

CLARITY FIXED INCOME FUND

Name Change

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

Performance Comments

The asset value of the Fund at 31 December 2017 was \$103.5 million and its price was \$1.0969 per unit, an increase of +1.3% over the quarter, including the 0.75 cent distribution.

This compares with the Fund's benchmark, i.e. the NZX NZ 90-day Bank Bill Index of +0.5%, an outperformance of +0.8%. The outperformance was derived from the Fund's duration of about 2.8 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 31 December 2017	Portfolio %
Banks	49.1
Diversified Financial Services	17.5
Electric	10.0
Telecommunications	5.5
Engineering & Construction	3.8
Food	3.1
Municipal	2.4
Auto Manufacturers	2.0
Building Materials	1.5
Property	1.5
Oil & Gas	1.3
Ports	1.0
Investment Companies	1.0
Transport	0.3
	100

Credit Ratings – As at 31 December 2017	Portfolio %
AA- to AA+	45.4
A- to A+	27.0
BBB- to BBB+	22.7
BB+ or below	4.9
	100

Fund Performance

The Clarity Fixed Income Fund has performed as follows:

To 31 December 2017	3 months (%)	12 months (%)
Fund net return*	+1.3	+5.7
Benchmark Index**	+0.5	+2.0
Difference	+0.8	+3.7

* 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

Monetary policy is likely to remain accommodative in New Zealand for a considerable period. In mid-November, the Reserve Bank said:

Global economic growth continues to improve, although inflation and wage outcomes remain subdued. Commodity prices are relatively stable. Bond yields and credit spreads remain low and equity prices are near record levels. Monetary policy remains easy in the advanced economies but is gradually becoming less stimulatory.

GDP in the June quarter grew broadly in line with expectations, following relative weakness in the previous two quarters. Employment growth has been strong and GDP growth is projected to strengthen, with a weaker outlook for housing and construction offset by accommodative monetary policy, the continued high terms of trade, and increased fiscal stimulus.

Annual CPI inflation was 1.9% in September although underlying inflation remains subdued. Overall, CPI inflation is projected to remain near the midpoint of the target range and longer-term inflation expectations are well anchored at 2%.

The Fund holds bonds with a relatively short duration because we believe that over the coming quarters New Zealand interest rates are likely to rise as US rates rise further and inflationary pressures emerge in the larger economies.

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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