

CLARITY TRANS-TASMAN FUND

Name Change

From 3 April 2017, this Fund changed its name from the JMIS A Fund to the Clarity Trans-Tasman Fund.

Performance Comments

The asset value of the Fund at 30 September 2017 was \$122.6 million and its price was \$2.5365 per unit, a rise of +5.5% over the quarter. This compares with the Fund's composite index return of +4.4%, which was an outperformance of +1.1%.

In the Fund's 50/50 composite index, there was a +4.6% gain in the NZX50 Portfolio Index and a +4.2% rise in the ASX200 Accumulation Index (in New Zealand dollar terms).

Australian shares slightly underperformed New Zealand shares in the September quarter even with the support of a stronger Australian dollar, which rose by about 3.6% in the three months against the NZ dollar.

The portfolio's actual mix at quarter end was 43.1% in New Zealand shares and 52.3% in Australian shares, with the balance of 4.6% in cash.

In New Zealand, the stronger performing holdings in the portfolio were Tourism Holdings +18.1%, Sanford +10.0%, Contact Energy +9.6% and Metlifecare +9.1%, while the largest detractor was Metro Performance Glass at -24.6% (after a profit downgrade).

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 large cap stocks in the mining sector generally had a strong quarter – BHP Billiton rose by +13.8% and Rio Tinto rose by +8.3% – while the banking sector returns were also positive, i.e. Westpac at +4.6% and ANZ Bank at +3.1%. In the three months, two larger industrial holdings in the portfolio achieved notable positive returns, i.e. Lend Lease +9.8% and Caltex Australia +4.3%.

In Australia, the largest detractor was AGL Energy at -5.7% in the three months.

Fund Performance

The Clarity Trans-Tasman Fund has performed as follows:

To 30 September 2017	3 months (%)	12 months (%)
Fund net return *	+5.5	+13.3
Benchmark Index **	+4.4	+11.4
Difference	+1.1	+1.9

* 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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