

CLARITY DIVIDEND YIELD FUND

Name Change

From 3 April 2017, this Fund changed its name from the JMIS Equity Income Fund to the Clarity Dividend Yield Fund.

Performance Comments

The asset value of the Fund at 30 September 2017 was \$66.3 million and its price was \$1.4222, an increase of +2.7% over the quarter, including the 1.7 cent distribution. This compares with the Fund's composite index return of +3.6%, which was an underperformance of -0.9%.

In the Fund's 75/25 composite index, there was a +4.6% gain in the NZX50 Portfolio Index and a +0.7% rise in the ASX200 Accumulation Index (in Australian dollar terms, as this Fund hedges its currency risk).

The portfolio's actual asset mix at quarter end was 65.7% in New Zealand securities, 28.6% in Australian securities and 5.7% in cash and bonds.

In New Zealand there were strong, above-index performances from Tourism Holdings +18.1%, Sanford +10.0% and Contact Energy +9.6%.

The largest detractors in the quarter were Metro Performance Glass -24.6% (after a profit downgrade) and Arvida -6.9% (on the announcement of a rights issue).

Late in the quarter, Airwork Holdings, +11.3%, received a full takeover offer from its majority shareholder at a price of \$5.20 cash.

Relative performance in New Zealand was detrimentally affected by the Fund's nil holdings in growth shares like A2 Milk +60.8%, Synlait Milk +56.4% and Comvita +29.3% over the three months.

In Australia, the two best performing holdings were Bank of Queensland +13.2% and Lend Lease +9.8%.

The largest Australian detractor in the quarter was Suncorp at -8.1%.

The Fund holds about 22% of its investments in the high-yielding Australasian listed property sector.

Even though interest rates were steady over the quarter, these stocks in general performed well. In particular, Precinct Properties rose +4.9% and Goodman Property by +4.0%. However, Kiwi Property fell -4.3% as it undertook a rights issue to fund future investments and lower its gearing, while in Australia Stockland fell -1.8% in the three months.

Fund Performance

The Clarity Dividend Yield Fund has performed as follows:

To 30 September 2017	3 months (%)	12 months (%)
Fund net return *	+2.7	+11.6
Benchmark Index **	+3.6	+9.6
Difference	-0.9	+2.0

* These returns are after deductions for charges and before tax

** Reflects no deduction for charges and tax

Past performance is not necessarily indicative of future performance.

Outlook

Cash rates globally remain at very low levels. This phenomenon has been a key factor in investors searching elsewhere for higher yields, which has in turn underpinned some of the recent strength in sharemarkets. We do not believe that this dynamic will change in the near term, which means that the markets are likely to remain relatively attractive despite indications that shares are looking increasingly expensive.

However, we believe that the risk of a bear market is not high. There are two main reasons for this.

First, inflation has played an important part in rising bear market risks in past cycles. Structural factors may be keeping inflation lower than in the past and central bank forward guidance is reducing interest rate volatility. Without monetary policy tightening, concerns about a looming recession – and therefore risks of a 'cyclical' bear market – are lower.

Second, financial imbalances and leverage in the banking system have been reduced post the financial crisis. This makes a 'structural' bear market less likely than in the past.

Notwithstanding, we acknowledge that equity valuations are historically high at present and require a continuation of good earnings and dividend growth to justify and support the current levels.

A diversified and balanced approach to investment remains appropriate.

If you have any questions please contact us on +64 09 308 1450 or visit our website www.clarityfunds.co.nz

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