QUARTERLY FUND COMMENTARY

For the quarter ended 31 March 2017

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 31 March 2017 was $119.5 million and the base price was $2.4304 per unit, an increase of +5.7% over the quarter. This compares with the Fund's composite index return +7.6%, which was an under-performance of -1.9%.

In the Fund's 50/50 composite index, there was a +5.6% gain in the NZX50 Portfolio Index and a +10.3% gain in the ASX200 Accumulation Index (in New Zealand dollar terms).

Again this quarter, Australian shares outperformed New Zealand shares by a wide margin, largely led by solid rises in the mining and banking sectors across the Tasman.

The portfolio's actual mix at quarter end was 39.2% in New Zealand shares and 54.5% in Australian shares, with the balance of 6.3% in cash. The cash at 31 March 2017 was boosted by the receipt late in the month of the Fund's proceeds from the Airwork Holdings takeover, while our recent share purchasing has favoured Australia over New Zealand.

In New Zealand, the stronger performing holdings in the portfolio were Scott Technology +27.5%, Air New Zealand +17.8% and Heartland Bank +12.6%, while the largest detractors were both in the building sector, i.e. Metro Performance Glass -30.3% and Fletcher Building at -18.5%. Both companies announced profit downgrades during the quarter.

In Australia, the large cap stocks in the mining sector had another strong quarter – BHP Billiton rose by +14.2% and Rio Tinto by +9.9% – while the banking sector returns were pleasing too, i.e. CBA at +13.0%, Westpac at +12.7% and ANZ Bank at +10.1% in the three months. Two other industrial holdings in the portfolio achieved returns greater than 20%, i.e. AGL Energy +26.9% and Qantas +24.6%.

The largest detractor in Australia was a small holding in HFA Holdings, which is a listed hedge fund investment manager. HFA fell by -0.2% in the three months.

Fund performance

The Clarity Trans-Tasman Fund has performed as follows:

To 31 March 2017	3 months (%)
Fund net return*	+5.7
Benchmark Index**	+7.6
Difference	-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.

Over the past 12 months, the Fund earned 15.1% (no tax) compared to its index of 12.8%.

Outlook

Solid global economic growth is expected in 2017. However, political uncertainties could create turbulence and any expectations of further economic stimulus may be optimistic. Improving economic growth will generally support equities and challenge bonds, because this growth is now more "traditional" in nature, i.e. it arises from better employment and demand, thus allowing prices and potentially profits to rise, rather than the ultra-loose monetary policies of recent years.

Therefore, even after the strong rise in share values over the last 8 years, we are cautious but not bearish on shares as there is no sign of recession for 2017 and financial authorities appear prepared to do whatever is required to ensure that the financial markets are well supported. Moreover, projected company earnings growth should gradually support current sharemarket valuations.

However, we also note that inflation and longer term interest rates are starting to rise, signalling the probable end of the 35-year bull market in bonds. This may well prove a headwind for equity markets later this year.

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**