QUARTERLY FUND COMMENTARY

For the quarter ended 30 September 2018

CLARITY DIVIDEND YIELD FUND

Performance Comments

The asset value of the Fund at 30 September 2018 was $93.5 million and its price was $1.4754, a return of +2.0% over the quarter which includes a 1.7 cent distribution. This compares with the Fund's composite index return of +4.0%, which was an underperformance for the fund of -2.0%.

In the Fund's 75/25 composite index, there was a +4.8% rise in the NZX50 Portfolio Index for the quarter and a +1.5% 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 55% in New Zealand securities, 34% in Australian securities, 9% in cash, and 2% in bonds. We have chosen to hold higher cash reserves in recent months as sharemarkets have continued to rise.

In New Zealand, the Fund's largest above-index performances derived from its holdings in Kathmandu at +13.8%, Meridian Energy at +10.0% and NZ Refining at +7.1%.

The largest detractors in the quarter were Tourism Holdings at -13.7% and Fletcher Building at -5.9%.

Relative performance in New Zealand was hindered in the quarter by the Fund's nil holdings in several growth shares like Ebos +27.3% and Ryman Healthcare +17.0%, while for the year it was hindered by nil holdings in A2 Milk +75.1% and Synlait Milk +63.7%.

In Australia, the Fund's better performing holdings were Mirvac +11.1%, Bank of Queensland +8.2% and Stockland +4.5%.

The largest detractors in the quarter were Caltex at -5.5% and Westpac at -4.7%.

Late in the quarter, Scottish Pacific Group +38.9% received an all-cash takeover offer from Affinity Equity, one of the largest private equity firms in the Asia/Pacific region.

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

In the quarter, New Zealand stocks in general in this sector performed very well; the three better performers for the Fund were Precinct Properties at +7.9%, Goodman Property Trust at +8.0% and Argosy Property at +4.3%.

In Australia, the sector likewise performed well. The two better performers for the Fund were Stockland at +4.5% and the GPT Group at +3.0%.

This sector is likely to remain attractive as interest rates in both countries are expected to remain steady for 2018 and 2019.

Fund Performance

The Clarity Dividend Yield Fund has performed as follows:

To 30 September 2018	3 months (%)	12 months (%)
Fund net return *	+2.0	+9.8
Benchmark Index **	+4.0	+17.0
Difference	-2.0	(7.2)

* 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.

Benchmark index details are included in the Quarterly Fund Update which is available at https://clarityfunds.co.nz/funds/ dividend-yield-fund.

Outlook

This Fund's investment policy is to invest for the long term in high-quality, well-managed Australasian companies with above average dividend yields and acceptable price-earnings multiples, i.e. to select shares for the Fund with a "value" as well as yield bias. The Fund tends to favour New Zealand shares because of the tax advantage associated with imputation credits.

We are disappointed with the Fund's underperformance this year compared to its benchmark, but feel our philosophy of buying good quality companies at reasonable valuations will provide investors with good returns over the longer term. Indeed, the longer term historic returns and income distributions for this Fund have been sound.

Among the best performing stocks over the September quarter were Ebos +27.3%, Ryman Healthcare +17.0% and Auckland Airport +7.7%. These companies are examples of what market analysts refer to as "growth" (and typically low yield) stocks. These businesses aim to deliver above-average earnings growth and investors pay a very high price to own them.

As the market cycle matures in New Zealand and Australia, we believe that a time is near when valuations will again matter, "growth" stocks will face increased scrutiny and "value" stocks will return to favour.

A diversified approach to portfolio construction remains appropriate.

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