

## CLARITY GLOBAL SHARES FUND

### About the Clarity Global Shares Fund

The objective of the Clarity Global Shares Fund is to provide actively managed exposure to international equities and generate a better return than the benchmark<sup>1</sup> over the medium to long term. The Fund is actively managed with a value bias which means its holdings may differ considerably from the benchmark index.

Clarity has appointed global investment manager MFS as the investment manager for the Fund. MFS has constructed the portfolio in consultation with Clarity and in accordance with the Fund's objectives. Boston-based MFS, which began in 1924 as Massachusetts Investment Trust, started America's first mutual fund. Our investment mandate combines MFS's fundamental and quantitative research, focusing on high quality, large-cap global companies selling at reasonable valuations with an unrecognised catalyst.

<sup>1</sup>the MSCI All Country World ex-Tobacco Index (net dividends reinvested), measured in NZ dollars, 50% hedged to NZ dollars

### Performance Comments

The Clarity Global Shares Fund returned 9.4% for the 3 months ending 31 December 2020 compared to its benchmark return of 8.8%. The asset value of the Fund as at 31 December 2021 2020 was \$85.3 million.

To 31 December 2020	1 month (%)	3 months (%)	12 months (%)	3 years (%)	Since inception (% p.a.)***
Fund net return *	2.9	9.4	4.0	6.7	8.5
Benchmark Index **	3.0	8.8	10.7	9.6	11.1
Difference	-0.1	0.6	-6.7	2.9	-2.6

\* These returns are after deductions for charges and before tax

\*\* Reflects no deduction for charges and tax

\*\*\* Inception date was 26 April 2017

Past performance is not necessarily indicative of future performance.

### Market Commentary

- The global equity market reached new highs in Q4 2020, with a rotation from growth/momentum to value/cyclicals, while showing signs of greater market breadth.
- The market seems to have priced in anticipation of a strong post-COVID economic recovery driven by vaccine rollouts and supportive monetary and fiscal policies.
- We believe that the adrenaline boost provided by massive stimulus policies will fade, and we are concerned about the sustainability of recent market performance and extreme valuations in some areas.

### Portfolio Outlook and Positioning

The portfolio outperformed the benchmark in the fourth quarter of 2020.

### Performance summary

#### Contributors

- Intersection holdings
- Stock selection in financials, consumer discretionary, materials and industrials
- Stock selection in emerging markets and North America

## Detractors

- Fundamental research input Quantitative models – earnings momentum and quality
- Underweight the most-volatile stocks
- Stock selection in Europe ex-UK

## Performance review

The MSCI All Country World Index (ACWI) ended 2020 at an all-time high, as early Q4 concerns about surging coronavirus cases and an election-driven power struggle in the United States over the next round of stimulus were replaced with optimism in better-than-expected vaccine efficacy data and a projected market-friendly US election outcome. With renewed lockdowns in a number of geographies, the recovery in global leading economic indicators, such as the manufacturing PMIs, has waned somewhat. However, the global earnings outlook, based on analyst earnings revisions, has continued to improve albeit at a slower pace. While the manufacturing recovery has been globally robust, ongoing weakness in the larger and traditionally less-cyclical services sector will continue to be a headwind to economic growth overall. The robust Q4 rally has left valuations stretched, with a number of sentiment and technical indicators signalling near-term caution.

Regional performance was generally cyclical with improving breadth. Emerging markets outperformed developed markets with notably strong performance in Latin American and Asian markets. The Asia Pacific region also broadly outperformed, driven by strength in Singapore, Hong Kong and Australian markets. The performance of the European region lagged, with weak results in Germany, the United Kingdom and Nordic markets more than offsetting strength in France, Spain and Italy. US equities modestly outperformed during the period while Japan equities slightly underperformed.

Sector performance was similarly broad and cyclical led by the financials sector, which benefited from a steepening yield curve, and the energy sector, which responded to stronger oil prices. Materials and industrials also outperformed, as did the more cycle-growth information technology and communication services sectors. Defensive and bond-proxy sectors such as utilities and consumer staples lagged significantly during the period.

In contrast to the broadening sector and geographic performance noted above, factor performance was very narrow with beta and value dominating performance, particularly benefiting from the risk-on shift by investors after the positive early November news on vaccines and the US election. Momentum, quality and growth factors broadly lagged. These results were generally consistent globally with the exception of Japan, where growth factors outperformed while value factors lagged. As would be expected, the shift to more cyclical leadership resulted in the size (small) factor also outperforming, which is evidenced by the outperformance of the MSCI ACWI equal-weighted index over the cap-weighted ACWI index.

The portfolio outperformed in the fourth quarter with intersection holdings — stocks that are buy rated from both our fundamental and quantitative research sources — the primary driver.

## Portfolio positioning

The market environment for most of 2020 was dominated by a concentrated group of mega-cap growth and momentum stocks, which challenged the investment process and the performance of the portfolio. As previously mentioned, we did not think these market conditions could persist indefinitely. The dramatic factor reversal in early November, which followed the previous sell-off of many mega-cap growth stocks in September and October, may be another indication of a more sustained unwinding of this unique pandemic-inspired market condition.

Improving economic and earnings data, coupled with broadly supportive fiscal and monetary policies, should support the evolving rotation toward cyclical geographies such as emerging markets and cyclical sectors such as industrials and consumer discretionary. Historically a rotation to cyclicals has tended to favour value, beta and size (small) factors. However, all business/market cycles are not alike. In this recovery cycle beta has broadly outperformed as expected; however, smaller-cap performance has been more uneven with mega-caps dominating in the US and emerging markets until recently, while the more typical outperformance of equal-weighted benchmarks was prevailing in the EAFE markets. Value factor performance had also been uncharacteristically weak, but as mentioned above, this abruptly reversed in early November in concert with better-than-expected vaccine efficacy data.

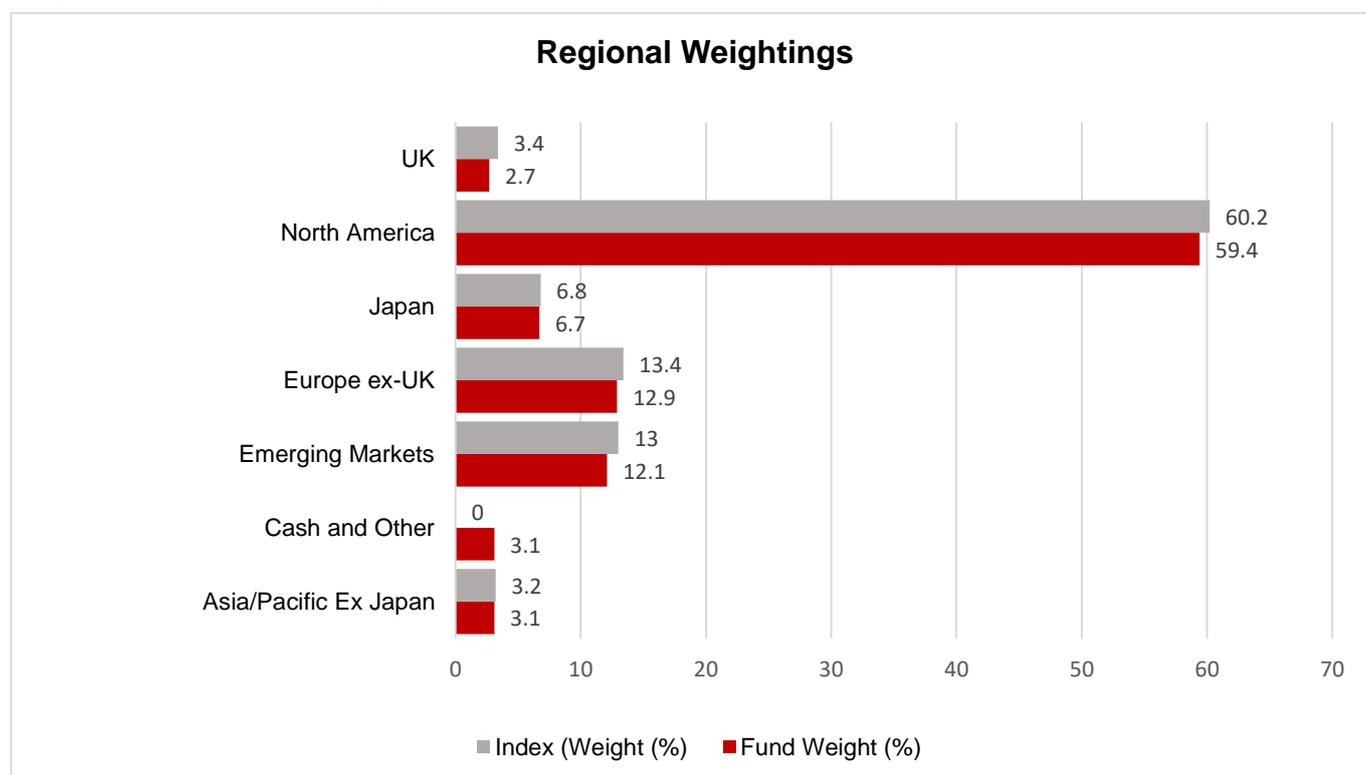
The strong Q4 rally has left many markets overvalued and overbought technically, with complacency evident in a number of sentiment indicators. The re-establishment of lockdowns in a number of geographies, vaccine distribution hiccups and political uncertainties are near term risks that could, in the short term, reverse the rotations noted above. Any such reversals should be transitory given the anticipated reopening of the global economy and supportive policy backdrop.

## Top 10 holdings (as at 31 December 2020)

Company	Portfolio (%)	Benchmark ^ (%)
Microsoft Corp	4.0	2.7
Amazon.COM Inc (EQ)	3.3	2.4
Apple Inc	2.9	3.9
Alphabet Inc	2.9	1.8
Facebook Inc	2.3	1.1
Taiwan Semiconductor Manufacturing Co Ltd	1.9	0.8
Adobe Inc	1.7	0.4
Magna International Inc	1.6	0.4
Schneider Electric Inc	1.6	0.0
Roche Holdings AG	1.6	0.4
Total	23.7	

^MSCI AC World ex Tobacco Index 50% hedged to NZD

## Regional and country weights (as at 31 December 2020)



Portfolio holdings as at date 31/12/20. Benchmark is MSCI AC World ex-Tobacco Index. Cash or cash equivalents equaled to 2.5%. Currency derivatives and derivatives 0.6%.

## Key Fund Characteristics (as at 31 December 2020)

Fundamentals (weighted average)	Portfolio	Benchmark <sup>^</sup>
Price/Earnings <sup>1</sup>	15.8X	20.7
PEG ratio	1.9X	2.5X
Dividend Yield	2.1%	1.8%
Market Capitalisation <sup>2</sup>	458.1bn	432.4bn
Number of holdings	135	2,955
Tracking Error <sup>3</sup>	2.49%	
Active share	77%	

<sup>^</sup>MSCI AC World ex Tobacco Index 50% hedged to NZD

<sup>1</sup>12 month forward ex-negative earnings

<sup>2</sup> Weighted average

<sup>3</sup> Barra predicted tracking error. Source: Barra

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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