

## CLARITY TRANS-TASMAN VALUE FUND

A weak New Zealand share market and a few underperforming stocks in Australia saw the portfolio fall -3.2% in August, leaving it +2.7% so far in 2023.

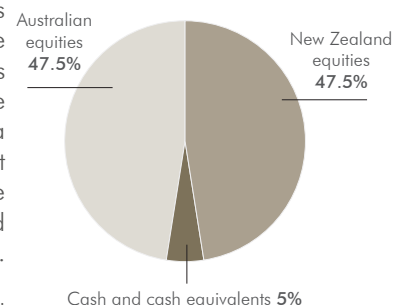
Our biggest faller was ResMed (-24%), a large Australian/US medical equipment company that makes flow generators and masks for sufferers of obstructive sleep apnoea (OSA). The fall came despite ResMed reporting full year results showing strong revenue growth (+18%). However, cost inflation was high too, so earnings did not quite meet expectations. But the bigger story was the growing acceptance of new weight loss drugs (GLP-1 drugs). These could significantly reduce the occurrence of obesity, a major cause of OSA, and reduce ResMed's target market. Although we are unlikely to see any impact on ResMed's financials in the near-term, the long-term concern saw significant pressure on the share price during the month. Having assessed the information currently available, we continue to hold ResMed shares, which offer good value should the GLP-1 fears prove worse than the actual outcome.

Two further points on the ResMed situation: 1) New Zealand's largest listed company Fisher & Paykel Healthcare earns 35% of its revenue treating OSA, so is exposed to the same dynamic as ResMed. Weaker future OSA demand would put more pressure on the Hospital segment of the company to deliver the very strong growth the share price factors in. We do not currently hold FPH shares in this Fund. 2) Clarity's global equity funds hold shares in either or both of Eli Lilly and Novo Nordisk, the pharmaceutical companies that have developed the new weight loss drugs. Their share prices have appreciated sharply just as ResMed's has fallen – an interesting value transfer within the healthcare sector, and the Clarity fund suite.

### Performance

As at 31 August 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Trans-Tasman Value Fund*	-3.2%	0.9%	0.1%	8.8%	3.2%	8.1%
Benchmark Index**	-2.2%	1.5%	2.7%	6.7%	6.5%	5.2%

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



## CLARITY DIVIDEND YIELD FUND

Around 70% of the Dividend Yield Fund is invested in shares of New Zealand companies (including listed property). For local investors looking for income from shares, New Zealand companies are attractive because they often pay a relatively high dividend, and provide tax efficient imputation credits to avoid double taxation. The balance of the Fund is invested in Australian shares, providing diversification.

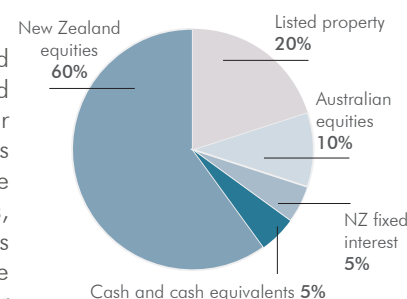
New Zealand dividend paying shares were generally weak in August (S&P/NZX 50 High Dividend Index -4.7%), with many companies reporting full year results that reflected muted demand and rising costs. Our worst performer locally was Fletcher Building (-13%). Management signalled lower building material volumes in the year ahead, as our house building surge moderates. But that was well expected. What disappointed investors was continuing costs associated with legacy issues like the rebuild of the NZ International Convention Centre, which means higher debt and interest costs, and a correspondingly lower than expected dividend. Although it remains a slow and painful process of getting the company back on track after its missteps last decade, we continue to believe the management team are following a sensible strategy, and the company can eventually regain investor confidence, grow and stabilise earnings, and the shares will ultimately prove a good investment.

The Australian component of the portfolio did its job of diversification, with the S&P/ASX 200 posting a more tolerable -0.7% decline. Best performer was National Australia Bank (+2%), which continues to experience benign credit conditions (i.e. not many borrowers showing signs of stress) despite the big rise in interest rates over the last year. This likely reflects strong employment levels on both sides of the Tasman.

### Performance

As at 31 August 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Dividend Yield Fund*	-4.1%	0.3%	-0.1%	6.3%	4.4%	9.4%
Benchmark Index**	-3.7%	0.4%	1.4%	7.5%	5.1%	6.0%

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



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

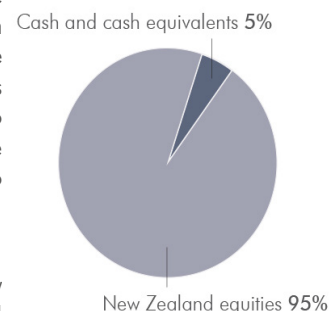
\*\* Benchmark returns reflects no deduction for fees and tax. Details of these are included in the Quarterly Fund Update which is available at <https://clarityfunds.co.nz/quarterly-fund-updates-and-commentaries>.

### CLARITY NEW ZEALAND EQUITY FUND

The New Zealand share market declined -4.2% in August, reflecting an uninspiring company annual reporting season and perhaps a lack of investor confidence ahead of the general election in October. Our interactions with company executives certainly suggested the economy generally is in a pre-election slump. Vulcan Steel provided the starkest view on this, reporting customer activity virtually stopped in the last couple of weeks of August, with customers saying business is on hold until after the election. Vulcan sell across the economy – construction, rural, manufacturing and marine - and believe the jobs are queued up and ready to go, but they are now on pause due to a complete lack of confidence. Despite this honest but downbeat view, Vulcan shares were actually among the few positive performers in the portfolio during the month (+2%). Most of their revenue comes from Australia where they are seeing more stable demand, and integration of their recent acquisition of Ullrich Aluminium is providing opportunities to grow revenue and rationalise costs.

The silver lining to the pre-election slump is we know that one way or another, we will have more certainty within a couple of months, and companies and consumer activity should pick up again. And with official interest rates now at or very close to their likely peak, these economic headwinds are nearly behind us, and we may see green shoots appearing sooner rather than later. Historically, investing just ahead of the end of a recession has been a profitable strategy.

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



#### Performance

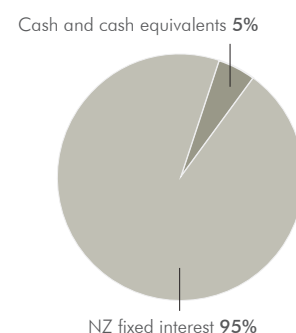
As at 31 August 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity New Zealand Equity Fund*	-4.1%	-1.0%	0.3%	0.4%	N/A	2.8%
Benchmark Index**	-4.2%	-2.1%	0.4%	-0.4%	N/A	2.2%

### CLARITY FIXED INCOME FUND

August saw another positive return for the Fund (+0.2%) despite interest rate volatility. The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) steady at its August meeting but tweaked its forecast, hinting at a potential rise to 5.6% next year. However, the Governor emphasized that this is not a signal for immediate action. Financial markets had a muted response, with minimal changes in market interest rates. The RBNZ also raised the estimated neutral OCR from 2.00% to 2.25%, indicating a need for slightly higher rates in the long-term to control inflation. Overall, the update was taken as a “hawkish pause”, much like we’re seeing with other central banks around the world. The RBNZ remains optimistic that inflation will return to target levels, but any rate cuts may be off the table until 2025.

Local capital markets were buzzing with activity. Transactions from SBS Bank, Infratil, BNZ, Toyota Finance, and Transpower signal a healthy pipeline of bonds coming to market. One notable transaction that the Fund participated in was BNZ’s 5-year note, which had a yield of 5.87% and a substantial issuance of \$1.0 billion, one of the largest corporate bond issues this year. With these new bonds receiving good support, overall sentiment is cautiously optimistic. In alignment with the RBNZ’s decision to hold the OCR steady, our current investment positioning remains stable. And just as the RBNZ emphasises the need for caution and data-driven decisions, we’re adopting a similar ‘watch, worry, and wait’ approach for the Fund’s future investments, and a slight bias to longer maturity bonds.

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



#### Performance

As at 31 August 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Fixed Income Fund*	0.2%	0.2%	2.0%	-1.0%	1.5%	3.1%
Benchmark Index**	0.5%	1.4%	4.7%	2.0%	1.8%	2.2%

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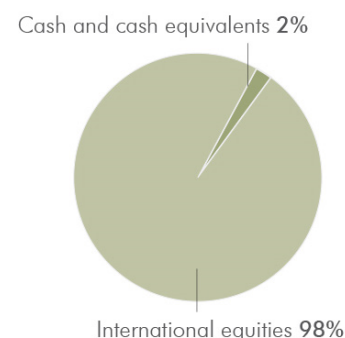
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### CLARITY GLOBAL SHARES FUND

The Clarity Global Shares Fund made further gains in August, continuing its strong performance of the last year. Returns were helped by a declining New Zealand dollar increasing the value of the Fund's unhedged overseas investments (around 50% of the Fund is unhedged). Boston-based portfolio manager MFS continues to hold a cautious market outlook, concerned that the rapid rate of monetary tightening is yet to fully impact the US economy. The US and world share market returns have been propelled upward by the "Magnificent Seven" technology stocks with artificial intelligence continuing to be the driver of investment flows resulting in rising shares prices and price / earnings multiple expansion for these stocks. Information technology remains the largest sector exposure in the portfolio. Consistent with the cautious outlook the portfolio is overweight consumer staples companies and underweight consumer discretionary. Geographical exposure is in line in North America, overweight Europe and underweight emerging markets. The largest portfolio holdings include Microsoft, Alphabet, Apple, Applied Materials, Amazon and Nvidia. The portfolio remains underweight Tesla and Apple. Overweight positions include Alphabet, DBS Group and Booking Holdings.

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



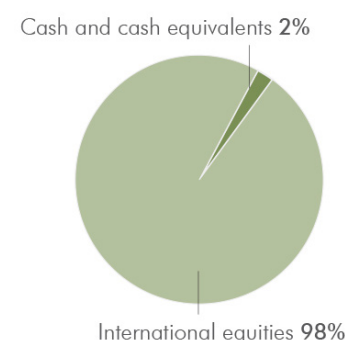
#### Performance

As at 31 August 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Global Shares Fund*	1.0%	8.2%	17.5%	13.7%	9.2%	10.2%
Benchmark Index**	-0.2%	7.0%	15.0%	9.9%	8.6%	10.0%

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

The Clarity-Capital Group New Perspective Fund recorded a slightly negative return in August but remains up 20.6% in 2023. The Fund is overweight the healthcare sector, and this provided the largest contributors to returns in August - Novo Nordisk (+17%) and Eli Lilly (+23%). Both are pharmaceutical companies with recently approved GLP-1 weight loss drugs that have the potential to address the significant obesity challenges the world currently faces. These have captured investors attention and resulted in substantial gains in each company's valuation over the last year. Danish firm Novo Nordisk's market capitalisation grew sufficiently in August for it to displace French luxury goods company LVMH as Europe's largest company by this measure.

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



The active stock picking employed by Capital Group currently sees the portfolio overweight Europe and underweight the United States and emerging markets. Although the United States economy has remained resilient, Capital Group assess the economy to be undergoing a rolling recession impacting differing segments of the United States economy at differing times. The Fund has only modest exposure to China. Hong Kong insurer AIA (-8%) was one of the larger detractors to performance in August.

#### Performance

As at 31 August 2023	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%	6.3%	15.6%	6.5%	N/A	9.7%
Benchmark Index**	-0.2%	7.0%	15.0%	9.9%	N/A	9.1%

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

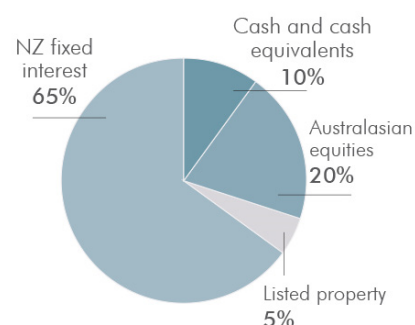
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### CLARITY DIVERSIFIED INCOME FUND

The Fund declined 0.9% in August. The fixed income component - which constitutes the core of the portfolio - eked out a positive contribution of 0.2% for the month. This was in line with the broader New Zealand fixed income market which also made a 0.2% positive return for the month. Longer interest rates remain elevated as central banks maintain policy rate settings, United States economic growth surprises to the upside and government bond issuance increases. The equity income element of the portfolio lost ground over the month by -4.1% reflecting a weak reporting season, as discussed above. This fall was consistent with the broader New Zealand equity market. The largest detractor in the equity component of the yield portfolio was South 32, an Australian mining company, which signalled higher costs ahead, which are likely to dampen earnings and potentially dividends.

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



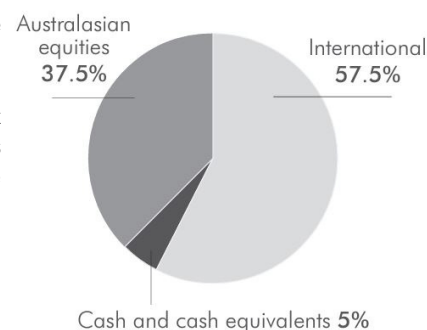
#### Performance

As at 31 August 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Income Fund*	-0.9%	0.2%	1.3%	1.8%	2.8%	3.3%
Benchmark Index**	0.6%	1.8%	6.2%	3.6%	3.3%	3.4%

### CLARITY DIVERSIFIED GROWTH FUND

The Diversified Growth Fund fell by 0.6% in August. The Australasian equity markets were generally weak in August and the fund was unable to avoid the effects of broad market falls. Generally, the Fund preserved value by being underweight some of the poorer performing Australasian shares. The international share component of the portfolio offset weakness in Australasia. The international equity funds greatest geographical exposure is to the United States which continued to contribute positively in August as exchange rate movements added value. The Clarity-Capital Group New Perspective Fund fell marginally over the month. The portfolio contains Novo Nordisk and Eli Lilly and both of these companies made gains as a result of their weight loss products gaining acceptance. The MFS Global Fund was up 1.0% for the month. Artificial intelligence (AI) has been a core thematic driving United States market returns and the Fund has been well positioned to benefit from this trend with its large holdings in Microsoft, Alphabet, Apple, Applied Materials, Amazon and Nvidia. All these stocks have an AI element to them.

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



#### Performance

As at 31 August 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Growth Fund*	-0.6%	4.8%	10.5%	9.4%	6.0%	7.2%
Benchmark Index**	-1.0%	4.7%	10.1%	8.8%	7.9%	9.3%

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