

CLARITY FIXED INCOME FUND

Performance Comments

The asset value of the Fund at 30 September 2018 was \$140.0 million and its price was \$1.1051 per unit, an increase of +1.1% over the quarter including a 0.75 cent distribution.

Compared with the Fund's benchmark, the S&P NZX 90-day Bank Bill Index, which returned +0.5%, the Fund delivered an outperformance of +0.6%. The outperformance was derived from the Fund's short duration of about 2.9 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 September 2018	Portfolio %
Banks	51.81
Utilities	7.90
Power Generation	5.55
Automobiles Manufacturing	5.50
Real Estate	5.45
Transportation & Logistics	5.07
Corporate Debentures/Capital Notes	4.69
Wireline Telecommunications Services	3.26
Government Local	3.18
Food & Beverage	2.18
Unit Trusts (Cash)	2.09
Other	3.32
	100.00

Credit Ratings – As at 30 September 2018	Portfolio %
AA- to AAA	36.08
A- to A+	32.68
BBB- to BBB+	23.40
BB+ or below	7.84
	100.00

Fund Performance

The Clarity Fixed Income Fund has performed as follows:

To 30 September 2018	3 months (%)	12 months (%)
Fund net return*	+1.1	+4.2
Benchmark Index**	+0.5	+2.0
Difference	+0.6	+2.2

* 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/fixed-income-fund>.

Outlook

In the September quarter there was a continuation of the theme of relatively low interest rates in New Zealand, whereas in a broader global environment bond yields crept higher. This provided support for the local fixed interest and equity markets, while the NZ dollar remained at its recent low levels. However, volatility increased sharply in October when the yield on the US 10-year Treasury note reached its highest level in seven years at 3.25%.

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

"The Official Cash Rate (OCR) remains at 1.75%. We expect to keep the OCR at this level through 2019 and into 2020. The direction of our next OCR move could be up or down. Employment is around its sustainable level and consumer price inflation remains below the 2% mid-point of our target, necessitating continued supportive monetary policy. Our outlook for the OCR assumes the pace of growth will pick up over the coming year, assisting inflation to return to the target mid-point. We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment and maintaining low and stable inflation."

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

Information and Disclaimer: This report is for information purposes only. It does not take into account your investment needs or personal circumstances and so is not intended to be viewed as investment or financial advice. Should you require financial advice you should always speak to your Authorised Financial Adviser. The price, value and income derived from investments may fluctuate because values can go down as well as up and investors may get back less than originally invested. Past performance is not indicative of future results and no representation or warranty, express or implied, is made regarding future performance. Reference to taxation or the impact of taxation does not constitute tax advice. The levels and bases of taxation may change. Where an investment is denominated in a foreign currency, changes in rates of exchange may have adverse effect on the value, price or income of the investment. This report has been prepared from published information and other sources believed to be reliable, accurate and complete at the time of preparation. While every effort has been made to ensure accuracy Clarity Funds Management, nor any person involved in this publication, accept any liability for any errors or omission.