

CLARITY TRANS-TASMAN FUND

Performance Comments

The asset value of the Fund at 31 March 2018 was \$137.0 million and its price was \$2.5603 per unit, a fall of -6.2% over the quarter. This compares with the Fund's composite index return of -4.3%, which was an underperformance of -1.9%.

In the Fund's 50/50 composite index, there was a -1.4% fall in the NZX50 Portfolio Index and a -7.2% fall in the ASX200 Accumulation Index (in New Zealand dollar terms).

Australian shares underperformed New Zealand shares in the March quarter, not helped by the weaker Australian dollar, which fell by about 3.5% in the three months against the NZ dollar.

The portfolio's actual mix at quarter end was 39% in New Zealand shares and 54% in Australian shares, with the balance of 7% 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 A2 Milk +53.7%, Air New Zealand +4.6% and Tourism Holdings +3.0%, while the major detractors were Metro Performance Glass -22.1%, Fletcher Building -20.7% and Heartland Bank -13.7%.

Relative performance in New Zealand was slowed by the Fund's nil holdings in two particular shares, i.e. Summerset +27.6% and Synlait Milk +16.5% over the three months.

In Australia, the large cap stocks in the mining sector generally had a quiet but better-than-index return quarter – Rio Tinto fell by -4.3% and BHP Billiton by -4.2% – while the banking sector returns were poor, i.e., Westpac at -13.8%, ANZ Bank at -11.4% and National Australia Bank at -9.3%.

In these three months, two large cap industrial holdings in the portfolio achieved notable positive returns, i.e. Qantas +18.0% and Lend Lease +8.8%, both recovering strongly from the previous quarter. Also, three mid-cap stocks achieved strong, positive returns in the falling market, i.e. Seven Group Holdings +16.2%, NextDC +9.0% and FlexiGroup +7.8%.

In Australia, the two largest detractors in the three months were AGL Energy at -8.4% and Westfield at -6.9%. The latter received a cash and shares takeover offer from Unibail-Rodamco, a listed French company, late last year.

Fund Performance

The Clarity Trans-Tasman Fund has performed as follows:

To 31 March 2018	3 months (%)	12 months (%)
Fund net return *	-6.2	+6.6
Benchmark Index **	-4.3	+7.7
Difference	-1.9	-1.1

* 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 the sudden increase in market volatility in February and March raises concerns, we do not believe that the bull market in equities can be confirmed as having come to an end.

The underlying fundamentals of the global economy remain very strong. The synchronised global growth currently underway is the best level of economic activity seen this century. Strong global growth is contributing to the strong upward revisions to forward revenues and earnings for companies around the world.

The current US protectionist policies are more likely to affect market sentiment than the fundamentals of economies.

While core inflation is still contained in much of the world, the continued strength in the labour market in the US has heightened fears that wage inflation there is finally taking root. With the US Fed already on a tightening path and with three to four further rate hikes priced in this year, the market has become concerned about the impact of higher long-term rates on equity valuations.

Higher bond rates reflect a stronger global economy and are typical during the latter stages of an economic expansion. Historically, this is also a period when equity returns can be very strong.

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

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