

## CLARITY FIXED INCOME FUND

### Name change

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

### Performance Comments

The asset value of the Fund at 31 March 2017 was \$75.0 million and the base price was \$1.0797, an increase of +1.62% over the quarter, including the 0.75 cent distribution. The 90-day bank bill rate provided a return of +0.5% in the same three-month period.

As expected, in late March, the RBNZ left the official interest rate unchanged at 1.75% and said that *“monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly”*.

Although nominal rates remain low, the local fixed interest market performed satisfactorily in the first quarter of 2017. Over the six months to 31 March 2017 bonds actually outperformed equities. The asset class provides regular income and very little capital volatility.

Over the last quarter, it was the 2-year to 5-year part of the curve that produced the gains with the three year swap rate - 15pb lower. This reflected lower offshore interest rates and also may have been influenced by investors looking to shorten the duration of the exposure. At present we are witnessing lower swap rates coupled with strong demand for corporate bonds in what is a fairly anaemic issuance period. There is also far more certainty at the shorter end of the curve as the Reserve Bank of New Zealand (RBNZ) has indicated that the Official Cash Rate is likely to remain unchanged over 2017. The longer end of the curve is still highly correlated to movements in US Treasury rates.

The December 2016 GDP outcome of 0.4% was well below both RBNZ and market expectations, consensus expectations were for an increase of 1.0%. At a sectoral level, the key contributor to this weaker-than-expected rise was the decline in agriculture (0.6% on falling milk production).

Over the year ahead, we would assess that the key risks to the projected profile of a continuation of above trend NZ GDP growth is likely to emanate from developments in the international economy. In particular, US political risks or policy moves from the Trump administration could easily result in a heightened state of market agitation.

### Fund performance

The Clarity Fixed Income Fund has performed as follows:

To 31 March 2017	3 months (%)
Fund net return*	+1.6
Benchmark Index**	+0.5
Difference	+1.1

\* 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.

Over the past 12 months, the Fund earned 3.0% (no tax) compared to its index of 2.3%.

### Outlook

Movements in global interest rates remain a key factor for the direction of interest rates in New Zealand. We continue to expect the pro-growth policies favoured by the Trump administration to contribute to upward pressure on interest rates over the course of 2017 and 2018. However the first 100 days of the administration have highlighted the challenges in implementing any proposed policy changes.

In the short-term the Reserve Bank of New Zealand is expected to retain the current OCR settings. The release of first quarter inflation figures in April however has increased awareness on inflation risks, given that the outcome was well above market expectations (1.0% versus RBNZ forecast of 0.4%, market consensus +0.8%). This was due to short-term factors (fuel and food) and therefore medium-term expectations have not significantly altered.

So the argument for a steeper yield curve remains valid. This will potentially put pressure on capital values of longer-dated instruments over the course of next year, but increase the opportunity cost of the safe-haven of cash and short-term deposits.

If you have any questions please contact us on +64 09 308 1450 or visit our website [www.clarityfunds.co.nz](http://www.clarityfunds.co.nz)

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