



# **STATEMENT OF INVESTMENT POLICY AND OBJECTIVES FOR THE CLARITY FUNDS**

**20 DECEMBER 2024**

# CONTENTS

---

1. DESCRIPTION OF THE MANAGED INVESTMENT SCHEME . . . . .	3
2. INVESTMENT PHILOSOPHY . . . . .	3
3. INVESTMENT STRATEGY AND OBJECTIVES . . . . .	4
CLARITY FIXED INCOME FUND . . . . .	4
CLARITY TRANS-TASMAN VALUE FUND . . . . .	5
CLARITY DIVIDEND YIELD FUND . . . . .	6
CLARITY NEW ZEALAND EQUITY FUND . . . . .	7
CLARITY GLOBAL SHARES FUND . . . . .	8
CLARITY - CAPITAL GROUP NEW PERSPECTIVE FUND . . . . .	9
CLARITY DIVERSIFIED INCOME FUND . . . . .	10
CLARITY DIVERSIFIED GROWTH FUND . . . . .	11
4. INVESTMENT POLICIES AND PROCESSES . . . . .	12
ACTIVE MANAGEMENT . . . . .	12
RESPONSIBLE INVESTMENT . . . . .	12
INVESTMENT MANAGEMENT GOVERNANCE . . . . .	12
INVESTMENT STRATEGY REVIEW . . . . .	12
TACTICAL ASSET ALLOCATION AND REBALANCING . . . . .	13
EXTERNAL INVESTMENT MANAGERS . . . . .	13
CURRENCY MANAGEMENT (HEDGING) . . . . .	14
LIQUIDITY MANAGEMENT . . . . .	14
MARKET RISK MANAGEMENT . . . . .	14
TRADE ALLOCATION AND EXECUTION . . . . .	15
SETTLEMENT RISK MANAGEMENT . . . . .	15
PRICING AND VALUATION . . . . .	15
VOTING POLICY . . . . .	15
CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS . . . . .	15
BORROWING . . . . .	15
5. INVESTMENT PERFORMANCE MONITORING . . . . .	16
6. REVIEW OF SIPO . . . . .	16

## 1. DESCRIPTION OF THE MANAGED INVESTMENT SCHEME

---

Clarity Funds Management Limited (referred to as **Clarity**, the **Manager**, **us**, **our** or **we**) is the licensed manager of the Clarity Funds Scheme (**Scheme**), a managed investment scheme. This statement of investment policy and objectives (**SIPO**) sets out the philosophy, strategies, objectives and management frameworks for the following funds in the Scheme (**Clarity Funds** or **Funds**):

- Clarity **Fixed Income Fund**
- Clarity **Trans-Tasman Value Fund**
- Clarity **Dividend Yield Fund**
- Clarity **New Zealand Equity Fund**
- Clarity **Global Shares Fund**
- Clarity **Capital Group New Perspective Fund**<sup>1</sup>
- Clarity **Diversified Income Fund**
- Clarity **Diversified Growth Fund**

The TAHITO Te Tai o Rehua Fund and Enhanced Cash PIE each have standalone SIPO's.

As a managed investment scheme, your money will be pooled with other investors' money and invested in various investments as described in this document. The Fund is divided into units and you invest by buying units. The value of units fluctuates according to the changing value of the assets in which the Fund has invested.

Each of the Funds is a Portfolio Investment Entity (**PIE**).

Clarity, founded in 2007, is a funds management company committed to helping our clients achieve their investment objectives. Clarity's parent company is Investment Services Group Limited (**ISG**) who provides operational functions on an outsource basis to its subsidiaries, including Clarity. ISG is also the parent company of TAHITO Limited.

The supervisor of the Scheme is The New Zealand Guardian Trust Company Limited (the **Supervisor**).

This SIPO replaces the one dated 29 September 2023. We may amend the investment policy and objectives for the Scheme from time to time, in consultation with the Supervisor. We will notify you of any significant changes to the SIPO and when they will take effect. The current version is available on the scheme's register at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz) or at [www.clarityfunds.co.nz](http://www.clarityfunds.co.nz).

## 2. INVESTMENT PHILOSOPHY

---

Clarity's aim is to provide high quality, straightforward and flexible investment options - uncomplicated funds our clients can understand and trust.

All our funds are actively managed by experienced portfolio managers.

Clarity's investment approach is based on the following principles:

- We endeavour to take a long term view.
- We are not speculators. We actively seek quality investments where we believe the underlying value is equal to or exceeds the current price.
- We err on the conservative side of investing.
- We take a disciplined approach to risk management.
- We strongly believe in the importance of diversification.
- We seek to invest your capital responsibly, conscious of environmental, social and governance issues in the companies we invest in.

1. Capital Group and Capital Group New Perspective are trademarks of The Capital Group Companies, Inc.

### 3. INVESTMENT STRATEGY AND OBJECTIVES

The investment strategy and objectives for each of the Clarity Funds are set out below including target asset allocation and ranges.

#### Clarity Fixed Income Fund

**Objective:** Aims to provide income in excess of bank deposits and capital stability over the medium term (three (3) years or longer) by investing mainly in New Zealand fixed interest securities. We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund will primarily invest in a well-diversified portfolio of New Zealand fixed interest securities but may also invest in international fixed interest securities and exchange traded funds.

**Benchmark:** Bloomberg New Zealand Bond Composite 0-5 Year Index.

The objective of the Fund is to exceed the return from bank term deposits. As a result of this objective, the interest rate duration of the portfolio may be shorter than a traditional fixed income bond portfolio.

**Holdings:** The Fund will primarily be comprised of New Zealand corporate bonds, bank securities, local authority stock and cash investments (call deposits and term deposits); however, other forms of fixed interest securities (including hybrid securities) may also be included. Some investments may be made through subordinated instruments and in international fixed interest securities. The portfolio will be predominantly invested in investment grade rated securities.

**Suitability:** This Fund may be suitable for investors who are looking for a low risk investment and want to achieve returns over time that are slightly higher than a bank deposit.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within these ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	5	0 - 40
NEW ZEALAND FIXED INTEREST Including NZ Government, local authority, corporate and non-government securities	95	60 - 95
INTERNATIONAL FIXED INTEREST International bonds including government, local authority, corporate and non-government securities rated investment grade	0	0 - 20
OTHER ASSETS Via exchange traded fund(s) (ETF). An ETF is a marketable security that tracks published market indices	0	0 - 10
	100	

We may also participate in underwriting and sub-underwriting contracts for issues of permitted fixed interest securities.

**Capital volatility** will be managed through a diversified portfolio of holdings (generally each holding will be less than 5% of the total portfolio) with particular attention given to interest rate risk, maturity risk, credit risk, and industry sector risk. In addition, the structure of the particular fixed interest securities will be considered.

**Maturity risk** will be addressed by managing a “laddered” portfolio to ensure that there are regular maturities and lowered maturity concentration risk. Maturity risk will be monitored primarily by reference to the duration and maturity characteristics of the underlying benchmark index. The Fund may use hedging instruments to manage interest rate risk. These could be an asset or liability for the Fund depending on the type of instrument selected such as interest rate swaps.

A primary consideration for managing **credit risk** will be external ratings (e.g. S&P and Moody’s), with internal guidelines used to manage and monitor portfolio exposure to different credit grades. The portfolio will be predominantly invested in investment grade rated securities, however the Fund will, on a case by case basis, have the ability to consider non-rated, or non-investment grade securities.

Non-rated or non-investment grade securities are those rated BBB- and below “Investment grade” is generally considered to be ‘BBB’ rating or better (S&P). The Manager will attempt to restrict exposure to the lower end of the investment grade spectrum.

**Industry sector risk** considerations will be managed with internal guidelines, supported by internal and external research.

**Hedging:** Any foreign currency exposure arising from international fixed interest securities will be fully hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management section of this SIPO for more details.

**Distribution:** We intend to make quarterly distributions from the Fixed Income Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors have the option to reinvest the distributions into additional units or to have these direct credited into their nominated bank account.

### 3. INVESTMENT STRATEGY AND OBJECTIVES

#### Clarity Trans-Tasman Value Fund

**Objective:** To provide actively managed exposure to New Zealand and Australian equities. The Fund aims to generate a better return than the benchmark over the medium to long term (five (5) years or longer). We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund employs a value investing strategy, typically favouring companies which offer higher earnings yields.

**Benchmark:** 50% S&P/NZX 50 Portfolio Index Gross with Imputation and 50% S&P/ASX 200 Accumulation Index in NZ dollars.

**Holdings:** The Fund will primarily invest in the shares of a selection of New Zealand and Australian companies. The Fund is actively managed, which means its holdings may differ considerably from the relevant benchmark index.

**Suitability:** The Fund may be suitable for investors who want a diversified investment with exposure across Australasian equities, who are comfortable with a higher risk in the short term for improved longer term returns.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits	5	0 - 40
NEW ZEALAND EQUITIES Any company listed on the New Zealand Stock Exchange (NZX)	47.5	20 - 70
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange (ASX)	47.5	20 - 70
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	0	0 - 5
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a basket of securities that trade on a stock exchange	0	0 - 10
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- Investments should be capable of conversion into cash without delay and without significantly affecting the price.
- No borrowing is permitted.
- No more than 10% of the Fund can be held in any single security.

**Hedging:** Typically we do not intend to hedge the foreign currency exposure however, there may be circumstances under which we elect to use foreign exchange contracts to reduce the level of exposure to foreign currencies.

**Distribution:** We intend to make quarterly distributions from the Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors will have the option to reinvest their distributions into additional units or to have these direct credited into their nominated bank account.

### 3. INVESTMENT STRATEGY AND OBJECTIVES

#### Clarity Dividend Yield Fund

**Objective:** To provide actively managed exposure to dividend paying New Zealand and Australian equities. The Fund aims to generate higher dividend income than the benchmark over the medium to long term (five (5) years or longer). We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund will generate income from a diversified portfolio of companies that we consider provide an attractive and sustainable dividend yield.

**Benchmark:** 75% S&P/NZX 50 High Dividend Index Gross with Imputation and 25% S&P/ASX 200 Accumulation Index.

**Holdings:** The Fund will primarily invest in the shares of a selection of New Zealand and Australian companies. The Fund may also invest in cash or equivalent investments and other fixed interest securities, depending on market conditions. The Fund is actively managed, which means its holdings may differ considerably from the relevant benchmark index.

**Suitability:** The Fund may be suitable for investors seeking the regular distribution of income from their diversified investment with exposure across Australasian equities, who are comfortable with medium to high risk in the short term.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	5	0 - 30
NEW ZEALAND EQUITIES Any company listed on the New Zealand Stock Exchange (NZX)	72.5	0 - 80
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange (ASX)	22.5	0 - 50
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	0	0 - 5
NEW ZEALAND FIXED INTEREST Including NZ Government, local authority, corporate and non-government securities	0	0 - 10
INTERNATIONAL FIXED INTEREST International bonds including government, local authority, corporate and non-government securities rated investment grade	0	0 - 10
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a basket of securities that trade on a stock exchange	0	0 - 10
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity and fixed interest securities.

There are a number of general restrictions that apply to the stated objectives:

- Investments should be capable of conversion into cash without delay and without significantly affecting the price.
- No borrowing is permitted.
- No more than 10% of the Fund in any single equity or bond holding.

**Hedging:** The Australian dollar exposure arising from Australian equities will generally be fully hedged to the New Zealand dollar to mitigate the impact of currency fluctuations. Please refer to the Currency Management section in this SIPO for further details.

**Distribution:** We intend to make quarterly distributions from the Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors will have the option to reinvest their distributions into additional units or to have these direct credited into their nominated bank account.

### 3. INVESTMENT STRATEGY AND OBJECTIVES

#### Clarity New Zealand Equity Fund

**Objective:** To provide actively managed exposure to New Zealand equities. The Fund aims to generate a better return than the benchmark over the medium to long term (five (5) years or longer). We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund will invest in a diversified portfolio of primarily New Zealand equities.

**Benchmark:** S&P/NZX 50 Index Gross with Imputation.

**Holdings:** The Fund will primarily invest in the shares of a selection of New Zealand companies. The Fund is actively managed, which means its holdings may differ considerably from the relevant benchmark index.

**Suitability:** The Fund may be suitable for investors who want a diversified investment with exposure across New Zealand equities, who are comfortable with a higher risk in the short term for improved longer term returns.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits	5	0 - 10
NEW ZEALAND EQUITIES Any company listed on the New Zealand Stock Exchange (NZX)	95	80 - 100
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- Investments should be capable of conversion into cash without delay and without significantly affecting the price.
- No borrowing is permitted.
- No security will be held at more than 7% above its weight in the benchmark.

**Distribution:** We intend to make quarterly distributions from the Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors will have the option to reinvest their distributions into additional units or to have these direct credited into their nominated bank account.

### 3. INVESTMENT STRATEGY AND OBJECTIVES

#### Clarity Global Shares Fund

**Objective:** To provide actively managed exposure to international equities and aims to generate a better return than the benchmark over the medium to long term (five (5) years or longer).

**Strategy:** We use global investment manager MFS Investment Management (**MFS**) for this Fund. MFS use a mix of fundamental and quantitative analysis to select companies.

**Benchmark:** MSCI All Country World Index (net dividends reinvested) in New Zealand dollars with 50% hedged to the New Zealand dollar.

**About MFS:** Established in 1924, MFS is an active, global asset manager with investment offices in Boston, Hong Kong, London, Mexico City, São Paulo, Singapore, Sydney, Tokyo and Toronto. Our investment mandate combines MFS' fundamental and quantitative research, focusing on high quality, large-cap global companies selling at reasonable valuations.

**Holdings:** The Fund invests in a portfolio of well-diversified global securities listed on sharemarkets around the world. These assets may include listed equities and exchange traded funds, as well as currency positions and cash. Securities of companies which are traded or due to be listed on international stock exchanges may be considered for inclusion in the Fund. As the Fund is actively managed, the holdings may differ considerably from the relevant benchmark index. The Fund's custodian holds the assets directly.

**Suitability:** This Fund may be suitable for those investors who are comfortable with a higher risk in the short term for improved longer term returns.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. The Fund will be managed within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	2	0 - 5
NEW ZEALAND EQUITIES Any company listed on the New Zealand Stock Exchange (NZX)	0	0 - 10
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange (ASX)	0	0 - 10
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	98	80 - 100
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a basket of securities that trade on a stock exchange	0	0 - 5
	100	

The Fund is typically fully invested in equity securities, either directly or via investment in other funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- No more than 7% of the fund can be held in any single security.
- No borrowing or short selling is permitted
- We seek to exclude companies that are directly involved in the following activities:
  - the manufacture of cluster munitions;
  - the manufacture of anti-personnel mines;
  - the processing of whale meat; and
  - the manufacture or testing of nuclear explosive devices;
  - the manufacture of tobacco;
  - recreational cannabis.

**Hedging:** The foreign currency exposure arising from overseas equities will be partially hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management section of this SIPO for further information.

**Distribution:** We do not make any cash distributions from the Fund.



### 3. INVESTMENT STRATEGY AND OBJECTIVES

#### Clarity - Capital Group New Perspective Fund

**Objective:** Aims to achieve long term growth of capital (five (5) years or longer) by investing in shares of companies located around the world.

**Strategy:** We use Capital Group as the global investment manager for this Fund. Capital Group conduct proprietary company research and favour companies expected to benefit from structural trends in the global economy.

**Benchmark:** MSCI All Country World Index (net dividends reinvested) in New Zealand dollars, 50% hedged to the New Zealand dollar.

**About Capital Group:** Capital Group is one of the largest and most experienced investment management firms in the world. Since 1931 Capital Group has been focused on delivering superior, consistent results for long term investors using high-conviction portfolios, rigorous research and individual accountability. We have engaged Capital Group through its affiliate Capital International Management Sarl, which is the management company responsible for the operation of the Capital Group New Perspective Fund (LUX).

**Holdings:** The Fund provides access to an actively managed portfolio of international listed equities, including emerging markets, through its investment in the Capital Group New Perspective Fund (LUX), a Luxembourg based open-ended collective investment scheme (SICAV), and cash. The Capital Group New Perspective Fund (LUX) invests in a portfolio of well-diversified global securities listed on share markets around the world. As the investment is actively managed, the holdings may differ considerably from the relevant benchmark index.

**Suitability:** This Fund may be suitable for those investors who are comfortable with a higher risk in the short term for improved longer term returns (five (5) years or longer).

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. The Fund will be managed within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	2	0 - 5
NEW ZEALAND EQUITIES Any company listed on the New Zealand Stock Exchange (NZX)	0	0 - 10
AUSTRALIAN EQUITIES Any company listed on the Australian Stock Exchange (ASX)	0	0 - 10
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	98	80 - 100
INTERNATIONAL FIXED INTEREST International bonds including government, local authority, corporate and non-government securities rated investment grade	0	0 - 15
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a basket of securities that trade on a stock exchange	0	0 - 5
	100	

Where the Fund invests in an external fund the amount invested in the external fund will be allocated to the principal asset sector in which the external fund invests for the purposes of calculating the asset allocation proportions above.

The Fund is typically fully invested in equity securities, via investment in the Capital Group New Perspective Fund (LUX). We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There is one restriction that applies to the stated objectives:

- No borrowing or margin purchases are permitted.

**Hedging:** The foreign currency exposure arising from overseas equities will be partially hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management section of this SIPO for further information.

**Distribution:** We do not make any cash distributions from the Fund.

### 3. INVESTMENT STRATEGY AND OBJECTIVES

#### Clarity Diversified Income Fund

**Objective:** Aims to provide income in excess of the benchmark over the medium term (four (4) years or longer) by investing in fixed income securities and dividend paying New Zealand and Australian equities. We intend for the Fund to make quarterly income distributions.

**Strategy:** The Fund will primarily invest in managed funds (including other Clarity funds) to achieve a well-diversified portfolio of New Zealand fixed interest securities and New Zealand and Australian equities.

**Benchmark:** 75% Bloomberg New Zealand Bond Composite 0-5 Year Index and 25% S&P/NZX 50 High Dividend Index Gross with Imputation.

**Holdings:** The Fund is actively managed, which means the holdings may differ considerably from the relevant benchmark index.

**Suitability:** This Fund may be suitable for those investors who are willing to accept a higher risk than bonds and cash deposits and who desire income from their investment.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short term securities and deposits and currency hedging	5	0 - 45
NEW ZEALAND FIXED INTEREST Including NZ Government, local authority, corporate and non-government securities	70	0 - 90
INTERNATIONAL FIXED INTEREST International bonds including government, local authority, corporate and non-government securities rated investment grade	0	0 - 20
AUSTRALASIAN EQUITIES Any company listed on the New Zealand or Australian Stock Exchange (NZX or ASX)	25	0 - 50
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	0	0 - 20
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a basket of securities that trade on a stock exchange	0	0 - 20
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other managed funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity and fixed interest securities.

There are a number of general restrictions that apply to the stated objectives:

- No more than 10% of the Fund in any single underlying equity or bond holding.
- No borrowing or short selling is permitted.

**Hedging:** The foreign currency exposure arising from overseas equities will be partially hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management section of this SIPO for further details.

**Distribution:** We intend to make quarterly distributions from the Fund broadly in line with the income generated by the investment portfolio. All distribution amounts are at our discretion. Investors will have the option to reinvest their distributions into additional units or to have these direct credited into their nominated bank account.

### 3. INVESTMENT STRATEGY AND OBJECTIVES

#### Clarity Diversified Growth Fund

**Objective:** To provide actively managed exposure to New Zealand, Australian and international equities, and aims to generate a better return than the benchmark over the medium to long term (five (5) years or longer).

**Strategy:** The Fund will primarily invest in managed funds (including other Clarity funds) to achieve a well-diversified portfolio of equities. It may also invest in other assets on listed sharemarkets.

**Benchmark:** 20% S&P/NZX 50 Portfolio Index Gross with Imputation, 20% S&P/ASX 200 Accumulation Index in New Zealand dollars, and 60% MSCI All Country World Index (net dividends reinvested) in New Zealand dollars with 50% hedged to the New Zealand dollar.

**Holdings:** The Fund is actively managed, which means the holdings may differ considerably from the relevant benchmark index.

**Suitability:** This Fund may be suitable for those investors who are comfortable with a higher risk in the short term but want a diversified exposure to shares.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. Clarity will manage the Fund within the given ranges.

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits and currency hedging	5	0 - 25
AUSTRALASIAN EQUITIES Any company listed on the New Zealand or Australian Stock Exchange (NZX or ASX)	37.5	0 - 70
INTERNATIONAL EQUITIES Any company listed on any other recognised Stock Exchange	57.5	0 - 70
OTHER ASSETS Via exchange traded fund(s) (ETF) An ETF is a basket of securities that trade on a stock exchange	0	0 - 10
	100	

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other managed funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are a number of general restrictions that apply to the stated objectives:

- No more than 10% of the Fund can be held in any single security.
- No borrowing or short-selling is permitted.

**Hedging:** The foreign currency exposure arising from overseas equities will be partially hedged to the New Zealand dollar to reduce the impact of currency fluctuations. Please refer to the Currency Management section of this SIPO for further information.

**Distribution:** We do not make any cash distributions from the Fund.

## 4. INVESTMENT POLICIES AND PROCESSES

---

We set out below a summary of the key investment management policies and processes that are relevant to management of the Clarity Funds.

### Active Management

All our funds are actively managed by experienced portfolio managers. Our in-house investment team directly manage Clarity's investments in New Zealand and Australia, with the exception of the TAHITO Te Tai or Rehua Fund which is managed by TAHITO Limited. For international shares, we have appointed external investment managers with suitable resources and expertise to actively manage this asset class.

### Responsible Investment

Clarity believes that environmental, social and governance (ESG) factors are an important determinant of long term investment returns and global sustainability. As a responsible investor and as part of our fiduciary duty, Clarity has implemented a Responsible Investment Policy that sets out: the factors considered in the investment research and management process and how the policy is practically implemented.

For more information, see our website [www.clarityfunds.co.nz/about-us/responsible-investing](http://www.clarityfunds.co.nz/about-us/responsible-investing). For the Clarity Global Shares Fund, Clarity has requested that MFS apply ESG exclusions to align with industry norms in New Zealand. These are detailed on page 8 of this SIPO.

MFS monitoring includes:

- Monthly review to confirm exclusions are being applied correctly.
- Annual portfolio sustainability reviews.
- External ESG rating changes are systematically disseminated by analysts and portfolio managers.

Exclusions are managed using external provider screening tools for all potential investments. Screening is designed to remove companies involved with excluded activities. The process will also identify companies that were not previously, but have become involved, with excluded activities. If a company is flagged, MFS may engage with the management team or board of directors, government officials, or other influential parties to better understand the risks or opportunities the issue may present to the company or issuer. If, after engaging, the ESG risk or opportunity is still considered material, MFS will exit the holding.

### Investment Management Governance

The Clarity Investment Committee (**Investment Committee**) is the body responsible for formulating and implementing investment policies, strategic and tactical asset allocations, security selection, and overseeing the portfolio management of the Clarity Funds. It meets once a month, or more frequently if required.

The scope of the Investment Committee includes:

- Researching and analysing securities, markets and economic conditions.
- Strategic and tactical asset allocation reviews.
- Monitoring investment performance.
- Appointing and monitoring of external investment manager.
- Managing investment risk and compliance matters.
- Selecting and monitoring counterparties.

Some of these functions may be delegated to sub committees as the Investment Committee sees fit.

### Investment Strategy Review

The Investment Strategy is the responsibility of the Investment Committee and reviewed at least annually or when market conditions require it. The investment strategy framework is designed for the long term, consequently it is unlikely that changes will be made on a regular basis.

Where external managers have been engaged, they commit to adhering to the investment strategy set by the Investment Committee. We review the external managers ability to meet strategic objectives before we engage them and monitor their performance thereafter.

## 4. INVESTMENT POLICIES AND PROCESSES

---

### Tactical Asset Allocation and Rebalancing

We may make tactical investment decisions that take us away from our strategic asset allocation based on our assessment of market conditions and quantitative fund analysis.

Each Fund's holdings are reviewed at least monthly to ensure the individual security positions and asset allocations for each fund are aligned with the Investment Committee's (as defined below) current investment view.

### External Investment Managers

Clarity may appoint external investment managers. As at the date of this SIPO we work with the following external managers:

- MFS Australia as an investment manager responsible for the Global Shares Fund.
- Capital Group as an investment manager responsible for the New Perspective Fund.

When selecting an external manager, we take the following criteria into consideration:

- A sound and disciplined investment process.
- Investment style is consistent with Clarity's investment philosophy.
- Experience and capability of investment team.
- Performance and track record.
- Access to the investment management team.
- Governance and compliance arrangements.

An investment management agreement is established between the Manager and any external investment manager. These agreements detail the requirements and constraints in place for the relevant Fund.

Clarity will consider the suitability and performance of any external investment manager from time to time and reserves the right to add further managers and remove any manager.

## 4. INVESTMENT POLICIES AND PROCESSES

### Currency Management (Hedging)

The Funds face currency risk when they invest in international assets denominated in foreign currencies. A Fund's value may be negatively or positively impacted by the depreciation or appreciation of that currency in New Zealand dollar terms. This is because the value of the Fund is calculated in New Zealand dollar terms.

We may seek to mitigate the risk of currency exposures by the use of forward contracts that will lock in an exchange rate for a currency transaction at a future date, known as 'hedging'. Currency hedging provides some protection against changes in currency exchange rates.

We follow the ranges set out below:

Clarity fund	Asset Class	Hedging Target (%)	Hedging Range (%)
Fixed Income Fund	International fixed interest	100	0 - 100
Trans-Tasman Value Fund	All	0	0 - 100
Dividend Yield Fund	Australian shares	100	0 - 100
	International shares (excluding Australia)	50	0 - 100
	International fixed interest	100	0 - 100
Global Shares Fund	Australian shares	50	0 - 100
	International shares (excluding Australia)	50	0 - 100
New Perspective Fund	Australian shares	50	0 - 100
	International shares (excluding Australia)	50	0 - 100
Diversified Income Fund	Australian shares	100	0 - 100
	International shares (excluding Australia)	50	0 - 100
	International fixed interest	100	0 - 100
Diversified Growth Fund	Australian shares	0	0 - 100
	International shares (excluding Australia)	50	0 - 100

We note that underlying funds may have different hedging arrangements.

We may adjust the level of our currency hedging within the ranges above depending on our view of the relative strength or weakness of the New Zealand dollar. While we have the flexibility, we do not often take tactical hedging positions and generally stay close to the targets stated in the table above.

### Liquidity Management

It is important for our Funds to maintain an appropriate level of liquidity to be able to meet our cash flow requirements. We maintain liquidity by investing in authorised investments that have satisfactory levels of liquidity themselves. Each of the Funds also holds some operational cash to help us pay redemptions and expenses.

### Market Risk Management

The Funds may decrease in value from adverse movements in the market value of securities held. A reduction in a securities value can be caused either by broader market movements and events, or security specific performance and events. We seek to reduce the negative impact on the Funds specific to poor company performance through, diversification, research and oversight by the Investment Committee.

Within the Funds, care is taken to avoid excessive exposure and concentration in a single security or industry.

## 4. INVESTMENT POLICIES AND PROCESSES

---

### Trade Allocation and Execution

Clarity's trading will be conducted in the best interests of clients. We seek to achieve the best execution, taking into account the following trading criteria:

- Size and nature of the trade including price and cost of the transaction.
- Liquidity and the likelihood of execution.
- Counterparty credit rating and quality.
- Any other relevant considerations.

Third parties or 'counterparties' are used by Clarity to execute trades. We have agreements in place with selected counterparties. These arrangements are reviewed periodically and subject to oversight and approval processes.

All trades are allocated on an equitable basis.

It's important to note that if an order is not fully executed due to lack of liquidity, then the part of the order that is executed is generally allocated in proportion to the relative size of each order.

This process applies to all investments including initial public offerings and secondary placements.

### Settlement Risk Management

Clarity Funds may be exposed to settlement risk associated with default at settlement time and any timing differences in settlement between the trade counterparties.

We have adopted a settlement process to ensure that trade settlements occur as agreed. This includes reconciliation of trade instructions to contract notes both by BNP Paribas, as the trade counterparty and custodian, and APEX, as the administration manager and registrar.

### Pricing and Valuation

APEX manage the pricing and valuations of all fund assets and calculating the Net Asset Value (NAV) of the Funds on behalf of Clarity. Whilst this task has been outsourced, Clarity is ultimately responsible for the pricing and valuation of fund assets. We have established processes for resolving any pricing errors or non-compliance with pricing methodologies by APEX.

### Voting Policy

Clarity undertakes to vote proxies on behalf of clients where we believe a particular proposal or director nominee could influence the long term value of a Fund's investment.

### Conflicts of Interest and Related Party Transactions

Clarity has in place a Conflicts of Interest Policy to manage potential or actual conflicts of interest in a way that is fair to investors. This policy provides the process to identify, declare and monitor a potential conflict of interest.

The FMC Act imposes statutory duties on us as the Manager of the Funds to manage conflicts of interest:

- We must in performing any duties or exercising any powers, exercise the care, diligence and skill that a prudent person engaged in that profession would exercise in the circumstances; act honestly in acting as a manager; act in the best interests of investors; and treat investors equitably.
- Where we delegate out some or all of our functions as manager to other parties, we must ensure that those functions are performed in the same manner, and subject to the same duties and restrictions, as if we were performing them directly. We must also monitor the performance of those functions.

We have built these statutory controls into our internal compliance processes and procedures.

We will not enter into transactions with related parties who may benefit from those arrangements, except as agreed with our Supervisor and as permitted under the provisions of the FMC Act. We provide the Supervisor with quarterly reporting on related party transactions.

### Borrowing

The Fund's Establishment Deeds allow us to make all decisions relating to borrowing by or lending from any Fund (including stock lending).

As at the date of this SIPO no borrowing has occurred for any of the Funds. Our policy is that borrowing is not permitted, however this may change in the future, in consultation with the Supervisor.

## 5. INVESTMENT PERFORMANCE MONITORING

---

The asset allocation ranges, objectives and other limits stated in this SIPO act as the limits of our investment approach. Our internal processes measure and report against these limits.

We review all asset allocation targets and specified limits daily to ensure they are within the parameters stipulated in this SIPO.

Higher levels of cash may be held in the event of large contributions or withdrawals. In such an event, should the cash and cash equivalents exceed the asset allocation range limits above, it will not be treated as a SIPO limit breach.

Where the Fund invests in an underlying fund, the amount invested in the underlying fund will be allocated to the principal asset sector in which the underlying fund invests for determining compliance with the SIPO.

Investment performance (active returns versus benchmark returns) is formally monitored monthly. Analysis of our over or under performance is undertaken by the Investment Committee. Exceptional performance (positive or negative) is highlighted and reviewed, and any recommended actions noted.

The monthly review considers whether asset allocations and individual security positions for each fund are aligned with the Investment Committee's current investment view.

Additionally, Clarity is required to provide a monthly report and a quarterly director's certificate to the Supervisor to monitor SIPO compliance.

Investment performance is reported monthly to investors. Performance is measured net of fees and expenses.

## 6. REVIEW OF SIPO

---

Compliance with the SIPO is monitored daily by us and a full review of the SIPO is undertaken annually or when material changes are made to the funds, to ensure that the investment objectives and parameters for the funds are clearly articulated and remain relevant.

The review is conducted by a senior manager of Clarity and presented to the Investment Committee for approval.

Whilst changes are not expected, if they are required, we will consult our Supervisor who will review and approve the changes before obtaining Directors' approval.

If changes are made that materially impact investors, we will give you at least thirty (30) days written notice of those changes.





**Clarity Funds Management Limited** Level 1, 87 Hurstmere Road PO Box 33-1106 Takapuna  
Auckland 0740 New Zealand P: +64 09 308 1450 E: [info@clarityfunds.co.nz](mailto:info@clarityfunds.co.nz)