

## CLARITY TRANS-TASMAN FUND

### Performance Comments

The asset value of the Fund at 30 June 2018 was \$145.8 million and its price was \$2.7722 per unit, a rise of +8.4% over the quarter. This compares with the Fund's composite index return of +9.7%, which was an underperformance of -1.3%.

In the June quarter, Australasian 'growth' shares like Synlait, F&P Healthcare, CSL and Xero (not held in the Fund) were preferred over the typically 'value' share selections of the Fund.

In the Fund's 50/50 composite index, there was a +7.7% rise in the NZX50 Portfolio Index and a +11.7% rise in the ASX200 Accumulation Index (in New Zealand dollar terms).

Australian shares outperformed New Zealand shares in the June quarter, helped by the stronger Australian dollar, which rose by about +2.9% in the three months against the NZ dollar.

The portfolio's actual mix at quarter end was 39% in New Zealand shares and 56% in Australian shares, with the balance of 5% in cash. In recent quarters, we have favoured Australia over New Zealand for new investments.

In New Zealand, the stronger performing holdings in the portfolio were Fletcher Building +20.4%, Mainfreight +13.0% and Tourism Holdings +11.8%, while the major detractors were A2 Milk -7.6%, Heartland Bank -3.4% and Air New Zealand -1.7%.

In Australia, the large cap stocks in the mining sector generally had a stellar return quarter – BHP Billiton rose by +20.2% and Rio Tinto by +14.8% – while the banking sector returns were mediocre, i.e., ANZ Bank at +9.5%, Westpac at +7.1%, and National Australia Bank at +1.2%. This sector has been detrimentally impacted by the findings of the Hayne Royal Commission inquiry into banking.

In these three months, two large cap industrial holdings in the portfolio achieved strong positive returns for the second consecutive quarter, i.e. Lend Lease +14.4% and Qantas +5.7%.

Also, two mid-cap stocks achieved above-market returns in the three months, i.e. FlexiGroup +23.3% and Seven Group Holdings +8.7%.

In Australia, the two largest relative detractors in the three months were Boral -12.2% and Caltex +3.6%.

### Fund Performance

The Clarity Trans-Tasman Fund has performed as follows:

To 30 June 2018	3 months (%)	12 months (%)
Fund net return *	+8.4	+16.2
Benchmark Index **	+9.7	+17.9
Difference	-1.3	-1.7

\* 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.

Benchmark index details are included in the Quarterly Fund Update which is available at <https://clarityfunds.co.nz/funds/trans-tasman-fund>.

### Outlook

While volatility increased sharply in the first quarter this year, the second quarter has resumed steady capital growth and we do not believe that the bull market in equities has quite come to an end.

The underlying fundamentals of the global economy, as well as New Zealand and Australia, remain very strong and this is contributing to the strong upward revisions to revenues and earnings for companies around the world.

While we are cautious in New Zealand and Australia of the current high valuations, we continue to prefer value stocks. This view has resulted in an underperformance to the benchmark as growth stocks have outperformed over the last 12 months. We continue to believe that buying stocks at good value, with sustainable earnings, is the prudent approach in the current part of the cycle. This investment philosophy may result in periods of underperformance, but experience has shown that over a full market cycle this policy has delivered creditable results for our clients.

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](http://www.clarityfunds.co.nz)

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