QUARTERLY FUND COMMENTARY

For the quarter ended 31 March 2018

CLARITY DIVIDEND YIELD FUND

Performance Comments

The asset value of the Fund at 31 March 2018 was $72.2 million and its price was $1.3895, a fall of -5.3% over the quarter, including the 1.7 cent distribution. This compares with the Fund's composite index return of -2.0%, which was an underperformance of -3.3%.

In the Fund's 75/25 composite index, there was a -1.4% fall in the NZX50 Portfolio Index and a -3.9% fall 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 61% in New Zealand securities, 33% in Australian securities, 4% in cash, and 2% in bonds.

In New Zealand, in a quarter when only A2 Milk +53.7% and a small number of other shares gave positive returns in a falling market, the Fund's largest above-index performances derived from its holdings in Air New Zealand +4.6%, Tourism Holdings +3.0% and Meridian Energy +0.3%.

The largest detractors in the quarter were Metro Performance Glass at -22.1%, Fletcher Building at -20.7% and Heartland Bank at -13.7%.

Relative performance in New Zealand was also hindered by the Fund's nil holdings in several growth shares like A2 Milk at +53.7%, Summerset at +27.6% and Synlait Milk at +16.5%.

In Australia, three of the worst performing holdings were all in the property sector (see below). Aside from the property sector, the largest Australian detractors in the quarter were AGL Energy at -8.9% and Bank of Queensland at -13.8%, while the better performing holdings were Qantas at +18.0% and Lend Lease at +8.8%, both recovering strongly from the previous quarter, and Pact Group at Nil%.

The Fund holds about 20% of its investments in the high-yielding Australasian listed property sector.

In the quarter, New Zealand stocks in general in this sector performed relatively well; the two better performers were Goodman Property at -2.4% and Property for Industry at -1.1%.

In Australia, however, the sector was markedly worse, i.e. Mirvac Group at -9.7%, Stockland at -9.2% and GPT at -8.9%.

Fund Performance

The Clarity Dividend Yield Fund has performed as follows:

To 31 March 2018	3 months (%)	12 months (%)
Fund net return *	-5.3	+9.0
Benchmark Index **	-2.0	+12.2
Difference	-3.3	-3.2

* 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

While the sudden increase in market volatility in February and March raises concerns, we do not believe that the bull market in equities can be confirmed as having come to an end.

The underlying fundamentals of the global economy remain very strong. The synchronised global growth currently underway is the best level of economic activity seen this century. Strong global growth is contributing to the strong upward revisions to forward revenues and earnings for companies around the world.

The current US protectionist policies are more likely to affect market sentiment than the fundamentals of economies.

While core inflation is still contained in much of the world, the continued strength in the labour market in the US has heightened fears that wage inflation there is finally taking root. With the US Fed already on a tightening path and with three to four further rate hikes priced in this year, the market has become concerned about the impact of higher long-term rates on equity valuations.

Higher bond rates reflect a stronger global economy and are typical during the latter stages of an economic expansion. Historically, this is also a period when equity returns can be very strong.

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**

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