QUARTERLY FUND COMMENTARY

For the quarter ended 31 December 2017

CLARITY DIVIDEND YIELD FUND

Name Change

On 3 April 2017, this Fund changed its name from the JMIS Equity Income Fund to the Clarity Dividend Yield Fund.

Performance Comments

The asset value of the Fund at 31 December 2017 was $72.0 million and its price was $1.4895, an increase of +6.2% over the quarter, including the 1.7 cent distribution. This compares with the Fund's composite index return of +6.3%, which was a small underperformance of -0.1%.

In the Fund's 75/25 composite index, there was a +5.9% gain in the NZX50 Portfolio Index and a +7.6% 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 62% in New Zealand securities, 29% in Australian securities, 7% in cash, and 2% in bonds.

In New Zealand there were strong, above-index performances from Scales +29.2%, Tourism Holdings +25.8%, Heartland Bank +15.3% and Sanford +10.4%.

The largest detractors in the quarter were Air New Zealand -5.3% and Fletcher Building -4.9%.

In Australia, the three best performing holdings were all in the property sector (see below) but the better industrial holdings were Alliance Aviation Service +49.2% and Caltex +6.1%.

The largest Australian detractor in the quarter was Qantas at -13.6%, notwithstanding that its performance over the year was +56.8%.

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

In the quarter, stocks in general in this sector performed well, in part stimulated by the Westfield Corporation takeover bid by a French company. In Australia, Stockland Group rose by +7.2%, Scentre Group by +6.6% and GPT by +5.5%.

In New Zealand, the two better performers were Goodman Property +9.4% and Argosy Property +6.2%.

Fund Performance

The Clarity Dividend Yield Fund has performed as follows:

To 31 December 2017	3 months (%)	12 months (%)
Fund net return *	+6.2	+18.5
Benchmark Index **	+6.3	+20.6
Difference	-0.1	-2.1

* 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.

Outlook

Improving economic growth and a continuation of relatively dovish central bank signalling, have helped to propel sharemarkets higher this quarter.

Even though the current bull market in shares is now over eight years old, we believe that the risk of an imminent global 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 better controlled post the financial crisis. This makes a 'structural' bear market less likely than in the past.

Notwithstanding, we acknowledge that share 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**