



CLARITY GLOBAL SHARES FUND PROFILE

The Clarity Global Shares Fund is a diversified and actively managed large-cap core portfolio of listed global equities, invested across developed and developing markets. It was launched in 2017 by Clarity Funds Management, an Auckland based investment management company¹ who have appointed MFS International Australia Pty Ltd as the underlying manager for the Fund. MFS International Australia Pty Ltd is a member of the MFS Investment Management group of companies (“MFS”), a US headquartered manager with a global presence and history going back to 1924. MFS currently manages \$US614bn in assets².

This article outlines the Fund and its underlying investment strategy in more detail, explains recent drivers of performance and the investment manager’s current outlook.

Performance

The Fund has outperformed its benchmark and generated strong absolute returns over the past 1, 3 and 5 years, and since inception.

As at 31 March 2024	1 Mth	3 Mth	1 Yr	3 Yrs p.a.	5 Yrs p.a.	Since inception p.a.
Clarity Global Shares Fund*	5.5%	14.3%	31.7%	13.7%	14.0%	11.9%
Benchmark Index**	4.3%	12.1%	26.9%	10.4%	12.4%	11.4%

* These returns are after deductions for fees and before tax.

** Benchmark returns reflects no deduction for fees and tax. Details of these are included in the Quarterly Fund Update which is available at clarityfunds.co.nz

Introducing 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 over the medium to long term. 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. The strategy uses an actively managed approach and a consistent, disciplined, bottom-up stock selection and investment process that blends proprietary fundamental and quantitative research to build a well-diversified, large-cap core global portfolio. The Fund exhibits a modest value bias, and its holdings may differ considerably from the benchmark index.

Overview of the underlying investment manager (MFS)

Massachusetts Financial Services Company, commonly known as MFS Investment Management or MFS, has a history of money management dating back to 1924, when it created the first open-end US mutual fund.

MFS has been a majority-owned subsidiary of Canadian diversified financial services organisation Sun Life since 1982. While MFS operates with considerable autonomy, this partnership provides significant benefits.

MFS employs approximately 2,100 staff including over 300 investment professionals spanning fundamental and quantitative research and analysis, ESG, portfolio management and risk functions.

Key features

<i>Actively managed and diversified global equity strategy</i>	<i>80 – 150 stock holdings; holdings may differ significantly from underlying benchmark index</i>
<i>In partnership with leading global equity manager</i>	<i>MFS, a US based global asset manager</i>
<i>Responsible investment approach</i>	<i>ESG integration; excludes controversial weapons & tobacco</i>
<i>Focus to exceed the return of broader global equity markets (benchmark) over medium term (at least 5 years) net of fees and expenses</i>	<i>Benchmarked to the MSCI All Country World Index, 50% hedged to NZD¹</i>
<i>Competitive pricing</i>	<i>1.00% p.a.²</i>
<i>Designed for NZ investors</i>	<i>PIE structure, target 50% NZD hedged Current FUM \$184M (as at 29/02/2024)</i>
<i>Unique investment approach (combines quantitative and qualitative research)</i>	<i>Potential for strong risk-adjusted results across changing market environments</i>

¹ MSCI All Country World (net dividends reinvested), measured in NZ dollars 50% hedged to NZ dollar.

² Please refer to the PDS for Clarity Funds Management (dated 29 September 2023) for full details on fees.

² FUM as at 29 February 2024

Investment strategy and characteristics

The Clarity Global Shares Fund invests in the MFS Blended Research – Global Equity strategy. This strategy seeks to provide long-term growth of capital through investment in global equity securities, including in emerging developing markets. It is an actively managed approach providing consistent, disciplined, bottom-up stock selection and blends proprietary fundamental and quantitative research to build a well-diversified, large-cap core global portfolio.

The fundamental research element focuses on quality and valuation with a long-term investment horizon. The quantitative research element utilises multi-factor models including valuation, quality and momentum factors, and provides an objective appraisal that complements the qualitative perspective of fundamental research.

The MFS Blended Research – Global Equity strategy incorporates a disciplined approach to portfolio construction and risk management and targets a controlled level of active risk / tracking error. Part of this discipline includes targeting sector and regions weights broadly in-line with the underlying benchmark. This means alpha will be primarily generated through bottom-up stock selection within sectors and regions.

In terms of responsible investing, Clarity has adopted an ethical screen implemented by MFS that excludes investment in certain companies including manufacturers of tobacco and controversial weapons. MFS also operate a specialist ESG team that work alongside their fundamental research analysts, and as a significant shareholder in many of the companies they invest, frequently engage in meaningful dialogue with companies on ESG issues.

When will the Fund perform best?

Based on the complementary nature of fundamental research and quantitative research and the disciplined portfolio construction process, we believe the Blended Research approach should provide consistent returns across most market environments. However, the ideal environment for this strategy is one in which cross sectional correlations are low (i.e. industry sectors are less correlated), allowing opportunities for stock selection within sectors to add value. In addition, market conditions where factor correlation is low are also helpful. The quantitative factor mix can be broadly defined as value, quality, sentiment, and earnings & price momentum.

The strategy will generally not perform as well in markets characterized by frequent leadership changes and mini-inflection points, as well as in narrow market environments where investors are focused on a single market dimension. This can also be proxied via factor correlations when the market is trading on only one theme. This was most evident in 2019 and 2020, when the market was extremely concentrated, favoring high growth at any price. During this period, value and growth had an extreme negative correlation to each other, making it difficult to find growing, attractively valued names. This has happened infrequently but is certainly within the probability distribution.

As at 31-Mar-24	Portfolio	Benchmark [^]
Fundamentals – weighted average		
IBES long-term EPS growth ¹	12.1%	13.5%
Price/earnings (12m forward)	14.6x	18.3x
PEG ratio	1.6x	1.9x
Price/book	2.6x	3.0x
Price/sales	1.3x	2.1x
Dividend yield	2.2%	1.9%
Market capitalisation (NZD) ²	885.4bn	879.2bn
Diversification		
Top ten issues	26%	19%
Number of issues	141	2,841
Turnover		
Trailing 1 year turnover ³	54%	-
Risk profile (current)		
Active share	70%	-
Risk/reward (5 year)		
Beta	1.01	-
Information ratio	0.89	-

¹ Source: FactSet

² Weighted average

³ Turnover methodology: (Lesser of Purchase or Sales)/Average Month End Market Value

[^] MSCI ACWI 50% Hedged To NZD Index

What has driven Fund performance over the past 1 and 3 years?

After underperforming significantly in Covid-impacted 2020 due to very narrow factor leadership (growth/volatility) and stock leadership (only 35% of stocks outperformed the benchmark), the strategy has outperformed the benchmark over the past 3 years.

Fiscal and monetary policy implemented during Covid, coupled with the reopening of economies in 2021-22, prompted a robust economic recovery, which resulted in a broadening of stock and factor leadership. This normalisation, which was similarly seen after the late 1990s tech bubble, benefitted the strategy, with strong performance from multiple components in the quantitative models driving portfolio performance.

Value factors (cheap stocks) were particularly strong in 2021-22, as is typical at this point in the business cycle. With inflation being more persistent than developed markets central banks anticipated, the ensuing rate hikes and peaking leading economic indicators resulted in a rotation to quality factors (stocks) in late 2022-2023, which was evident in the strong performance of the quality factors in the strategy's quantitative models. The quality-focused fundamental research input detracted from results in the value-led 2021-22 recovery and contributed modestly to results during the rotation to quality in 2023.

Intersection holdings (buy-rated based on both MFS's fundamental and quantitative research) outperformed over the 3-year period overall, demonstrating how MFS's quantitative models add value to fundamental buy-rated stocks.

Given the strategy's generally sector and region neutral approach, stock selection was the main driver to relative performance and was broadly strong over the period. Sector relative exposures modestly detracted from results while regional relative exposures modestly contributed to results. At the stock level the biggest contributors to performance included medical products distributor McKesson, insurance company Fairfax Financial Holdings and software firm Cadence Design Systems.

While the Magnificent 7 stocks have been a prominent focus and driver of market performance in recent years, the portfolio's risk-managed portfolio construction process (with position size within +/- 2% versus benchmark) resulted in only a modest detraction from the group overall. Within this group, overweight positions in Microsoft and Alphabet were significant contributors while an underweight position in Nvidia detracted from relative performance.

Top holdings

Top 10 issuers	Sector	% of Portfolio
Microsoft Corp	Information Technology	4.5
Alphabet Inc	Communication Services	3.6
Nvidia Corp	Information Technology	3.5
Meta Platforms Inc	Communication Services	2.7
Amazon.Com Inc	Consumer Discretionary	2.6
Apple Inc	Information Technology	2.5
Applied Materials	Information Technology	1.8
Cigna Group	Health Care	1.5
Hon Hai Precision Industry	Information Technology	1.5
Heidelberg Materials	Materials	1.5

Holdings as of 31 March 2024

Regional and Sector breakdown

	Portfolio	Benchmark [^]
Regions (%)		
North America	66.3	66.5
Europe ex-U.K.	12.2	12.1
United Kingdom	3.2	3.3
Japan	4.7	5.5
Asia/Pacific ex-Japan	2.1	2.5
Developed – Middle East/Africa	0.4	0.2
Emerging Markets	10.1	9.9
Sectors (%)		
ETFs	0.6	-
Energy	5.0	4.5
Materials	4.7	4.2
Consumer Staples	6.6	6.4
Communication Services	7.7	7.6
Industrials	10.9	10.8
Health Care	11.0	11.1
Real Estate	2.1	2.2
Consumer Discretionary	10.3	10.9
Information Technology	23.1	23.7
Financials	15.4	16.1
Utilities	1.6	2.5

[^]MSCI ACWI 50% Hedged To NZD Index

Outlook

Looking ahead, MFS continues to believe the strategy can deliver strong relative performance in most market environments. Currently the market and economic indicators are suggesting a soft-landing or no-landing scenario. If realised this may see stronger performance from the value and earnings momentum components of the strategy's quantitative models. If the economy reverts lower (the yield curve continues to signal recession) then the manager would expect leadership from the quality factors in the models and the fundamental research input to the process.

¹About Clarity Funds Management

Clarity is an Auckland based investment management company, licensed by the FMA. Founded in 2007, Clarity offers a range of funds across different asset classes including global equities. Clarity is part of the Investment Services Group (ISG), a diversified investment and wealth management company. Clarity currently manages approximately \$750m on behalf of a diverse range of NZ clients, and ISG over \$5bn.

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