QUARTERLY FUND COMMENTARY

For the quarter ended 30 September 2018

CLARITY TRANS-TASMAN FUND

Performance Comments

The asset value of the Fund at 30 September 2018 was $145.2 million and its price was $2.7471 per unit, a fall of -0.8% over the quarter. This compares with the Fund's composite index return of +3.1%, which was an underperformance of -3.9%.

In the September quarter, Australasian 'growth' shares like Ebos, Auckland Airport, Ryman Healthcare, CSL and Xero (not held in the Fund) were preferred over the typically 'value' share selections of the Fund. This was a major headwind for the Fund's relative performance in the three months, as well as the full year.

In the Fund's 50/50 composite index, there was a +4.8% rise in the NZX50 Portfolio Index and a +1.4% rise in the ASX200 Accumulation Index (in New Zealand dollar terms).

Thus, Australian shares underperformed New Zealand shares in the September quarter and the portfolio's actual mix at quarter end was 38% in New Zealand shares and 55% in Australian shares, with the balance of 7% in cash. In recent quarters, we have favoured Australia over New Zealand for new investments while, in recent months, we have chosen to hold higher cash reserves.

In New Zealand, the stronger performing holdings in the portfolio were Mainfreight +10.1%, Heartland Bank +6.4% and NZ Refining +7.1%, while the major detractors were Tourism Holdings -13.7% and Fletcher Building -5.9%,

In Australia, the large cap stocks in the mining sector generally had a mixed return quarter – BHP Billiton rose by +6.2% but Rio Tinto fell by -2.6% – while the banking sector returns were mainly negative, i.e., ANZ Bank at -0.2%, Westpac at -4.7%, but National Australia Bank at +1.5%. This sector has been detrimentally impacted by the findings of the Hayne Royal Commission inquiry into banking.

In these three months, one large cap industrial holding in the portfolio achieved strong positive returns i.e. Boral at +8.4%.

In the mid-cap area of the market, returns were unusually volatile for the three holdings, i.e. Pinnacle Investment Management Group +49.1% and Seven Group Holdings +20.1%, but Pact Group -27.5%.

In Australia, the two largest relative detractors in the three months were Caltex -5.5% and AGL Energy -9.7%.

Late in the quarter, Scottish Pacific Group +38.9% received an all-cash takeover offer from Affinity Equity, one of the largest private equity firms in the Asia/Pacific region.

Fund Performance

The Clarity Trans-Tasman Fund has performed as follows:

To 30 September 2018	3 months (%)	12 months (%)
Fund net return *	-0.8	+9.0
Benchmark Index **	+3.1	+16.3
Difference	(3.9)	(7.3)

* 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/ trans-tasman-fund.

Outlook

This Fund's investment policy is to invest for the long term in high-quality, well-managed Australasian companies with above average prospects but with acceptable price-earnings multiples i.e. to select shares for the Fund with a "value" bias.

We are disappointed with the Fund's underperformance this quarter and year compared to its benchmark, but feel our philosophy of buying good quality companies at reasonable valuations will provide investors with good returns over the longer term. Indeed, the longer term historic returns for this Fund have been sound.

Among the best performing stocks over the September quarter were Ebos +27.3%, Ryman Healthcare +17.0% and Auckland Airport +7.7%. These companies are examples of what market analysts refer to as "growth" stocks. These businesses aim to deliver above-average earnings growth and investors pay a high price to own them. Typically, these growth stocks have far higher earnings multiples than normal, and the rest of the market.

As the market cycle matures in New Zealand and Australia, we believe that a time is near when valuations will again matter, "growth" stocks will face increased scrutiny and "value" stocks will return to favour.

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**