well in October returning 4.8%, 1.7% above its benchmark. After a weak start, stocks regained momentum throughout October with many equity indices reaching new highs during the course of the month. US stocks were supported by a strong start to the Q3 earnings season, with more than 80% of companies beating earnings expectations.

For the second straight month the Fund's largest contributor was electric car manufacturer Tesla (+44%) after achieving its highest monthly gain since November last year. Investors reacted positively to news that car rental giant Hertz had ordered 100,000 Tesla electric vehicles and is investing in new EV charging infrastructure across the company's global operations. The sharp share price rise pushed Tesla into an elite group of companies with a market capitalisation of over $1 trillion and was the second fastest company to reach the mark behind Facebook. Elsewhere, global footwear and apparel manufacturer Nike (+15%) gained some positive momentum during the month after several analysts upgraded their target prices and noted that the shares had been oversold following a softer first quarter earnings result which was released in late September.

Detractors from performance included PayPal (-11%) after rumours circulated that it was intending to acquire Pinterest at a valuation of $45 billion. It would have been the biggest acquisition of a social media company, surpassing Microsoft's $26 billion purchase of LinkedIn in 2016, however PayPal later denied it was pursuing an acquisition.

Target investment mix[1]



Performance

As at 31 October 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*	4.8%	4.3%	35.1%	N/A	N/A	22.8%
Benchmark Index**	3.1%	2.2%	31.5%	N/A	N/A	15.1%

[1] The current target investment mix is shown, but variations around these targets are likely from time to time.

[2] Capital Group and Capital Group New Perspective are trademarks of the Capital Group Companies, Inc.

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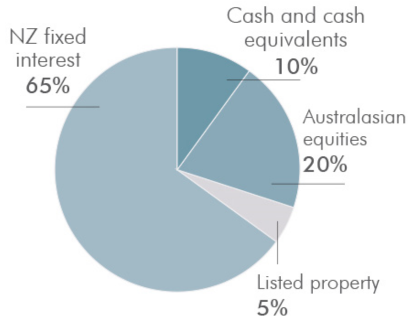
CLARITY DIVERSIFIED INCOME FUND

The Fund fell 1.6% last month as rising interest rates continued to be a head wind for fixed income returns and New Zealand shares underperformed against Australian shares.

Earlier in the month, the Investment team increased the allocation to the underlying Clarity Fixed Income Fund given its primary objective of capital preservation. The Fund maintains a tactical overweight to shares, but the size of the overweight was decreased slightly. Current allocations are 60% in the Clarity Fixed Income Fund, 35% in the Clarity Dividend Yield Fund and the balance in cash.

Despite seeing a negative return, the underlying Clarity Fixed Income Fund outperformed local bond indices over the month due to its hedging positions (duration management through interest rate swap contracts), which significantly helped dampen the effects that the large interest rate rises had on the underlying Fund.

Target investment mix[1]



Performance

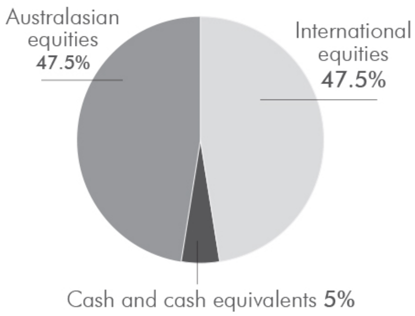
As at 31 October 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Income Fund*	-1.6%	-0.7%	4.4%	5.1%	N/A	4.8%
Benchmark Index**	0.2%	0.5%	1.8%	2.5%	N/A	2.9%

CLARITY DIVERSIFIED GROWTH FUND

Globally share markets were strong in October despite a weaker performance locally from New Zealand shares. The Fund's overweight position to global equities benefited performance as large cap technology stocks such as Microsoft (+18%), Adobe (+13%) and Alphabet (+11%) all reported strong quarterly results. Microsoft's cloud revenue growth was particularly impressive as businesses adjust to a hybrid working model while Adobe reported an operating income increase of 35% as digital media becomes more widely used. Alphabet (Google's parent company) noted strength in advertising spend and elevated consumer online activity which contributed to revenue growth of 41%. These companies are key holdings in both the underlying Clarity Global Shares Fund and the underlying Clarity – Capital Group New Perspective Fund.

The Investment team continues to monitor key global and macroeconomic risks such as rising inflation and continued strained supply chains and look to position the Fund appropriately.

Target investment mix[1]



Performance

As at 31 October 2021	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Growth Fund*	1.8%	2.5%	27.5%	10.9%	N/A	9.2%
Benchmark Index**	1.3%	2.4%	26.4%	14.4%	N/A	12.4%

[1] The current target investment mix is shown, but variations around these targets are likely from time to time.

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