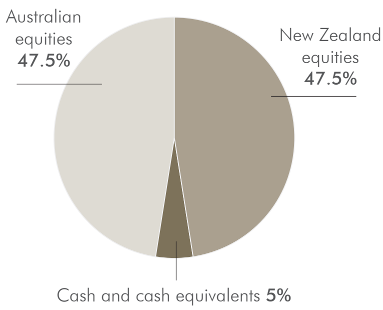
CLARITY TRANS-TASMAN VALUE FUND

December was another strong month for the Fund, which returned +4.9%. Share markets were well bid with further signs that inflation is coming under control, particularly in the all-important US economy, where the Federal Reserve indicated it may be able to start cutting official interest rates in 2024.

The recent strength and renewed confidence in markets has sparked a rush of corporate activity (a coverall term for a speculated or actual mergers or acquisitions, or the sale or purchase of a large stake in a company). Several companies in the Fund were involved during December, but by far the biggest mooted deal was a tie-up between Woodside Energy and Santos, Australia's two largest oil and gas producers. During the month the companies confirmed they were in preliminary discussions about a merger to create an $A85bn Australian energy champion. This would continue the trend for consolidation in the sector, with Santos previously merging with Oil Search, and Woodside subsuming BHP's oil and gas assets in the last couple of years. The Trans-Tasman Fund holds shares in both companies and we can see a strong rationale for the merger, with complementary asset bases (Woodside big in Western Australia and Santos in the east), potential cost savings, and global scale. Both companies are investing heavily in developing LNG resources, a key transition fuel for decarbonisation as it displaces coal.

In other corporate activity in the sector, long time shareholder Exxon Mobil sold its 14% stake in Channel Infrastructure in an after-market block trade. We took this opportunity to buy some more shares for the Fund at a discount to the prevailing price.

Target investment mix[1]



Performance

As at 31 December 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Trans-Tasman Value Fund*	4.9%	4.3%	5.1%	5.3%	7.0%	8.1%
Benchmark Index**	5.9%	5.9%	7.9%	3.5%	9.0%	5.3%

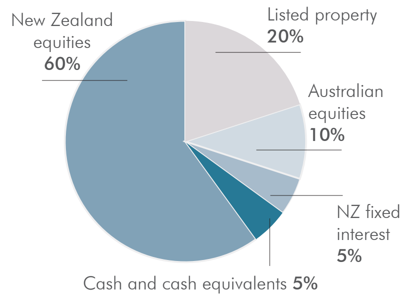
CLARITY DIVIDEND YIELD FUND

The Dividend Yield Fund returned +3.8% in December. The Fund's c.25% allocation to Australian dividend yielding shares bolstered returns, with that market outpacing New Zealand both in December and over the year. Although Australia faces some of the same economic issues as New Zealand, this year its share market has benefitted from strong commodity prices for its miners and record earnings from the banking sector.

Notwithstanding this recent outperformance, because the Dividend Yield Fund is focussed on generating dividend income, in the long-term we believe it makes sense for the bulk of the Fund to be invested in New Zealand shares, which generally offer stronger dividend yields, as well as the considerable tax benefit of imputation credits, which avoid double taxation of dividends for NZ residents. For example, shares in our largest telco Spark offer a 5.4% forecast net dividend yield, roughly the same as the 4.7% forecast yield from Telstra, Australia's largest telco. However, when we add in imputation credits, and assume a 28% tax rate, Spark's effective dividend yield jumps to 7.5%, a significant difference.

During December the best performers for the Fund came from New Zealand's primary sector: Fonterra (+16%) upgraded both its forecast milk price (paid to farmer suppliers) and earnings (which funds the dividend paid to shareholders), with demand in China improving and sales strong across their operations. With divestments of international operations complete and the balance sheet in much better shape the company has been going from strength to strength over the last couple of years, although the unusual co-operative corporate structure means the shares remain some of the cheapest on the market, relative to earnings. Scales (+14%) also released a positive earnings update with its apple orchards quickly recovering from Cyclone Gabrielle.

Target investment mix[1]



Performance

As at 31 December 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Dividend Yield Fund*	3.8%	4.3%	5.2%	2.2%	6.2%	9.5%
Benchmark Index**	4.5%	4.6%	6.6%	2.5%	7.1%	6.2%

[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.

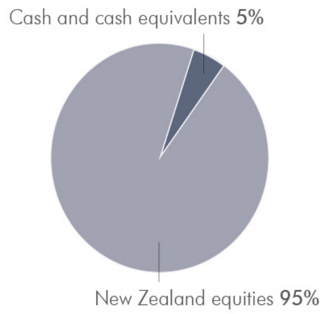
** Benchmark returns reflects no deduction for fees and tax. Details of these are included in the Quarterly Fund Update which is available at https://clarityfunds.co.nz/quarterly-fund-updates-and-commentaries.

CLARITY NEW ZEALAND EQUITY FUND

A +4% return in December pulled the New Zealand market back into the black for the year, but it remained one of the lowest returning markets globally in 2023, partly reflecting a subdued local economy, but also a year of mixed fortunes for our largest companies. Of our top 20, the largest decliner was A2 Milk which fell -37% over the year as the Chinese birth rate continued to decline, affecting demand for their key infant formula product. Sky City (-17%) struggled with tepid demand and regulatory issues, while EBOS (-17%) came back to earth a bit after a very strong run when news broke it had lost the important Chemist Warehouse supply contract. Erstwhile high growth companies like F&P Healthcare and Mainfreight were both treading water in 2023 after the boom years of Covid, although managed reasonable returns for shareholders of +7% and +6% in 2023 respectively. Better performance came from the utility and retirement sectors with companies like Mercury, Infratil, Auckland Airport, Ryman and Summerset all producing double digit returns for the year. The New Zealand Equity Fund held shares in all the companies listed above (winners and losers), other than Sky City.

During December, the Fund's top performer was cinema management software company Vista Group (+21%), which announced more customers were switching across to using their new cloud-based software, which delivers benefits for cinema operators and higher revenue for Vista. The new CEO has also completed a reorganisation of the company which he believes will improve efficiency and should see them become cashflow positive in 2024 after a period of investment in the cloud-transition. Vista has a dominant market position in cinema software (50% market share globally) and stands to benefit as movie visitation recovers further from its Covid decline.

Target investment mix[1]



Performance

As at 31 December 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity New Zealand Equity Fund*	3.3%	4.2%	3.9%	-1.7%	N/A	3.3%
Benchmark Index**	4.0%	4.3%	3.5%	-2.7%	N/A	2.6%

CLARITY FIXED INCOME FUND

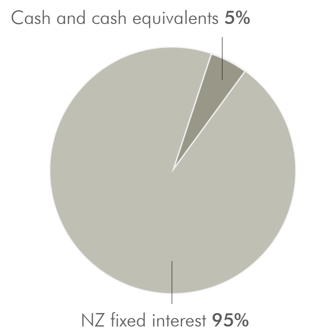
Concluding a year marked by volatility, the Fund reported a solid December performance, exceeding its benchmark by +0.4% with a return of +1.9%. Over the calendar year, the fund achieved a pleasing +7.4% return, a great result even surpassing the performance of New Zealand equity markets!

Over the month Jerome Powell, the head of the Federal Reserve, announced they would keep interest rates between 5.25% and 5.5%. In a major change in tone, he also mentioned the possibility of lowering these rates in 2024 by up to 0.75%. Powell said that the Federal Reserve could reduce rates even if there's no recession, noting that inflation is under control and the job market is steady. The "pivot" is here and this news had flow on effects throughout financial markets globally. Currently, the market anticipates that the Federal Reserve will decrease rates more significantly than currently signalled.

Interest rates both in the US and New Zealand fell sharply after this news and was the main driver of the Fund's strong performance (as bond prices tend to increase when interest rates decrease). Back home, the Reserve Bank of New Zealand's next meeting is scheduled for 28 February, with their previous meeting having been on 29 November. This gap between meetings allows for a substantial amount of data to be collected and analysed. Similar to the US, the New Zealand market is anticipating rate cuts earlier than the Reserve Bank of New Zealand's current projections.

One of the noteworthy transactions in the Fund during the month was the addition of a new Rabobank Floating Rate Note, a 3-year investment which has an A+ credit rating. This improved both the credit quality and the yield of the portfolio, without changing its duration.

Target investment mix[1]



Performance

As at 31 December 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Fixed Income Fund*	1.9%	4.6%	7.4%	0.4%	2.1%	3.4%
Benchmark Index**	1.5%	3.7%	7.8%	3.4%	2.5%	2.6%

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

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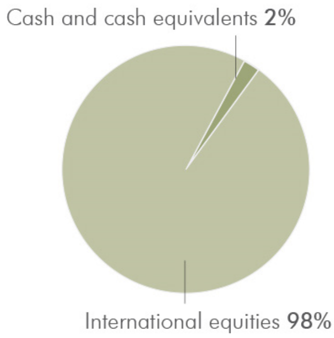
CLARITY GLOBAL SHARES FUND

The Federal Reserve held interest rates for the third consecutive time in December, while the Federal Open Market Committee indicated that their policy tightening campaign had ended. The increased likelihood of earlier interest rate cuts coupled with positive news about US economic resilience led to one of the biggest post-meeting rallies across assets in recent years. Global stocks rose to a fresh year to date high and market participation broadened into the year-end, while benchmark 10-year government bond yields declined further – concluding 2023 at or below where they started it.

US building supplier and distributor Builders FirstSource capped off a strong year with a +21% return during December. They provided positive guidance during their Investor Day. Anticipated rate cuts flowing through to lower mortgages is positive for construction activity and company earnings. Insurance company Cigna Group rebounded +12% after they announced that they were no longer pursuing the acquisition of Humana which was likely to be dilutive to shareholder value in the short term.

The market consensus is now firmly in the soft-landing camp with expectations for rate cuts and strong earnings growth supporting the recent rally and risk-on rotation. Boston based portfolio manager MFS remain cautious that the current expectation for double-digit earnings growth will be realised if the Federal Reserve needs to cut the policy rate six times in 2024 (as is currently expected by the market). Alternatively, if the economy remains resilient and earnings growth meets current expectations, it seems unlikely the Federal Reserve will need to cut rates to the extent the market is currently pricing in.

Target investment mix[1]



Performance

As at 31 December 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Global Shares Fund*	3.8%	6.9%	23.8%	12.2%	13.0%	10.1%
Benchmark Index**	3.1%	7.2%	22.0%	8.5%	12.2%	9.9%

CLARITY - CAPITAL GROUP NEW PERSPECTIVE FUND[2]

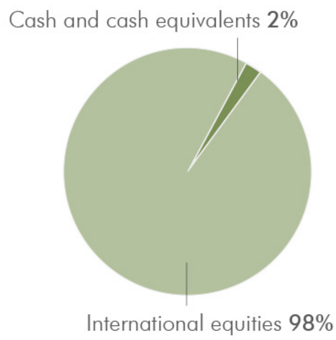
The Clarity-Capital Group New Perspective Fund recorded a positive return (+3.7%) in December, ahead of its benchmark. For the year we are pleased with the Fund's return of +23.6%, also ahead of its benchmark.

Fund holding Royal Caribbean Cruises had another strong month in December returning +18%. Cruise demand has been strong, with the year's bookings (as of October) significantly higher than those of 2019 and at record fares. Royal are on track for their 2023 EBITDA to surpass its pre-pandemic peak. This suggests a full recovery in travel sentiment post-pandemic as the world moves on into 2024.

Danish freight forwarder DSV rallied +14% during the month in response to increasing shipping container rates. The world's largest shipping firms are continuing to pause shipments through the Red Sea after attacks by Houthi rebels along the crucial international trade route. The ripple effect of global supply chain disruption was made abundantly clear throughout the pandemic (at a much greater scale). The Freightos Global Freight Index doubled since the beginning of December to early January.

Portfolio holding Broadcom rose +18% after issuing a solid outlook for their 2024 financial year driven by AI tailwinds to their semiconductor business. They are targeting US$50 billion in revenue with 60% EBITDA margins.

Target investment mix[1]



Performance

As at 31 December 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*	3.7%	7.4%	23.6%	4.6%	N/A	9.5%
Benchmark Index**	3.1%	7.2%	21.9%	8.6%	N/A	9.1%

[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.

* These returns are after deductions for fees and before tax.
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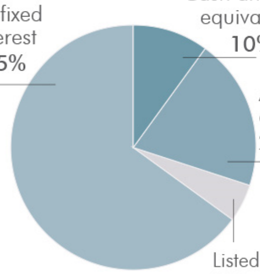
CLARITY DIVERSIFIED INCOME FUND

The Fund returned +2.3% in December. The fixed income component - which constitutes the core of the portfolio – returned +1.9%. The equity income element of the portfolio increased +3.8% during the month (in Clarity Dividend Yield).

Target investment mix[1]



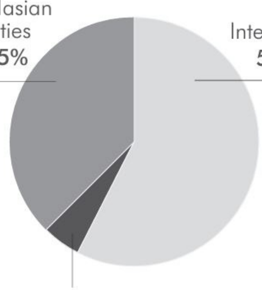
Performance

As at 31 December 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Income Fund*	2.3%	4.3%	6.4%	1.1%	3.6%	3.7%
Benchmark Index**	2.0%	3.7%	8.9%	4.8%	4.0%	3.9%

CLARITY DIVERSIFIED GROWTH FUND

The Diversified Growth Fund returned +4.0% in December reflecting continued strength in international share markets. Strong relative performance from the underlying Clarity Global Shares Fund and the Clarity-Capital Group New Perspective Fund contributed to performance for the month. The Fund was tactically overweight global share markets during December which performed well. The Fund returned +16.4% for the year, coming in ahead of its benchmark. International share exposure was the key driver of returns in 2023 but was supported by strong performance from Australasian equity Funds, particularly the Tahito Te Tai o Rehua Fund which returned an impressive +11.0% (+3.1% ahead of its benchmark).

Target investment mix[1]



Performance

As at 31 December 2023	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Growth Fund*	4.0%	6.0%	16.4%	6.8%	9.5%	7.2%
Benchmark Index**	4.3%	6.7%	16.2%	6.5%	11.0%	9.3%

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

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