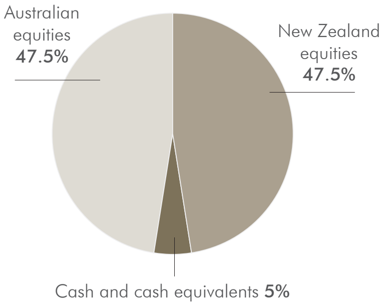
MONTHLY FUND COMMENTARY

June 2024

CLARITY TRANS-TASMAN VALUE FUND

Target investment mix[1]



A flat June for the Fund and benchmark capped off an uninspiring return in the first half of the year for the Trans-Tasman Value Fund, up +1.3%. But this lack of movement at a Fund level disguised substantial divergence under the surface. For example, the New Zealand share market, as measured by the S&P/NZX 50 Portfolio Index (which comprises 50% of the benchmark for this Fund), fell 3%, while the S&P/ASX 200 Index (a gauge of the Australian market and the other 50% of the benchmark) rose 4%.

In New Zealand, the best performers were high growth companies unaffected by our weak economy: market stalwarts F&P Healthcare (+29%) and A2 Milk (+54%) and software companies Gentrack (+55%), Vista Group (+37%). The Fund holds A2 and Vista, where we believe there is reasonable value on offer.

The worst performers in H1 were those companies exposed to weaker consumer demand due to higher interest rates, inflationary pressure and stagnating house prices: The Warehouse (-35%), Ryman (-40%), Fletcher Building (-41%), Tourism Holdings (-52%) and KMD Brands (i.e. Kathmandu, -53%). The Fund holds Ryman and Fletcher.

Within large-cap Australian shares the gap between best and worst was less pronounced. Goodman Group (high growth property development including data centres) lead the way, up +37%, while financials (banks and insurers) were also strong. On the downside, mining companies (underweight in the Fund) came under pressure from a declining iron ore price and continued concerns about the Chinese economy.

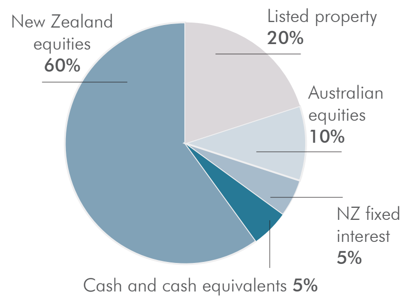
Generally, growth-style companies outperformed in both markets, and we are satisfied to have matched the market, after fees, in a period which wasn't particularly supportive for our investment style. We continue to gently add to holdings in beaten up but good quality cyclical companies who will benefit when the economy finally turns. Freightways in New Zealand and Seek in Australia are two examples.

Performance

As at 30 June 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Trans-Tasman Value Fund*	0.1%	-2.7%	2.9%	3.3%	4.7%	8.0%
Benchmark Index**	0.1%	-3.3%	4.0%	1.9%	5.5%	5.2%

CLARITY DIVIDEND YIELD FUND

Target investment mix[1]



As noted above, shares leading the market in the first half of 2024 were higher growth companies, who also tend to pay no or low dividends, preferring to reinvest earnings. The cohort of higher dividend yielding companies in New Zealand underperformed the broader market (S&P/NZX High Dividend Index -6.3%), reflected in the weak performance of the Dividend Yield Fund in H1 (-3.2%), albeit this was ahead of the underlying benchmark, which includes a 25% allocation to Australian shares.

Over longer time periods, high dividend yielding companies have performed similarly to the broader market, and we may well see returns equalise in future (i.e. mean revert). One potential catalyst for this could be the RBNZ cutting interest rates. Many of our higher dividend yielding companies are seen as 'bond proxies', and lower interest rates could drive higher demand for their shares. Listed property companies like Precinct and Argosy could stand to benefit in particular. Given the reasonable amount of debt they hold, easing interest rates would not only make their dividend streams more attractive, but also support the sustainability of these dividend payments by reducing interest expense.

The best performers for the Fund in the first half of the year were Tower (+48%), Ventia (+27%) and National Australia Bank (+23%). Fletcher Building (-32%), KMD Brands (-28%) and SkyCity (-25%) were the worst performers and have all been sold from the portfolio after indicating dividends are on hold as management look to stabilise operating performance and shore up their balance sheets.

Performance

As at 30 June 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Dividend Yield Fund*	-0.5%	-5.9%	-1.2%	-0.1%	2.6%	8.7%
Benchmark Index**	-0.9%	-5.9%	-2.2%	0.8%	2.6%	5.5%

[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.

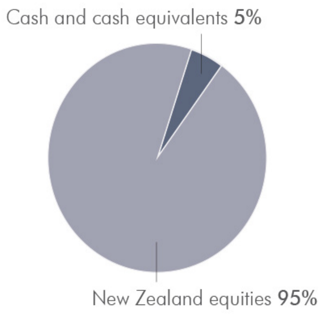
** Benchmark returns reflects no deduction for fees and tax. Details of these are included in the Quarterly Fund Update which is available at https://clarityfunds.co.nz/quarterly-fund-updates-and-commentaries.

CLARITY NEW ZEALAND EQUITY FUND

Of the different indices that track the New Zealand stock market, the headline S&P/NZX 50 Index (which does not cap the weight of any stock, and is the benchmark for this Fund), was the best performing in the first half of the year, coming very close to breaking even (-0.1%). A 15% weight to our largest listed company F&P Healthcare (+29%) certainly helped. As regular readers will know we hold an underweight position in FPH, instead supplementing Fund performance with overweight positions in Tower (+49%), A2 Milk (+54%) and Vista Group (+37%). The Fund eked out a positive performance of +0.8% for the half, but it was tough going.

A disappointing performer was our slightly off-piste investment in the CO2 Fund (-26%), an NZX-listed fund which invests predominantly in NZ carbon credits. It's no exaggeration to say the NZ carbon market is in disarray at present. After the previous government demurred from accepting the Climate Change Commission's recommendations regarding the scheme in late 2022, and then launched a review of the forestry carbon credits in 2023, confidence has been lacking in the market, which is purely a government construct. Several government auctions of carbon credits have failed to clear, adding to the uncertainty. However, the new government appears supportive, and the reality is that the Emissions Trading Scheme and associated carbon credits are the only tool the country has to achieve our important decarbonisation commitments under the Paris Agreement. The current carbon price of $50/tonne is not seen as nearly high enough to convince large emitters to invest in change, and despite the current noise we think the medium-long term carbon price should go higher. With the out-of-favour fund also trading at a 15% discount to NAV, the investment offers strong returns as and when confidence returns to the market.

Target investment mix[1]



Performance

As at 30 June 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity New Zealand Equity Fund*	-0.7%	-2.2%	1.7%	-0.8%	N/A	3.1%
Benchmark Index**	-1.2%	-3.1%	-0.8%	-1.7%	N/A	2.3%

CLARITY FIXED INCOME FUND

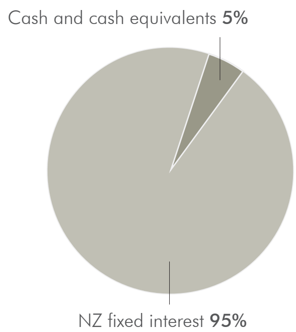
The Clarity Fixed Income Fund returned +0.8% in June, slightly ahead of benchmark.

During the month rates fell on the back of slightly weaker economic data which supported fixed income returns. New Zealand GDP was in line with expectations, however there were some issues with the seasonal adjustments that led market participants to believe that the underlying health of the economy was not as strong as the +0.2% GDP figure implied. Following the distortion caused by the pandemic there is a lot of lumpiness in economic data, particularly when using year-on-year comparisons.

There has been a lack of new debt issuance over the past few months which has led to the Fund holding a higher than usual cash balance. This is not a concern as cash is currently offering an attractive yield. Looking forward, we are actively working to increase the Fund's duration in expectation for the RBNZ to cut the OCR.

At month end, the portfolio yield was 5.6% and duration (average maturity) was 2.6 years.

Target investment mix[1]



Performance

As at 30 June 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Fixed Income Fund*	0.8%	1.1%	6.4%	1.2%	1.7%	3.4%
Benchmark Index**	0.7%	1.0%	7.2%	4.0%	2.7%	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

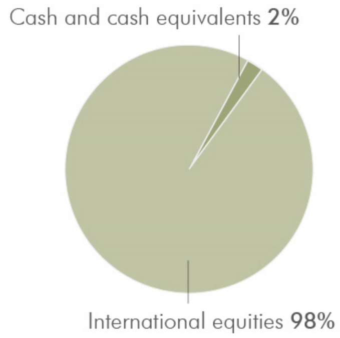
The Clarity Global Shares Fund returned +3.1% in June, ahead of benchmark.

Global equity markets saw continued gains in June with the S&P 500 up +3.6%, the MSCI All Country World Index up +2.3% and the tech-heavy NASDAQ returning +6.3%.

Halfway through the year large-cap, market-weighted indices (such as the S&P 500) have outperformed. The market-weighted S&P 500 has returned +15% year-to-date, +10% above the equal-weighted S&P 500. The key driver of this outperformance continues to be the magnificent 7, with NVIDA up +150%. This trend continued in June with NVIDA (+13%) leading the contribution to Fund performance. During the month softer than expected US CPI data saw bond yields fall as investors increased the amount of easing by the Federal Reserve this year. Expectations of lower rates are supportive for longer duration equities i.e. companies who stand to generate a larger portion of their earnings in the future. This includes the AI/GLP-1 exposed names with expectations of significant earnings growth.

Within the US share market, materials, industrials, utilities and energy sectors lagged. This was also the case within the Fund, with weakness across names such as Builders Firstsource (-14%), Fortescue (-14%), Rio Tinto (-5%), Suncor Energy (-5%) and PG&E (-6%).

Target investment mix[1]



Performance

As at 30 June 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Global Shares Fund*	3.1%	3.5%	25.5%	12.4%	13.7%	12.0%
Benchmark Index**	2.8%	2.2%	20.5%	8.6%	12.0%	11.3%

CLARITY - CAPITAL GROUP NEW PERSPECTIVE FUND[2]

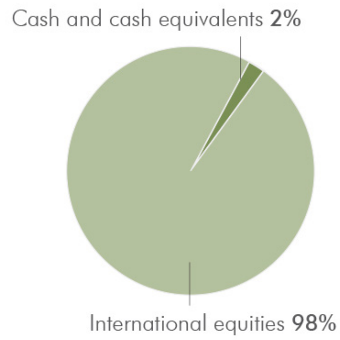
The Clarity-Capital Group New Perspective Fund returned +3.5% in June, +0.7% ahead of benchmark.

Outperformance was driven by artificial intelligence and GLP-1 exposed names with Broadcom (+21%), Taiwan Semiconductor Manufacturing Company (+18%), NVIDA (+13%), ASML (+11%), Meta (+8%) and Microsoft (+8%) among the leaders. Healthcare companies Novo Nordisk (+8%) and Eli Lilly (+10%) had a strong month, although the stock price reaction to Eli Lilly's read out and interpretation of the SURMOUNT study on GLP-1's and their impact on sleep apnea was muted.

A notable performance during the month came from the early-stage therapeutic company Alnylam Pharmaceuticals (+64%) after a positive read out from the phase 3 trial of their HELIOS-B drug for a rare but severe heart disease.

At the beginning of June, early exit polls suggested Marine Le Pen's right wing Rassemblement National were leading the French European Parliament election vote. This caused French President Macron (of the Renaissance Party) to call an early election for the French Parliament. This unexpected snap election saw increased political risk for French utilities. Historically, Le Pen has been pro-nuclear, supporting the construction of new reactors and has been more sceptical on renewable energy highlighting its intermittent nature and other perceived issues. Fund holding and French renewable energy company Engie fell -14% as a result. The key concerns are a halt to the energy transition and increased taxation on the energy sector. Following month end it is now looking less likely that Rassemblement National win the French election. Totalenergies (-6%) is a French oil and gas company with a smaller exposure to renewable energy. While it was less exposed to political risks, oil prices were weak after OPEC+ signalled plans to return some supply to the market earlier than expected.

Target investment mix[1]



Performance

As at 30 June 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*	3.5%	2.8%	19.5%	5.4%	N/A	11.7%
Benchmark Index**	2.8%	2.2%	20.5%	8.6%	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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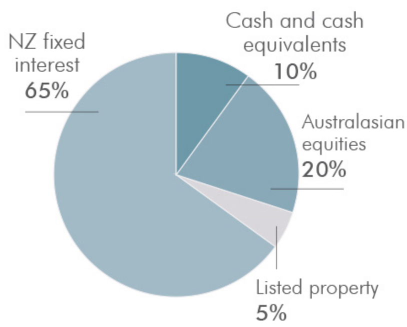
CLARITY DIVERSIFIED INCOME FUND

The Diversified Income Fund returned +0.4% in June, ahead of benchmark. Australasian dividend paying shares were weak over the month in an absolute sense, however the Clarity Dividend Yield Fund contributed strong returns relative to benchmark. The Clarity Fixed Income Fund provided healthy returns for the month in line with bond markets.

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

Target investment mix[1]



Performance

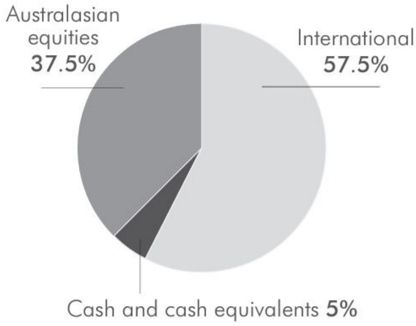
As at 30 June 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Income Fund*	0.4%	-0.8%	4.1%	0.9%	2.4%	3.5%
Benchmark Index**	0.1%	-1.1%	5.3%	4.4%	3.6%	3.6%

CLARITY DIVERSIFIED GROWTH FUND

The Diversified Growth Fund returned +2.2% in June, +0.4% ahead of benchmark. Within the Fund we remain tactically overweight global equities, which benefitted Fund performance in June. Relative outperformance was driven by our exposure to the Clarity-Capital Group New Perspective Fund which had a very strong month.

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 30 June 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since Inception p.a.
Clarity Diversified Growth Fund*	2.2%	0.8%	14.4%	6.6%	8.9%	8.2%
Benchmark Index**	1.8%	0.0%	13.7%	6.2%	9.3%	10.0%

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

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