

DAINTREE FUNDS SCHEME

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

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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 Daintree 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 Daintree Core Income PIE (the **Fund**), the one fund within the Scheme. The Scheme is a registered management investment scheme under the Financial Markets Conduct Act 2013 and is a trust governed by a master trust deed dated 18 June 2024.

The manager of the Fund 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.

The Fund invests into the NZD class of an Australian Unit Trust, the Daintree Core Income Trust (**Underlying Fund**). The Investment Manager of the Underlying Fund is Daintree Capital Management Pty Limited (referred to as **Daintree**, the **Investment Manager of the Underlying Fund**, or **they**). Daintree is an Australian boutique investment management firm who specialise in building fixed income credit portfolios. They have a strong focus on capital preservation and income generation.

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

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. The Fund is a Portfolio Investment Entity (**PIE**) for tax purposes. Further information about taxes can be found in the Other Material Information document on our website www.clarityfunds.co.nz.

This replaces the SIPO dated 12 August 2024. 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 or at www.clarityfunds.co.nz.

2. INVESTMENT PHILOSOPHY

The cornerstone of Daintree's investment philosophy is the belief that clients should achieve good results from their fixed income portfolio in most market environments.

Daintree seeks to generate consistent, reliable income in varying market conditions and do this by searching the bond markets for securities that offer the most compelling value proposition while at all times focusing on downside protection.

Daintree believe that:

- investment markets are not fully efficient as asset prices are sometimes driven by irrational influences.
- applying a rational and disciplined framework will enable it to take advantage of situations where market pricing has become misaligned with fundamental drivers.
- flexible mandates allow portfolio managers access to a large universe of securities and the flexibility to construct exceptionally high quality risk-adjusted portfolios.
- fixed income markets are globally interconnected so they screen the global universe and seek to create income via a diverse range of investment strategies.
- risk management is an integral part of the investment management process and an essential element to achieving the key objectives of income generation, capital protection and strong risk adjusted returns.
- in doing all of the above they can increase the reliability and consistency of returns as much as possible.

Responsible Investment

In addition to aiming to select securities that will generate a steady stream of income and capital stability, Daintree also use non-financial factors to screen potential securities against a number of environmental, social and governance (ESG) factors before selecting, retaining or realising. One method of doing this is through exclusions (negative screening) which are detailed further below. Daintree have also devised a numerical rating scoring system (the Daintree Score or positive screen) which assesses each individual ESG component.

Whilst ESG is not the primary purpose of the Underlying Fund, Daintree recognise the importance of governance factors, as research shows that in fixed income and credit, the influence of good governance has the greatest positive impact on returns over time. Both 'environment' and 'social' components will equally contribute to 40% of the weighted Daintree Score (20% is attributed to each component). However, a stronger bias is placed on 'governance' related components, which attributes 60% to the weighted Daintree Score, to reflect the importance that Daintree places on corporate governance matters.

The Daintree Score will be considered in conjunction with other factors as part of the investment strategy and is a standardised measure drawing on publicly available company data compiled by third-party providers to allow comparison between various issuers, and to monitor trends over time.

Monitoring is then regularly performed against the scores to identify changes and drivers of change which enables them to investigate and engage where appropriate, or if unable to resolve in a timely manner (approximately 3-6 months), to exit the security.

If an ESG issue is identified, the potential impact on the Underlying Fund will be assessed, a briefing will be prepared for consideration by the appropriate committee, and an open discussion will be required to determine the securities ongoing suitability in the Underlying Fund. If any material changes result from this process that impact investors in our Fund, investors will be notified as soon as practicable. For further information on Daintree's approach to responsible investing see the Daintree Capital ESG Policy.

Exclusions

While Daintree generally assesses each opportunity on its merits (via a range of factors, including ESG), they have made a determination to exclude certain securities, detailed on page 5 of this SIPO. These exclusions reflect Daintree's values and commitment to support international conventions.

All exclusions are coded into trade management software to ensure pre-trade compliance can be undertaken. Exclusions are reviewed regularly, and Daintree reserve the right to adjust or remove exclusion criteria where there is a compelling case to do so. If an existing security which was acceptable at the time of investment but has since become unacceptable, and the company has not responded to engagement strategies, they will be divested as soon as practicable. However, there may be circumstances beyond their control, such as suspension of security, delisting or low liquidity, that may delay divestment of the offending asset.

2. INVESTMENT PHILOSOPHY

Daintree monitor these exclusions on a daily basis. The portfolio and exclusions are also reviewed by Daintree's Responsible Entity, Perennial, on a daily basis.

***Limitations to Exclusions:** Where Daintree invests in assets which it does not have full control over (such as an exchange traded fund), there may, from time to time, be holdings that contravene the above guidelines. Whilst all due care will be taken to avoid or minimise inadvertent exposures, we will impose a restriction of no more than 2% of the Underlying Funds holdings. If this exposure limit is breached, Daintree will reduce exposure to the offending asset as soon as practically possible to restore the exposure threshold below 2%.

Engagement Strategy

As fixed income investors, Daintree's relationship with companies differs from that of equity investors. However, they believe that effective engagement is still possible. Working in concert with their partners, Daintree will leverage their ability to access company management. The primary goals of engagement are twofold:

- First, engage as a path to learn more about the companies under coverage that cannot be gleaned from traditional analysis.
- Also, by asking questions on these issues, it encourages companies to improve reporting frameworks and address internally how their responses could be improved for broader market consumption, aiding greater transparency.

Important Information

Investors should be aware that Clarity do not manage the Underlying Fund and have no control over its investment process. Monitoring of these exclusions is the responsibility of Daintree. If there is an exclusion-related breach in the Fund, Clarity will not replace the Underlying Fund. This is on the basis that the Fund's primary objectives are not ESG related. Daintree are responsible for monitoring, identifying, engaging, reporting, communicating and remedying the ESG breaches. Daintree will notify Clarity immediately of all breaches. Clarity will assess the materiality of the issue in line with its incident management process and determine whether it impedes the Fund's ability to meet its ESG objectives. If the breach is deemed material, adverse and cannot be resolved, Clarity will notify investors.

Policy Governance

Daintree's ESG Policy is reviewed at least annually by Daintree, with changes to the policy requiring Daintree Director approval. Daintree monitor adherence to their policy via pre and post trade compliance checks as well as by monthly Daintree Investment Committee oversight.

3. INVESTMENT STRATEGY AND OBJECTIVES

The investment strategy and objectives for the Fund are set out below, including the target asset allocation and ranges.

Daintree Core Income PIE

Objective: The aim of the Fund is to provide an absolute return (greater than cash) over time and a steady stream of income and capital stability over the medium term.

Strategy: The Fund invests into an Underlying Fund with a diversified portfolio of credit fixed income securities and cash and applies a range of strategies that include duration and yield curve management, (actively managing the maturity profile of the portfolio), sector rotation and individual security selection. Derivatives may also be used for investment and risk management purposes. Where the Fund invests in overseas securities, these are hedged back to the NZD.

Benchmark: Bloomberg AusBond Composite 0-5 Yr, 100% hedged to NZD.

Holdings: The Fund will invest into the Daintree Core Income Trust, (**Underlying Fund**) with an allocation for cash. The manager may invest in more underlying funds after consultation with the Supervisor.

Suitability: The Fund may be suitable for investors with an investment horizon of three (3) years or more, who are seeking a high level of capital security from a well-diversified portfolio of fixed income securities with returns that should exceed those available from cash and other short-term investments.

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

Asset Sector	Target Asset Allocation %	Range %
CASH AND CASH EQUIVALENTS Including short-term securities and deposits	15%	0-100%
GLOBAL FIXED INCOME (including Australia) Including global bonds and cash	85%	0-100%

Within these sectors, the permitted investments of the Underlying Fund are:

- **Cash and Cash Equivalents:** cash, bank bills, bank negotiable certificate of deposit, commercial paper, sovereign, semi-government and supranational bonds and interest-bearing deposits.
- **Global Fixed Income:** corporate debt securities, hybrid securities, asset backed securities, mortgage back securities, collateralised loan obligations, investment grade and high yield bank loans, derivative contracts, equity derivatives contracts for hedging purposes only.

The Underlying Fund utilises active currency management.

Capital volatility will be managed through a diversified portfolio of holdings 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.

Credit risk primary considerations 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.

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

Daintree seek to avoid holding businesses involved with (greater than 0% revenue) the following activities:

- The manufacture of cluster munitions
- The manufacture or testing of nuclear explosive devices
- The manufacture of anti-personnel mines
- The manufacture of tobacco products
- The processing of whale meat
- The manufacture of recreational cannabis
- The manufacture of alcohol
- Gaming or gambling related activities
- The production of pornographic material
- The exploration and production of any fossil fuels (coal, oil, gas, oil sands)
- Coal-fired power generation
- The exploration and production of uranium.

4. INVESTMENT POLICIES AND PROCESSES

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

Responsible Investment

Daintree takes labour standards, environmental, social and ethical considerations into account when selecting, retaining or realising investments. Daintree has adopted an Environmental, Social and Corporate Governance (**ESG**) policy that describes the framework and methodology for taking these factors into account when selecting, retaining and realising investments of the Underlying Fund. For further information, please visit www.daintreecapital.com.au.

To achieve this Daintree have created a scoring system that integrates MSCI ESG factors into a combination of negative (exclusions) and positive screens that result in their portfolio selections. Monitoring is then regularly performed against the scores to identify changes and drivers of change which enables them to investigate and engage where appropriate, or if unable to resolve, to exit the security. For further information on Daintree's approach to responsible investing see Daintree's ESG Policy at www.daintreecapital.com.au and the Daintree Statement of Investment Policies and Objectives (SIPOS) at www.disclose-register.companiesoffice.govt.nz.

Investment Management Governance

The Clarity Investment Committee (**Investment Committee**) is the body responsible for monitoring the performance of Daintree as the manager of the Underlying Fund. It meets once a month, or more frequently if required to discuss:

- Investment performance.
- External manager performance.
- Selecting and monitoring counterparties.

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

Tactical Asset Allocation and Rebalancing

Daintree at its discretion, may make tactical investment decisions that take the Underlying Fund away from its strategic asset allocation based on their assessment of market conditions and quantitative fund analysis.

Liquidity Management

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

Pricing and Valuation

APEX manage the pricing and valuations of all Fund assets and calculate the Net Asset Value of the Fund on our behalf. Whilst this task has been outsourced, we are ultimately responsible for the pricing and valuation of the Fund's assets. We have established processes for resolving any pricing errors or non-compliance with the pricing methodologies used by APEX.

External Investment Managers

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

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

We will consider the suitability and performance of any external investment manager from time to time. Where Clarity has appointed an external manager, we will periodically assess the holdings of the external manager's portfolio to determine whether in our view, the holdings remain consistent with what is in their disclosure documents. We will report our analysis to the Investment Committee, and in the event we develop any concerns, these will be raised promptly with the Investment Manager for further discussion.

4. INVESTMENT POLICIES AND PROCESSES

Investment Strategy Review

The Investment Strategy Review of the Underlying Fund is the responsibility of Daintree and is reviewed at least annually or when required by market conditions.

Conflicts of Interest and Related Party Transactions

We have a Conflicts of Interest Policy in place 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 Fund 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.

The only related party currently involved in this offer is Clarity's parent, Investment Services Group (ISG) who provide investment administration and investment operation services for the Fund. ISG receive a portion of the total fund charge collected from the Fund to cover their services.

Borrowing

The Fund's Trust Deed allows 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 the Fund. Our policy is that borrowing is not permitted, however this may change in the future, in consultation with the Supervisor.

Derivatives

Derivatives may be used for investment and risk management purposes, subject to the specific restrictions that they cannot be used to gear the portfolio exposure. Derivatives are managed with the following in mind:

- Gearing is not allowed. All long derivative positions are to be backed by cash or cash equivalents.
- Cash and cash equivalents are defined as the liquid securities excluding exchange traded funds.
- Short derivative positions are to be fully backed by authorised investments.
- Counterparty for interest rate swaps and over the counter options must be rated at least BBB- or equivalent by a recognised rating agency.

Hedging/Currency Risk

The Underlying Fund invests in overseas denominated securities which are fully hedged back to the NZD. Whilst the Investment Manager of the Underlying Fund's Hedging Policy allows a maximum of 90%-110% on currency overlay positions, this is rarely used.

This approach has a tolerance of +/- 50bps. When the position moves outside of that band it is typically brought back into line to be 100% hedged.

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.

Investment performance (absolute 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 the Fund are aligned with the Investment Committee's current investment view.

Additionally, we are 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 Fund, to ensure that the investment objectives and parameters for the Fund 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 with our Supervisor before making the changes and obtaining Directors' approval of the SIPO.

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

