

CLARITY FIXED INCOME FUND

Performance Comments

The asset value of the Fund at 30 June 2018 was \$123.4 million and its price was \$1.1003 per unit, an increase of +1.0% over the quarter, including the 0.75 cent distribution.

This compares with the Fund's benchmark, i.e. the S&P NZX 90-day Bank Bill Index of +0.5%, an outperformance of +0.5%. The outperformance was derived from the Fund's short duration of about 2.7 years and a three-month period when New Zealand interest rates were relatively steady.

The Fund is a diversified portfolio of cash, bank term deposits and fixed interest securities: it aims to generate a consistent and safe income stream as well as preserve capital.

The Fund's characteristics are:

Sector Breakdown – As at 30 June 2018	Portfolio %
Banking	58.8
Electricity	15.9
Property	5.3
Engineering & Construction	4.8
Municipal	2.9
Food	2.6
Diversified Financial Services	2.1
Telecommunications	1.8
Auto Manufacturers	1.7
Building Materials	1.1
Oil & Gas	1.1
Ports	0.9
Investment Companies	0.8
Transport	0.2
	100

Credit Ratings – As at 30 June 2018	Portfolio %
AA- to AAA	35.8
A- to A+	29.7
BBB- to BBB+	29.0
BB+ or below	5.5
	100

Fund Performance

The Clarity Fixed Income Fund has performed as follows:

To 30 June 2018	3 months (%)	12 months (%)
Fund net return*	+1.0	+4.3
Benchmark Index**	+0.5	+2.0
Difference	+0.5	+2.3

* 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/fixed-income-fund>.

Outlook

Monetary policy is likely to remain accommodative in New Zealand for a considerable period. In late June, the Reserve Bank of New Zealand left the Official Cash Rate unchanged at 1.75% and said:

The Official Cash Rate (OCR) will remain at 1.75% for now. However, we are well positioned to manage change in either direction – up or down – as necessary.

“Our outlook for the New Zealand economy, as detailed in the May Monetary Policy Statement, remains intact. Employment is around its sustainable level and consumer price inflation remains below the 2% mid-point of our target, necessitating continued supportive monetary policy for some time to come.”

“The best contribution we can make to maximising sustainable employment, and maintaining low and stable inflation, is to ensure the OCR is at an expansionary level for a considerable period.”

Interest rates have broadly stayed in a narrow trading range for much of the latter part of 2017 and 2018. Over the last quarter however, the lower end of that trading range has been challenged as concerns over slowing momentum in the New Zealand economy and forecasts for the OCR staying lower for longer have come into focus. Towards the end of the quarter, the duration of the fund was extended. While we still see the potential for upward pressure on domestic interest rates from higher US interest rates, domestic pressures are now more balanced.

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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