

CLARITY TRANS-TASMAN FUND

Name Change

On 3 April 2017, this Fund changed its name from the JMIS A Fund to the Clarity Trans-Tasman Fund.

Performance Comments

The asset value of the Fund at 31 December 2017 was \$137.7 million and its price was \$2.7357 per unit, a rise of +8.0% over the quarter. This compares with the Fund's composite index return of +7.6%, which was an outperformance of +0.4%.

In the Fund's 50/50 composite index, there was a +5.9% gain in the NZX50 Portfolio Index and a +9.2% rise in the ASX200 Accumulation Index (in New Zealand dollar terms).

Australian shares outperformed New Zealand shares in the December quarter aided by a stronger Australian dollar, which rose by about 1.3% in the three months against the NZ dollar.

The portfolio's actual mix at quarter end was 42% in New Zealand shares and 55% in Australian shares, with the balance of 3% in cash.

In New Zealand, the stronger performing holdings in the portfolio were Scales +29.2%, Tourism Holdings +25.8%, Heartland Bank +15.3% and Sanford +10.4%, while the major detractors were Air New Zealand -5.3% and Fletcher Building -4.9%.

Relative performance in New Zealand was hindered by the Fund's nil holdings in growth shares like A2 Milk +25.5%, Port of Tauranga +15.4% and Ryman Healthcare +15.3% over the three months.

In Australia, the large cap stocks in the mining sector generally had a sound quarter – BHP Billiton rose by +14.7% and Rio Tinto by +14.0% – while the banking sector returns were underwhelming, i.e. Westpac at +2.3% and ANZ Bank at +0.9%. In the three months, two larger industrial holdings in the portfolio achieved notable positive returns, i.e. Boral +15.1% and Caltex +6.1%.

In mid-December, Westfield Corp, +21.1%, received a cash and shares takeover offer from Unibail-Rodamco, a listed French company, at a value near A\$10.

Also in mid-December, Toxfree Solutions, +37.6%, received a full takeover offer from Cleanaway at a price of A\$3.425 cash.

In Australia, the two largest detractors in the three months were Qantas at -13.6% on higher oil prices and Lend Lease Group at -8.8% after a profit downgrade.

Fund Performance

The Clarity Trans-Tasman Fund has performed as follows:

To 31 December 2017	3 months (%)	12 months (%)
Fund net return *	+8.0	+20.3
Benchmark Index **	+7.6	+21.1
Difference	+0.4	-0.8

* 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

Improving economic growth and a continuation of relatively dovish central bank signalling, have helped to propel sharemarkets higher this quarter.

Even though the current bull market in shares is now over eight years old, we believe that the risk of an imminent global bear market is not high. There are two main reasons for this.

First, inflation has played an important part in rising bear market risks in past cycles. Structural factors may be keeping inflation lower than in the past and central bank forward guidance is reducing interest rate volatility. Without monetary policy tightening, concerns about a looming recession – and therefore risks of a 'cyclical' bear market – are lower.

Second, financial imbalances and leverage in the banking system have been better controlled post the financial crisis. This makes a 'structural' bear market less likely than in the past.

Notwithstanding, we acknowledge that share valuations are historically high at present and require a continuation of good earnings and dividend growth to justify and support the current levels

A diversified and balanced approach to investment remains appropriate.

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.