CLARITY TRANS-TASMAN VALUE FUND

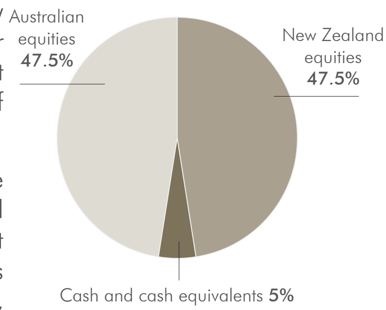
The Trans-Tasman Value Fund navigated a mixed company reporting season in August to return +0.4% for the month, ahead of its benchmark.

The month produced a wide range of returns for holdings in the portfolio. Cinema software company Vista Group rose +24% with half year results showing its transition to a software-as-a-service provider was beginning to bear fruit. Vista was the target of a partial private equity bid earlier in the year, but strong company and share price performance since then may put the balance of the company out of private equity's reach.

In contrast, infant formula company A2 Milk's shares fell -23% as management's outlook for the coming year disappointed. The actual full year result was commendable, with sales growing 5% and profit up 8% despite a declining birth rate in China shrinking its major market. Management expect further growth in 2025 but with the shares up +72% for the year leading in to the result, the market was expecting more. With a sensible management team, strong trends in brand health and market share, and nearly $1bn cash in the bank, in our view the company is well placed to continue to grow and add value for shareholders, notwithstanding short-term share price overshoots.

In Australia, our top performing stock was healthcare company ResMed (+10%), who reported 11% growth in sales and 17% growth in earnings for FY24 as gross margins continued to recover from supply chain inflation experienced during Covid. Management also discussed the potential positive impact of GLP-1 weight loss drugs on their business – up until now these had been viewed as a threat.

Target investment mix[1]



Performance

As at 31 August 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Trans-Tasman Value Fund*	0.4%	5.9%	9.8%	4.5%	5.5%	8.2%
Benchmark Index**	-0.4%	5.7%	9.9%	3.0%	6.1%	5.5%

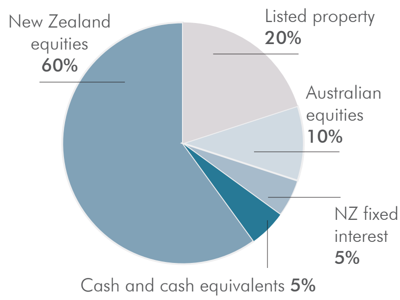
CLARITY DIVIDEND YIELD FUND

The Fund produced a strong return for the month, up +2.7% and our top performing Fund as dividend yielding shares benefitted from the Reserve Bank of New Zealand cutting interest rates. The return was ahead of benchmark.

A prime beneficiary was the listed property sector, which makes up about 19% of the Fund in total. Argosy Property rose 13%, Precinct 11%, Kiwi Property 7% and new addition Vital Healthcare rose 7% too. Property companies are set to benefit from lower interest costs on their borrowings. Lower rates also make the dividend yield on their shares relatively more attractive for income seeking investors. For the opposite reasons, listed property investments have been a drag on the performance of the Fund over the last couple of years as interest rates rose. With the RBNZ now clearly in easing mode, we think these holdings should perform better going forward.

The most disappointing outcome of reporting season was our investment in Spark. The share price fell -17% after the company reported full year results below guidance, despite having already lowered this guidance in May. Although the mobile division was generally resilient, reflecting its non-discretionary nature for most New Zealanders, sales and earnings came under pressure in the government and enterprise segment of their business, with both these customer groups cutting spending on IT services and projects. Although the decline in earnings is understandable, in our view the lack of visibility on this decline, and poor communication around it are a black mark against a management team that up until now had instilled a high level of confidence. That said, the company is far from broken – just a bit more cyclical than we had hoped. The strong balance sheet means the dividend will be held at 27.5 cents a share in 2025, which implies an attractive 9.4% gross yield at the current share price.

Target investment mix[1]



Performance

As at 31 August 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Dividend Yield Fund*	2.7%	6.7%	7.8%	1.4%	3.3%	9.2%
Benchmark Index**	2.2%	5.6%	6.2%	1.7%	3.6%	6.0%

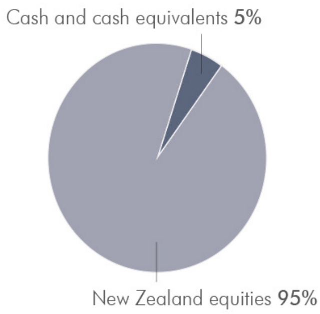
[1] The current target investment mix is shown, but variations around these targets are likely from time to time.

* These returns are after deductions for 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

Target investment mix[1]



The boost the New Zealand share market received in July from the RBNZ pivot ran out of steam in August, with company reporting season a reminder of the economic challenges many of our listed companies are facing currently. The S&P/NZX50 index was effectively flat for the month (+0.4%), although the Clarity New Zealand Equity Fund did a bit better (+1.5%).

The largest contributor to the fund return was Channel Infrastructure (+14%). It reported a 'business as usual' half year result, but what caught the market's attention was a new fuel storage deal with Z Energy, which was both material to valuation and also indicative of future opportunities. The deal earns Channel $55m of revenue over 10-years for a $30m capital outlay on a new tank and exemplifies the latent value of Channel's highly unique infrastructure, consented land, and connections (port, electricity, liquid fuel, and gas). They intend to present their vision for a Marsden Point 'energy precinct' at an investor day later this year.

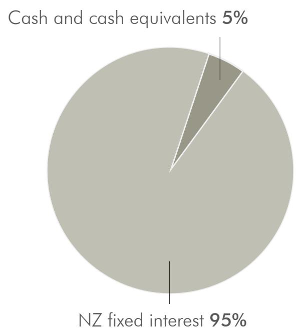
Elsewhere, electricity companies came under public scrutiny this month as low hydro generation and gas availability combined to drive very high 'spot' electricity prices which forced a handful of businesses to shut down their factories. Perversely, high electricity prices will also affect short-term profitability of some electricity companies too - as a whole, the industry will be using more high-cost fossil fuels to provide the electricity the country needs. Share prices of the electricity companies owned in the Fund reacted modestly, down -3% on average. We think that the sector has responded well to the current shortage, and once it inevitably rains in the right part of the country to fill our hydro lakes, the public outcry will abate. In our opinion the sector remains attractive on a longer-term, as demand for electricity continues to grow.

Performance

As at 31 August 2024	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%	5.4%	10.1%	0.0%	N/A	4.3%
Benchmark Index**	0.4%	5.1%	8.7%	-1.2%	N/A	3.6%

CLARITY FIXED INCOME FUND

Target investment mix[1]



The Clarity Fixed Income Fund returned +0.7% in August.

August saw the Reserve Bank of New Zealand join other G10 central banks in beginning its cutting cycle. In what was a stark contrast to the May Monetary Policy Statement, Governor Orr and the committee materially reduced their forecast track for the OCR. The updated policy rate track has the OCR stepping down at controlled 25bps intervals at a quarterly cadence. RBNZ forecasts have the OCR below 5% by the end of the year and at 4.5% by June 2025.

In the press conference that followed the release, Adrian Orr mentioned that the committee considered a 50bps cut at the August meeting but reached a consensus of delivering a 25bps cut to the economy. Rates were quick to react to the new policy rate as the 2-year swap closed at 3.9%.

At month end, the portfolio yield was 4.9% and duration (average maturity) was 2.4 years.

Performance

As at 31 August 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Fixed Income Fund*	0.7%	3.5%	8.8%	2.2%	1.9%	3.7%
Benchmark Index**	0.9%	3.4%	9.0%	4.9%	3.2%	2.8%

[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

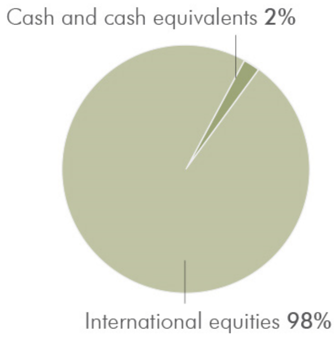
The Clarity Global Shares Fund returned -1.6% during the month, underperforming the benchmark.

After a slow start to the month, global equity markets experienced a sustained rally driven by a series of positive economic data releases. The steady decline in labour market conditions suggested by the initial jobless claims is consistent with an economic soft landing so the market reacted favourably. The rally continued with a benign Producer Price Index (PPI) report, which set the stage for the Federal Reserve to potentially begin easing measures at their September meeting. Later in the month, Federal Reserve Chair Powell signalled the start of interest rate cuts during his much-anticipated Jackson Hole speech. In his address, Powell highlighted a shift in monetary policy towards supporting the labour market in addition to fighting inflation. He stated, "the time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." The Fed is growing more confident that inflation is under control and is now focusing on preventing a severe economic downturn.

Within the US share market consumer staples (+6%), utilities (+5%), health care (+5%), real estate (+6%) and financials (+5%) outperformed. There was a continued rotation out of mega-cap technology with Fund holdings such as Tesla (-8%), Microsoft (0%), Alphabet (-5%) and Amazon (-4%) underperforming the broader market. Meta (+10%) was an outlier within the magnificent seven constituents after posting strong second quarter earnings. Management noted that AI advances are continuing to improve ad recommendation quality and drive engagement. They appear to be striking an appropriate balance of near-term execution and long-term investment in future growth. Given an adequate return on invested capital, Meta continues to 'earn the right' to spend on generative AI.

In August, the Fund's performance was notably influenced by currency movements. Specifically, the USD fell by ~5% relative to the NZD. Given that the Fund maintained a 50% hedge ratio, it was exposed to roughly half of this adverse currency movement, which contributed to the overall decline in performance.

Target investment mix[1]



Performance

As at 31 August 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Global Shares Fund*	-1.6%	3.6%	22.5%	11.4%	13.6%	11.8%
Benchmark Index**	-0.5%	5.1%	20.3%	8.3%	12.1%	11.4%

CLARITY - CAPITAL GROUP NEW PERSPECTIVE FUND[2]

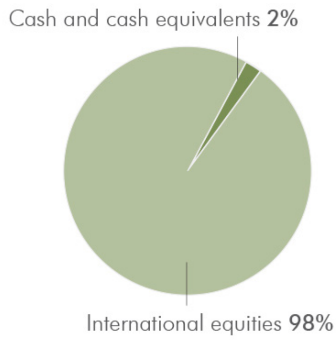
The Clarity-Capital Group New Perspective Fund returned +0.3% in August, ahead of benchmark.

Throughout August two key contributors to Fund performance were Netflix and Eli Lilly. Both companies are showing signs of market leadership. This is consistent with Capital Group's investment style of identifying high growth companies with a moat around their earnings.

With approximately 278 million subscribers worldwide, Netflix maintains a dominant position in a consolidating streaming industry. The company anticipates continued growth driven by the increasing adoption of internet-connected devices and a rising consumer preference for on-demand video streaming. Even during economic downturns, where consumers are more selective about their subscriptions, Netflix has successfully navigated the transition to a paid account-sharing model without experiencing a decline in paid subscriber numbers. This resilience is largely attributed to Netflix's superior content offerings. The company plans to invest $17 billion in content this year, leveraging its ability to spread these fixed costs across its extensive subscriber base while maintaining strong profitability. Netflix returned +11% in August.

Eli Lilly's second-quarter results surpassed market expectations, showcasing a robust 46% increase in revenue. This impressive growth was primarily fuelled by its key GLP-1 treatments, Zepbound (for obesity) and Mounjaro (for diabetes), which benefited from expanded production capacity and favourable pricing dynamics. With key GLP-1competitor Novo Nordisk falling short of forecasts, some analysts predict that Eli Lilly may gain an edge in the competitive "metabolic duopoly." The company's strong foothold in the burgeoning GLP-1weight-loss market positions it for industry-leading growth over the next decade, bolstered by both its current therapies and promising next-generation drugs in the pipeline. The shares were up +19% during the month.

Target investment mix[1]



Performance

As at 31 August 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity - Capital Group New Perspective Fund*	0.3%	4.4%	18.2%	4.4%	N/A	11.4%
Benchmark Index**	-0.5%	5.1%	20.3%	8.3%	N/A	11.3%

[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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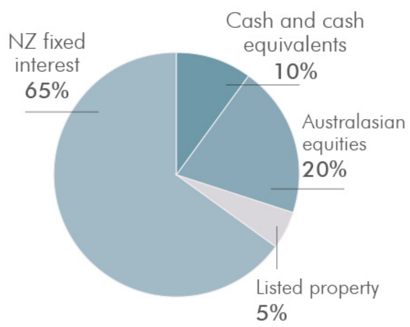
CLARITY DIVERSIFIED INCOME FUND

The Diversified Income Fund returned +1.2% in August.

New Zealand fixed interest and Australasian dividend paying shares were both strong over the month following the beginning of the RBNZ's rate cutting cycle. The Clarity Dividend Yield Fund (+2.7%) had a very strong month both in absolute terms and relative to its benchmark.

The Diversified Income Fund invests in the Clarity Fixed Income Fund and the Clarity Dividend Yield Fund.

Target investment mix[1]



Performance

As at 31 August 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Income Fund*	1.2%	4.2%	8.2%	1.8%	2.7%	3.9%
Benchmark Index**	1.3%	4.0%	8.0%	5.6%	4.2%	4.0%

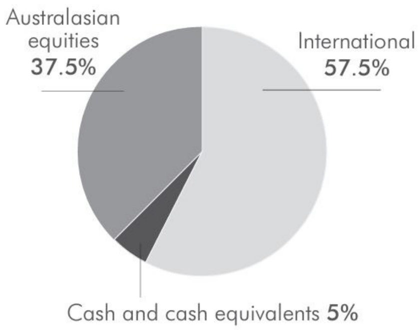
CLARITY DIVERSIFIED GROWTH FUND

The Diversified Growth Fund returns were flat in August, outperforming the benchmark which was negative.

Within the Fund we remain tactically overweight global equities which had a neutral impact during the month. The TAHITO Te Tai o Rehua Fund, Clarity Trans-Tasman Value Fund and the Clarity-Capital Group New Perspective Fund all contributed to relative outperformance.

The Diversified Growth Fund invests in the Clarity Global Shares Fund, the Clarity-Capital Group New Perspective Fund, the Clarity Trans-Tasman Value Fund and the TAHITO Te Tai o Rehua Fund.

Target investment mix[1]



Performance

As at 31 August 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Growth Fund*	0.0%	4.9%	15.9%	6.6%	9.2%	8.4%
Benchmark Index**	-0.5%	5.4%	16.1%	6.5%	9.7%	10.2%

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

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