

Clarity Global Shares Fund
Global Equity Market, Strategy and Performance Update



Josh Barton, MFS Investment Management
Josh Wilson, Clarity Funds

August 24th 2023

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Clarity Global Shares Fund

24 August 2023

Josh Barton

Managing Director, Relationship Manager and Head
of Institutional Sales - Australia & New Zealand

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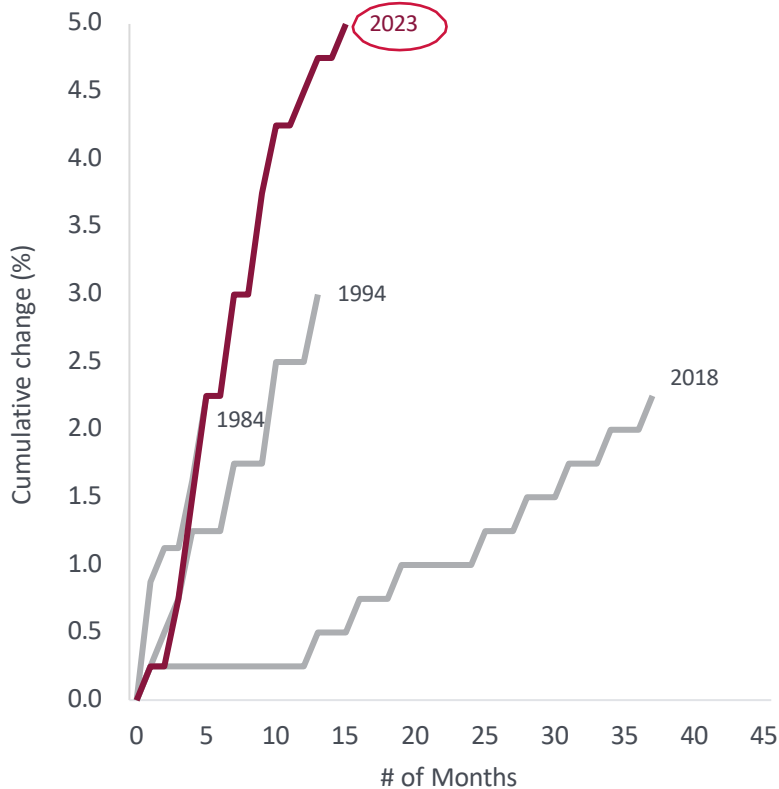


Macro Landscape

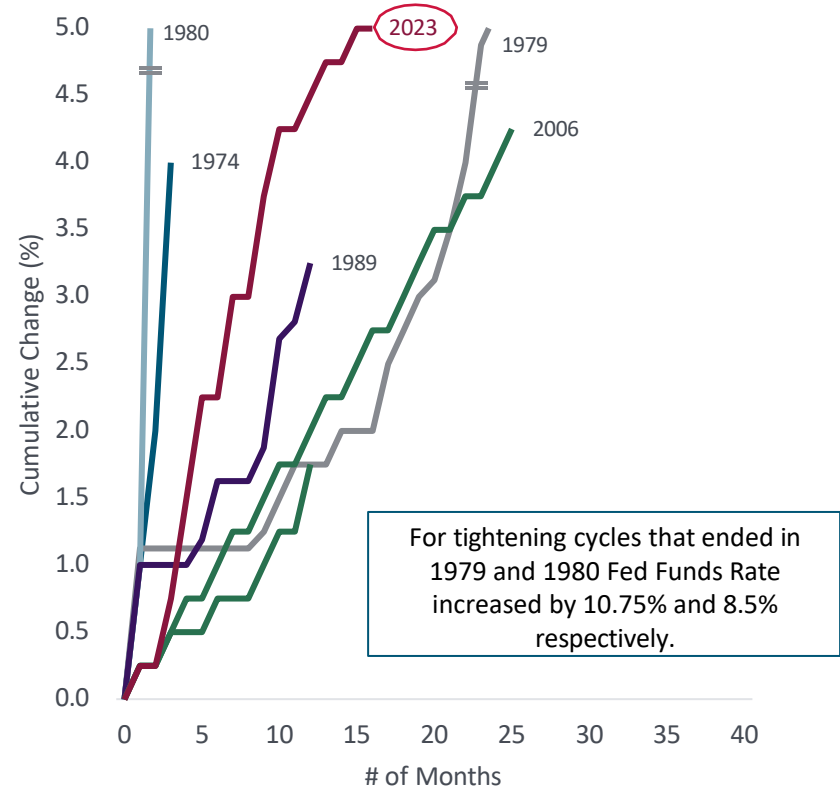
The Pace of Fed Tightening Has Been Aggressive



Current Cycle vs. Soft Landings



Current Cycle vs Hard Landings



For tightening cycles that ended in 1979 and 1980 Fed Funds Rate increased by 10.75% and 8.5% respectively.

Source: FactSet. Monthly data from 31 August 1971 through 30 June 2023. **Soft Landing** – Housing bottoms without a significant deterioration in employment, **Hard Landing** – Employment deteriorates significantly before housing recovers.

This scenario has historically resulted in a hard landing for the economy

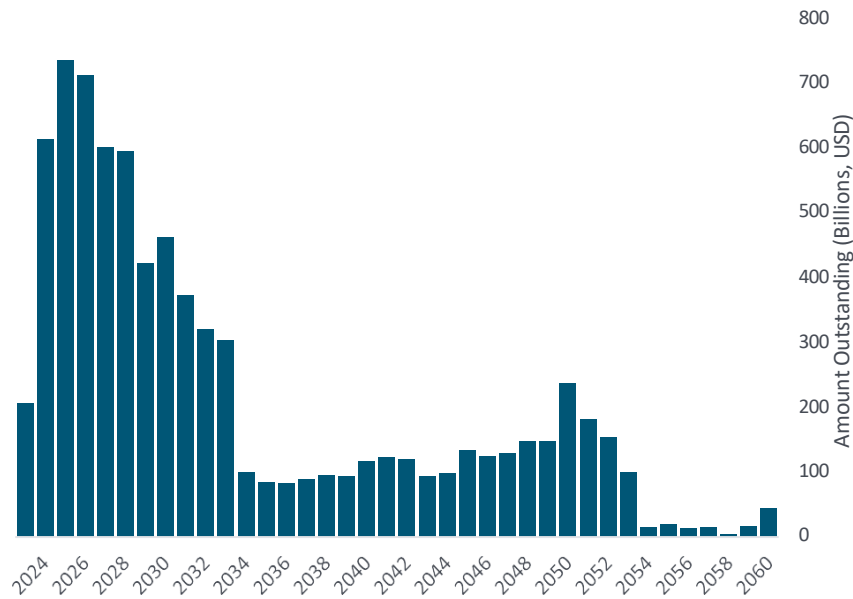
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US Corporate Debt Maturity Wall

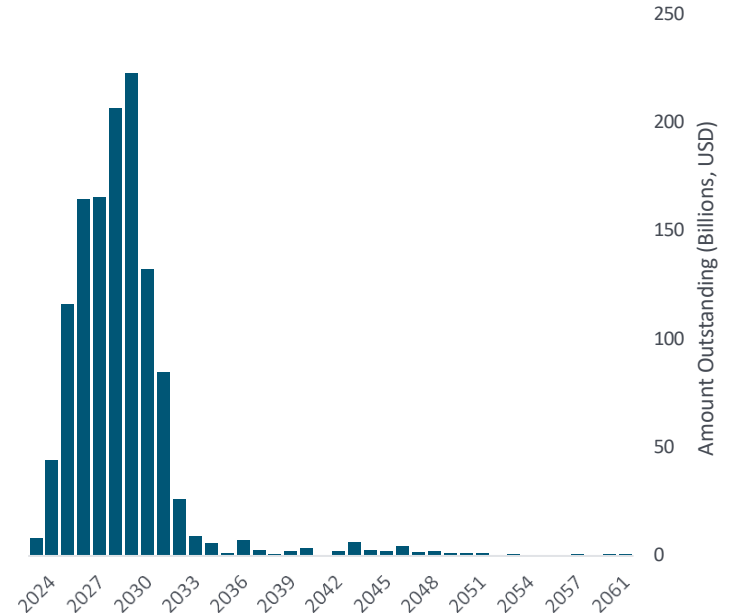
Debt refinancing accelerates after 2024



US IG - Amount Outstanding (USD)



US HY - Amount Outstanding



Bloomberg. Data as of 21 June 2023. Amount outstanding aggregated using Bloomberg SRCH for taxable corporate bonds in the United States. Investment Grade Corporates aggregated for those issues above BBB- (High Yield below BB+) using a middle of 3 rating Bloomberg composite credit rating for all corporate bonds outstanding. Ratings providers are Fitch, S&P, and Moody's. Amount outstanding displayed in USD.

Impact of higher for longer rates on corporate profits will increasingly impact after 2024

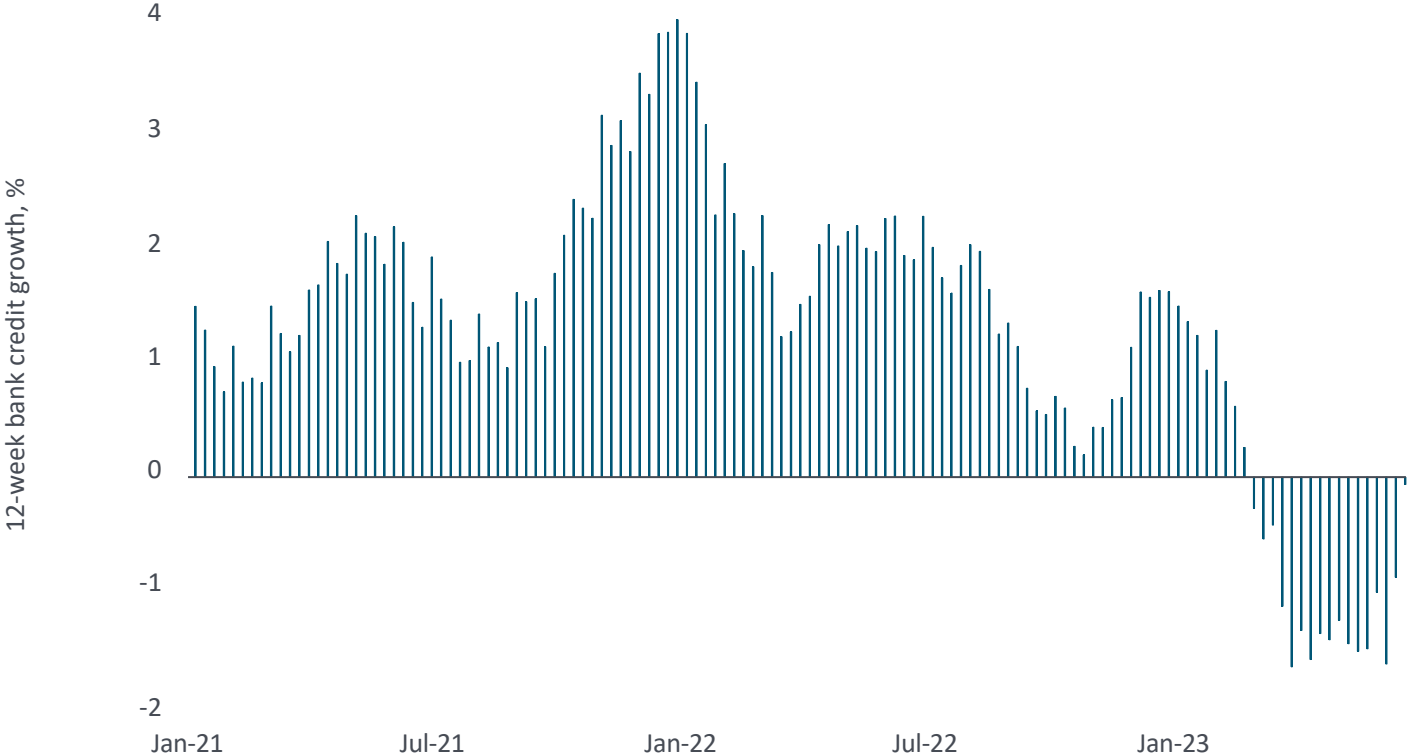
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Credit Creation Has Slowed

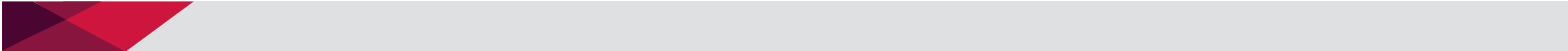
Tighter lending standards have coincided with a contraction of bank credit



US Bank Credit Growth – 12-week % Change



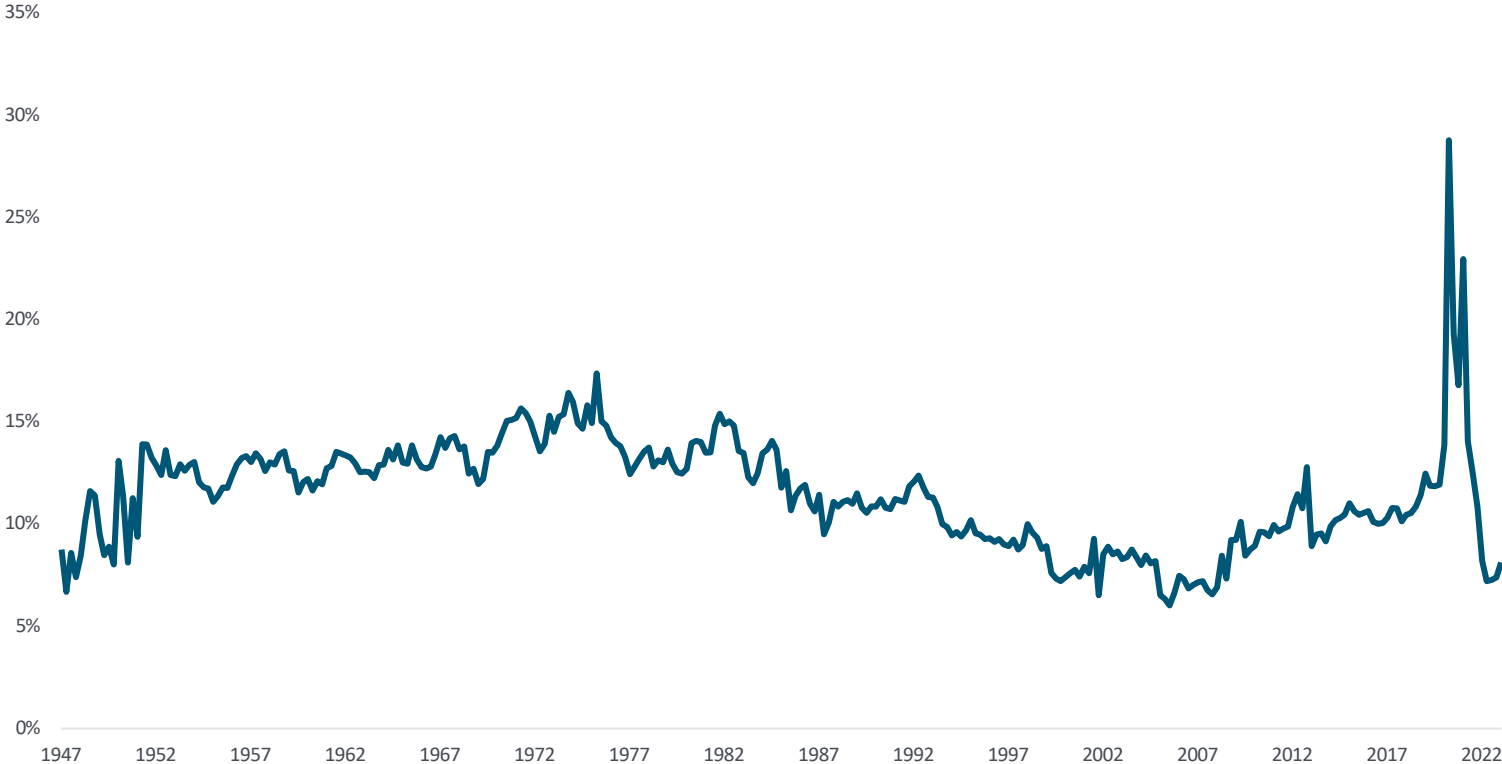
Source: Board of Governors of the Federal Reserve System H.8 Table. Weekly data from 1 January 2021 through 21 June 2023. Data is not seasonally adjusted.



Personal Savings Rates Have Fallen



Personal Savings as a Percent of Disposable Income

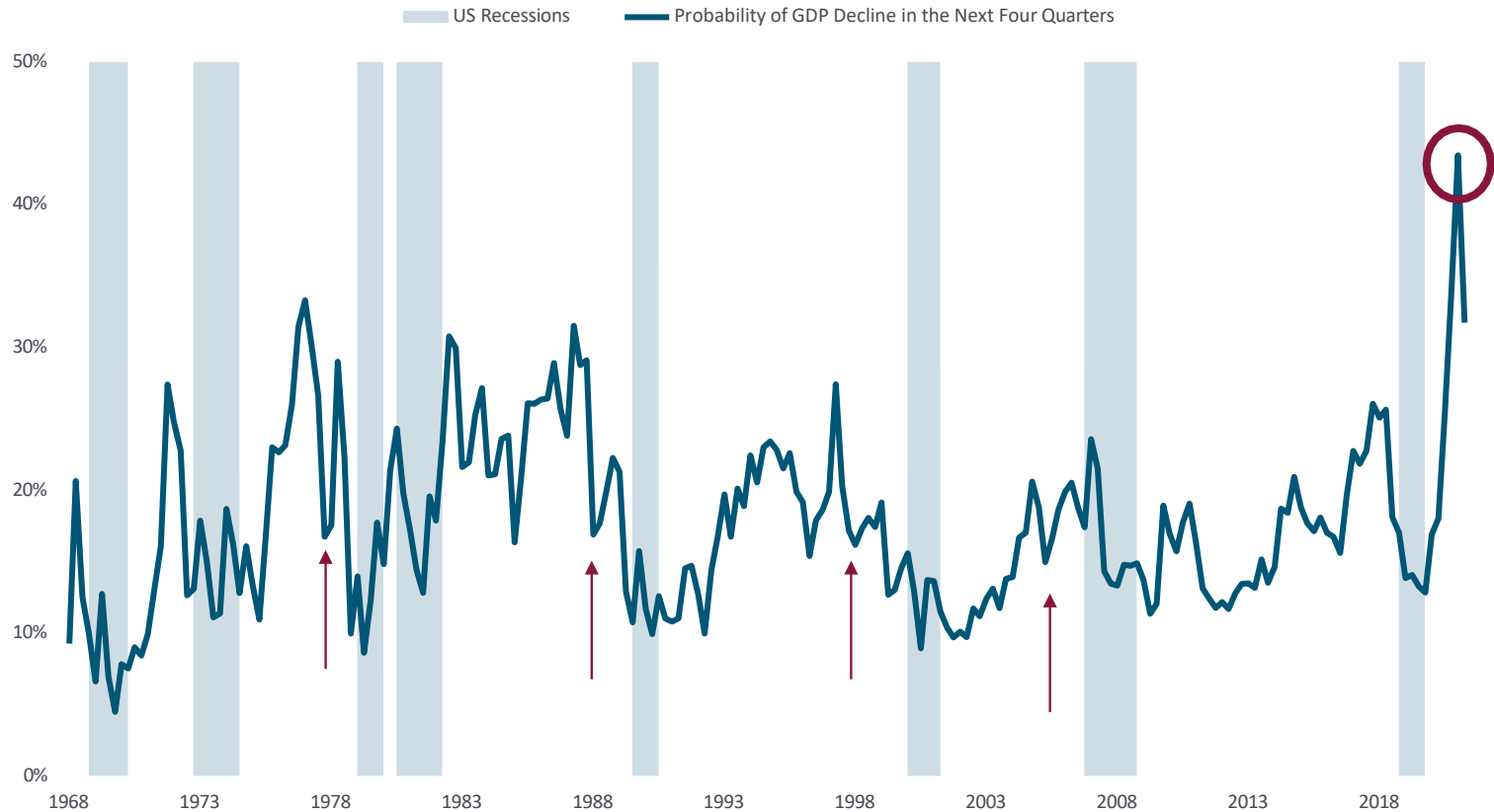


Source: Haver Analytics. Quarterly data from 31 March 1947 through 31 March 2023 (Latest available).

Consumer spending expected to slow as savings are depleted and inflation remains elevated

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Economists Usually Give Up Forecasting a Recession Immediately Before it Occurs



Source: Bloomberg. Quarterly data from 31 December 1968 through 31 March 2023. Due to data availability the probability of GDP decline in the next four quarters is not shown for the following dates: 1Q69, 3Q69, 1Q70, 3Q74. Shaded areas indicate a US Recession.

A lag in the impact of tighter policy or a change in view?

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Markets Have Never Bottomed Before a Recession

Number of months after the start of a recession to the S&P 500 market bottom



Recession Start	Market Bottom	Number of Months From Recession Start to Market Bottom
Great Recession - Aug 29	Jun-32	34
May-37	Mar-38	10
V Day - Feb 45	Mar-45	1
Post War - Nov 48	Jun-49	7
Korean War - Jul 53	Sep-53	2
Aug-57	Oct-57	2
Rolling Adjustment - April 60	Oct-60	6
Guns & Butter - Dec 69	May-70	5
Oil Embargo -Nov 73	Oct-74	11
Volker Iran Pt 1 – Jan 80	Mar-80	2
Volker Iran Pt 2 – July 81	Aug-82	13
Gulf War - July 90	Oct-90	3
Dot Com - Mar 01	Oct-02	19
GFC – Dec 07	Mar 09	15
COVID – Feb -20	Mar 20	1

Source: Bloomberg



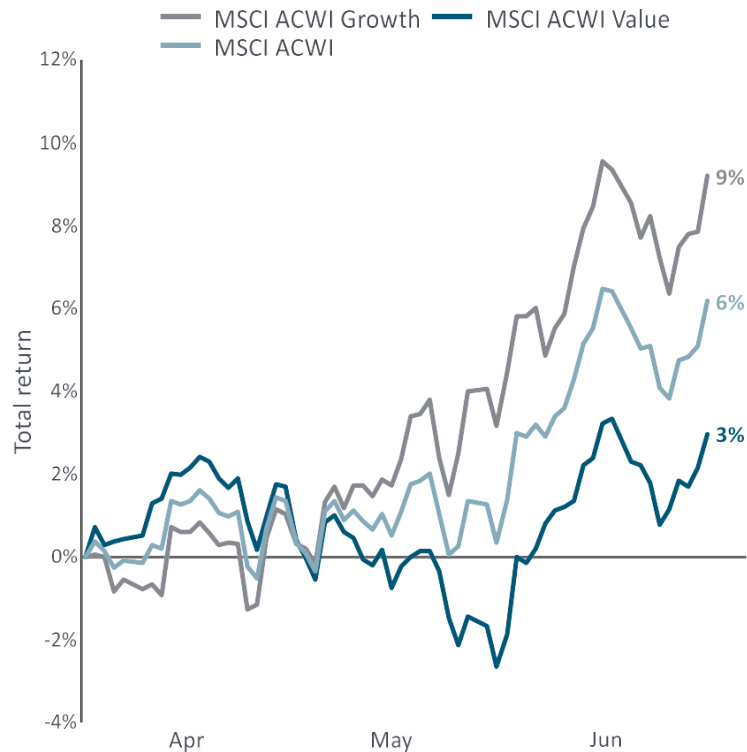
Market Performance

Growth Outperformance Propelled By Three Sectors

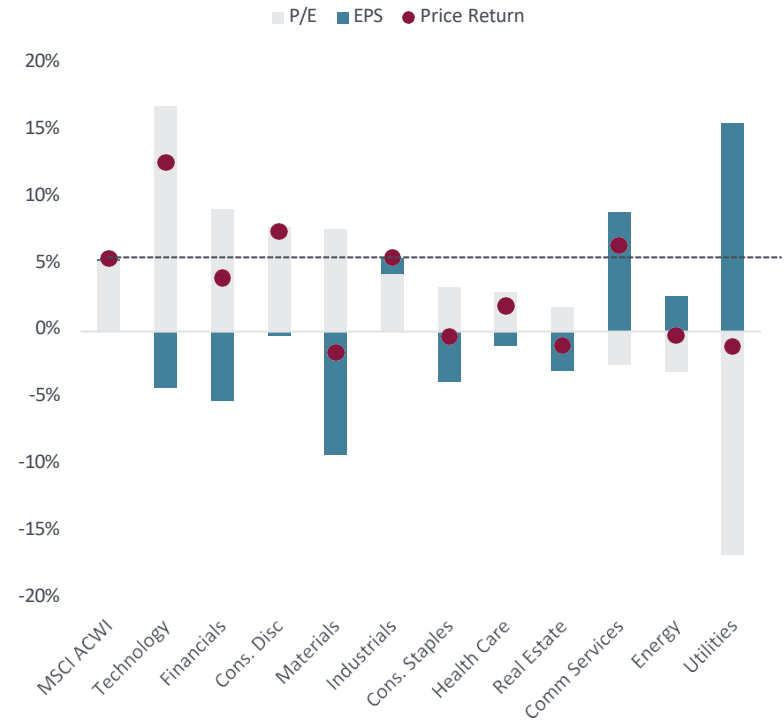
MSCI ACWI style and sector performance



Growth significantly outperformed Value in 2Q23



MSCI ACWI Sector Performance Decomposition



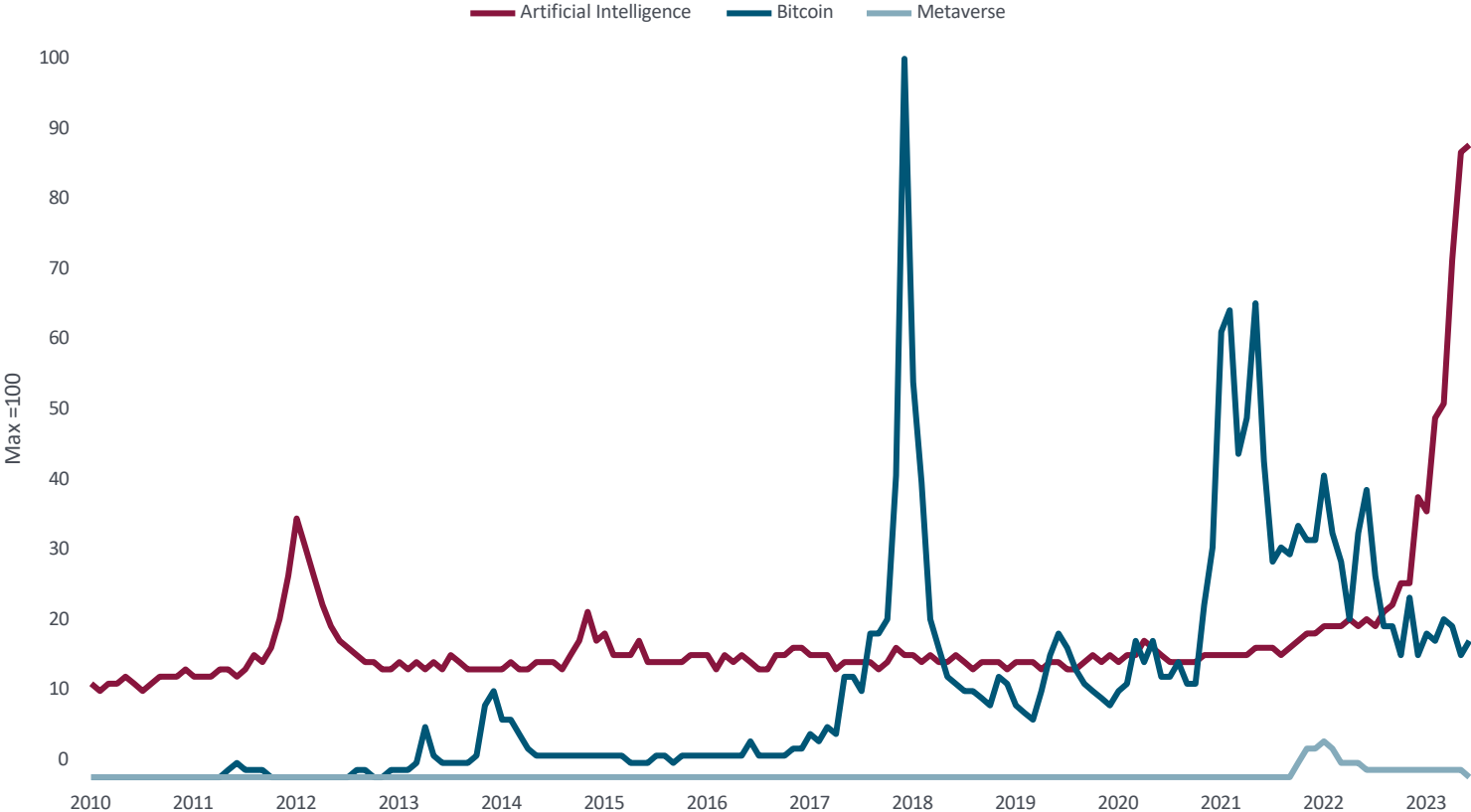
Source: FactSet. LHS - Daily data from 31 March 2023 through 30 June 2023. Total returns are net in USD. RHS – Performance decomposition is from 31 March 2023 through 30 June 2023.

Performance has been driven by multiple expansion

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Should Investors Believe the Hype?

Google Trends search queries



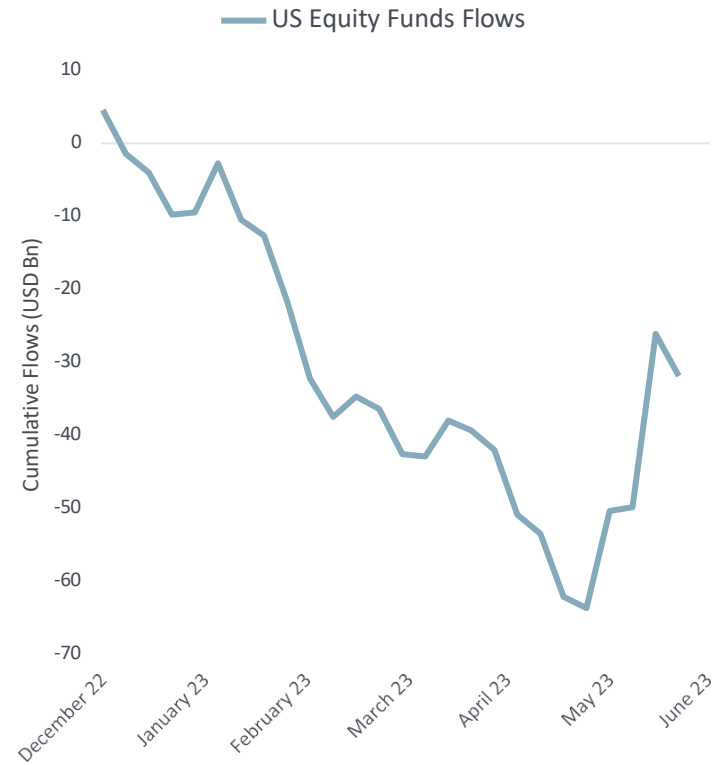
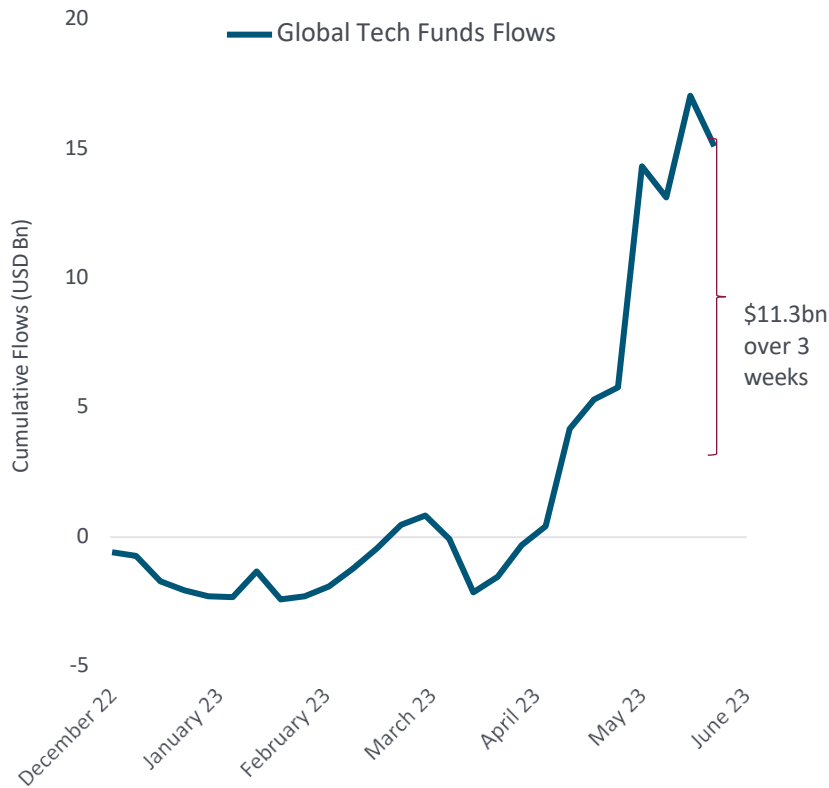
Source: Google Trends. Monthly Data from 31 December 2009 through 30 June 2023.

AI tide is lifting all boats

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Strong Inflows On AI Expectations

Cumulative weekly flows into Tech ETFs and Mutual Funds



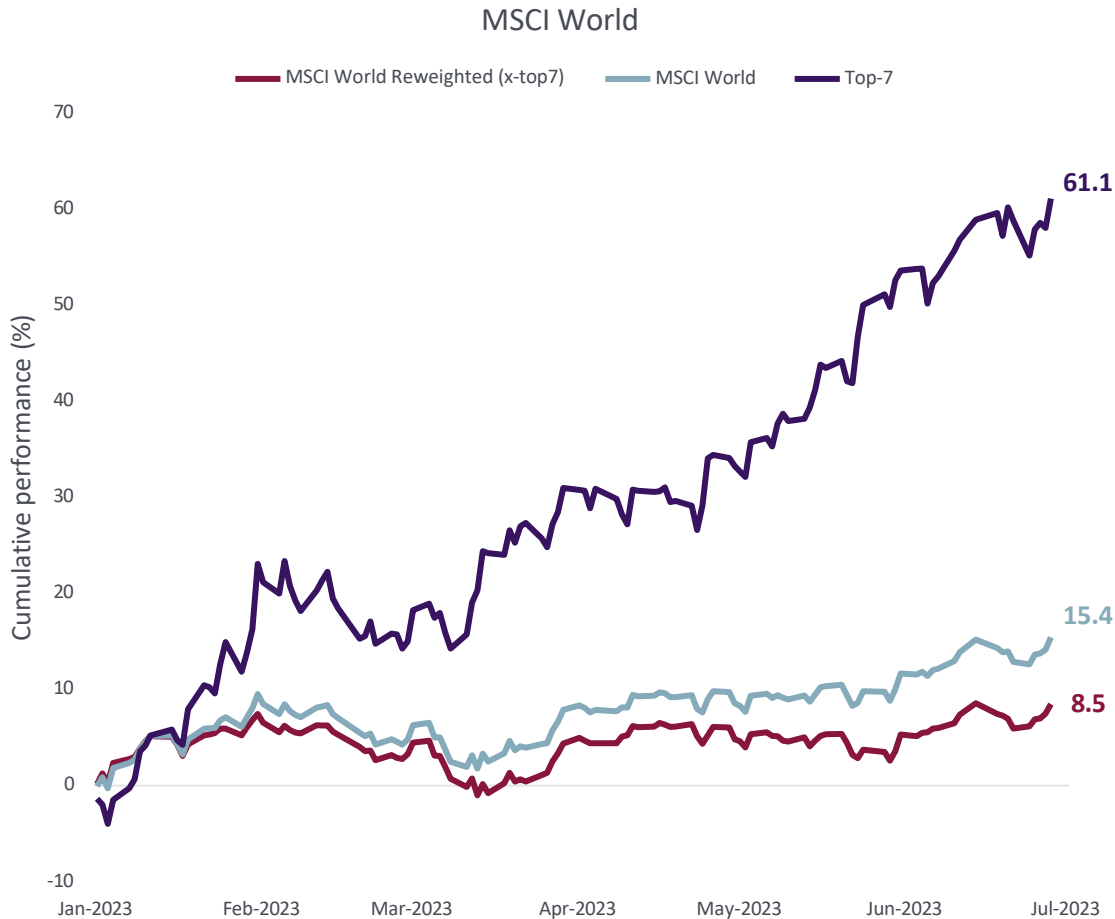
Source: EPFR global, Bernstein research to 21 June 2023

The same stocks dominate tech funds and the broad indices further driving concentration

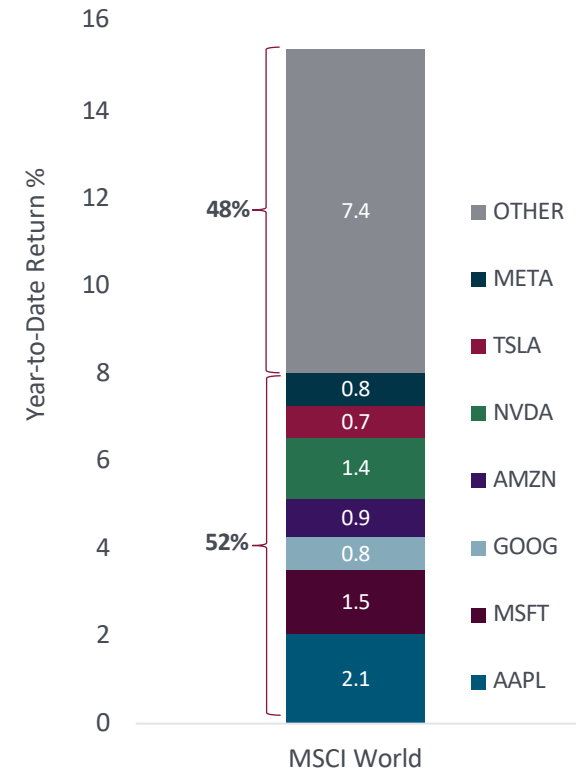
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MSCI World Index Driven by 7 Stocks

Seven stocks contributed half of the MSCI World Index's performance



Top 7 Contributors to Year-to-Date Return



Source: FactSet. 31 December 2022 to 30 June 2023. MSCI World Reweighted x-top 7 = MSCI World reweighted back to 100% after excluding the top-7 largest companies: Apple, Microsoft, Amazon, Alphabet, NVIDIA, Tesla, Meta. The information included above as well as individual companies and/or securities mentioned should not be construed as investment advice, a recommendation to buy or sell or an indication of trading intent on behalf of any MFS product.

The largest stocks in the index are driving overall performance and further increasing market concentration

MSCI World Performance Has Been Driven by Multiple Expansion

Only Nvidia and Meta have seen meaningful upward earnings revisions for 2023



	Alphabet	Amazon	Apple	Meta	Microsoft	NVIDIA	Tesla	MSCI World
YTD price change	36%	55%	50%	138%	43%	190%	113%	15%
YTD % change in current year earnings estimate	3%	-11%	-3%	46%	1%	79%	-39%	-4%
YTD % change in current year P/E multiple	31%	75%	54%	63%	41%	61%	248%	19%
Current Year (2023) P/E multiple	22	82	32	24	35	56	78	19

Source: FactSet. YTD change in price, earnings estimate, and P/E multiple calculated from 31 December 2022 to 30 June 2023. Returns are in USD. The information included above as well as individual companies and/or securities mentioned should not be construed as investment advice, a recommendation to buy or sell or an indication of trading intent on behalf of any MFS product.

Sentiment has been extremely positive, but analysts have not yet revised earnings for most of these companies

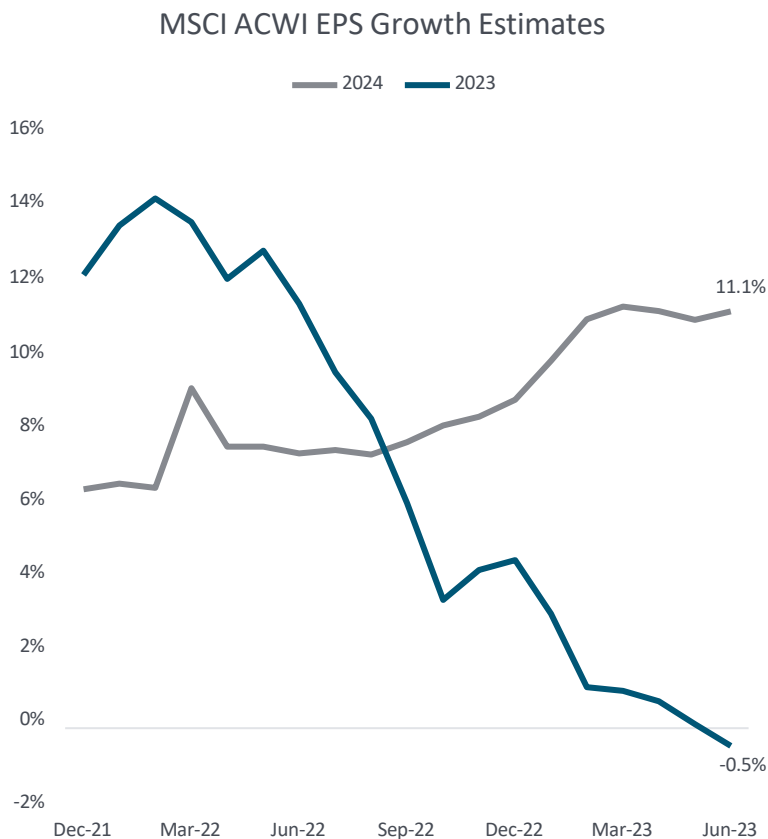
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Margins and Earnings

Consensus Estimates Remain Stubbornly High

Earnings expectations vary widely by sector



Sector	Consensus Earnings Growth (%)	
	2023 (Est.)	2024 (Est.)
Communications	17%	18%
Utilities	16%	10%
Cons. Discretionary	16%	17%
Financials	9%	9%
Cons. Staples	4%	10%
Real Estate	-1%	6%
Industrials	-2%	11%
Health Care	-5%	11%
Technology	-7%	21%
Materials	-23%	7%
Energy	-25%	-2%

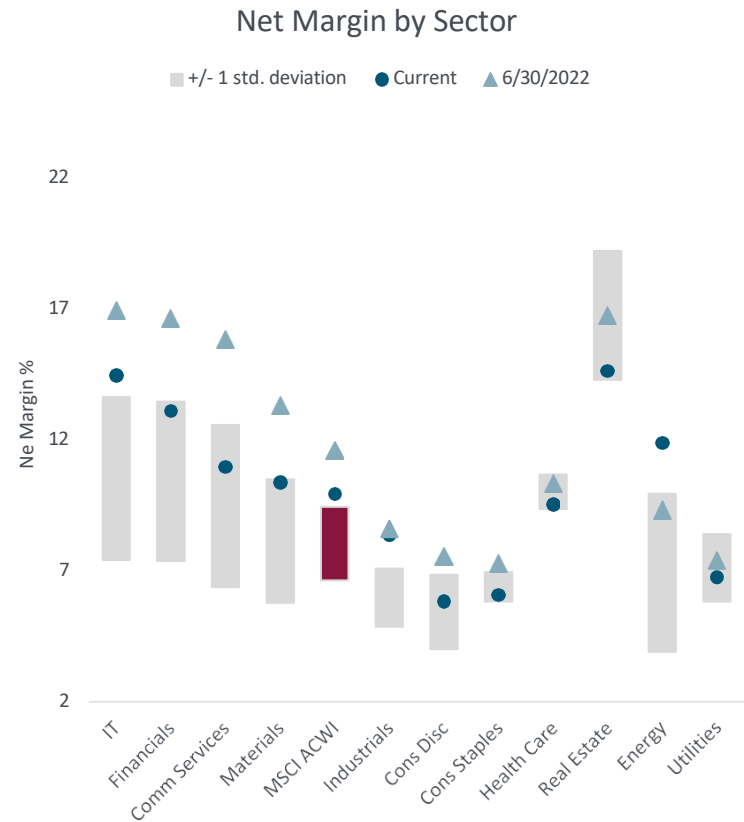
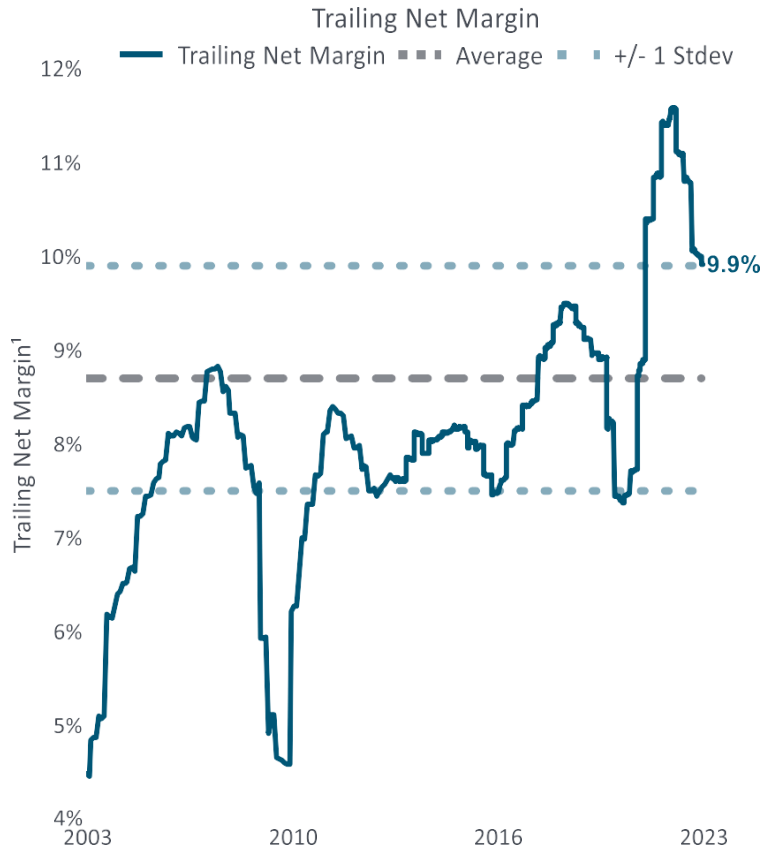
Source: LHS FactSet Market Aggregates. Monthly data as of 31 December 2021 to 30 June 2023. RHS: FactSet Market Aggregates. Data as of 30 June 2023.

Riskier earnings environment should result in long term investment opportunities

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MSCI All Country World Profit Margins

Profit margins are coming off peak levels but remain elevated



Source: LHS, FactSet. Monthly Data from 30 June 2003 through 30 June 2023. Trailing¹ = Last twelve months. RHS, Monthly data from 30 June 2003 through 30 June 2023. Due to data availability Real Estate data is from 30 September 2016 through 31 December 2022. Trailing Net Margin¹ = Previous 12 months.

Declining margins potentially impacting earnings growth in 2023

Factor Leadership When Earnings Decline

Outperformers vs. underperformers



Outperformers

Peak in NTM EPS	Trough in NTM EPS	Return on Assets	Net Income Margin	Return on Equity	Asset Turnover
Jan-86	May-86	10.0%	7.9%	10.9%	4.7%
Sep-89	Apr-91	36.9%	29.9%	19.2%	11.7%
Sep-00	Nov-01	0.5%	2.6%	3.6%	5.3%
Oct-07	May-09	7.4%	4.4%	6.8%	2.7%
Sep-14	May-16	4.8%	4.3%	6.6%	7.0%
Feb-20	May-20	14.7%	15.0%	9.0%	7.9%
Average		12.4%	10.7%	9.3%	6.6%
Hit Rate		100.0%	100.0%	100.0%	100.0%

These Factors
Outperformed in
Every Episode
Where NTM EPS Fell

Underperformers

Peak in NTM EPS	Trough in NTM EPS	Beta	Sales Variance	Long Term Volatility	Negative Earnings
Jan-86	May-86	-5.0%	-1.7%	-3.8%	-10.3%
Sep-89	Apr-91	-2.7%	-8.7%	-16.7%	-17.2%
Sep-00	Nov-01	-19.5%	-15.8%	-24.7%	-10.0%
Oct-07	May-09	-4.1%	-19.5%	-10.8%	-16.6%
Sep-14	May-16	-19.6%	-20.1%	-20.1%	-27.9%
Feb-20	May-20	-5.4%	-1.1%	-4.7%	-11.3%
Average		-9.4%	-11.1%	-13.5%	-15.6%
Hit Rate		0.0%	0.0%	0.0%	0.0%

These Factors
Underperformed in
Every Episode
Where NTM EPS Fell

Source: Piper Sandler. S&P Factor performance, high to low, sector adjusted, average performance during the periods listed.

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Quality metrics historically outperform in a negative earnings environment

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Clarity Global Shares Fund



Value Proposition

Disciplined integration of proprietary, quantitative and fundamental signals to deliver a differentiated alpha outcome for clients

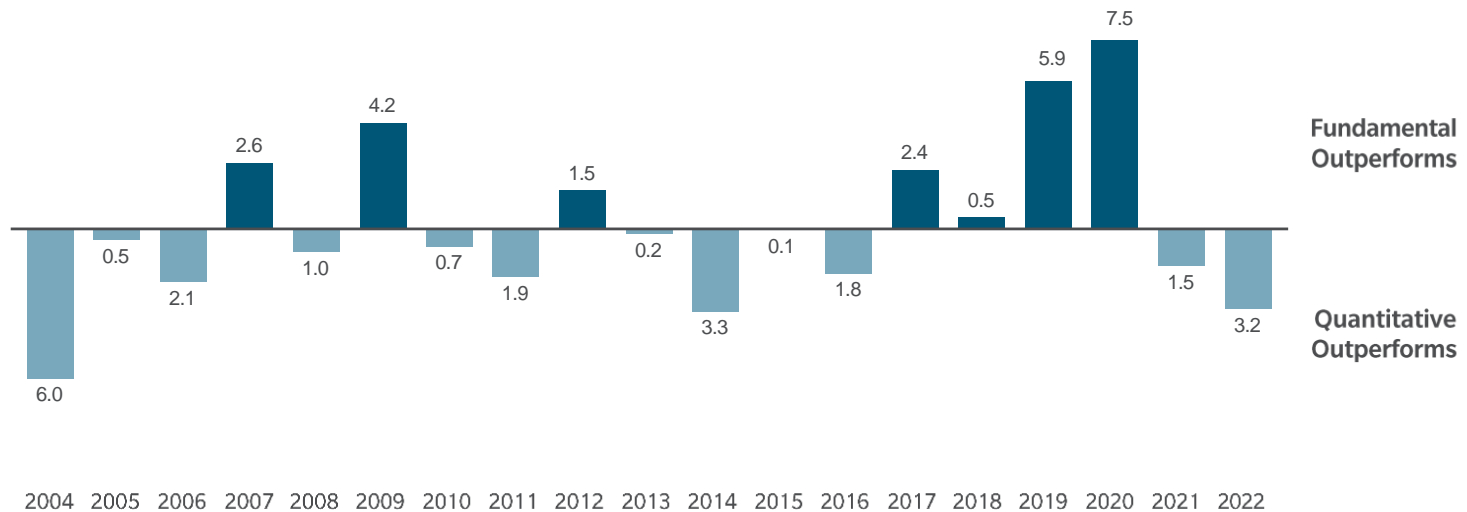
Investment Edge

- Unique and transparent blending of independent research perspectives
- Systematic implementation of the insights from our quality-focused, global fundamental research platform
- Portfolio Manager experience and expertise

Historical Performance of Fundamental Versus Quantitative Managers



Fundamental Global Large Cap Equity median manager return (%) minus quantitative Global Large Cap Equity median manager return (%) in USD



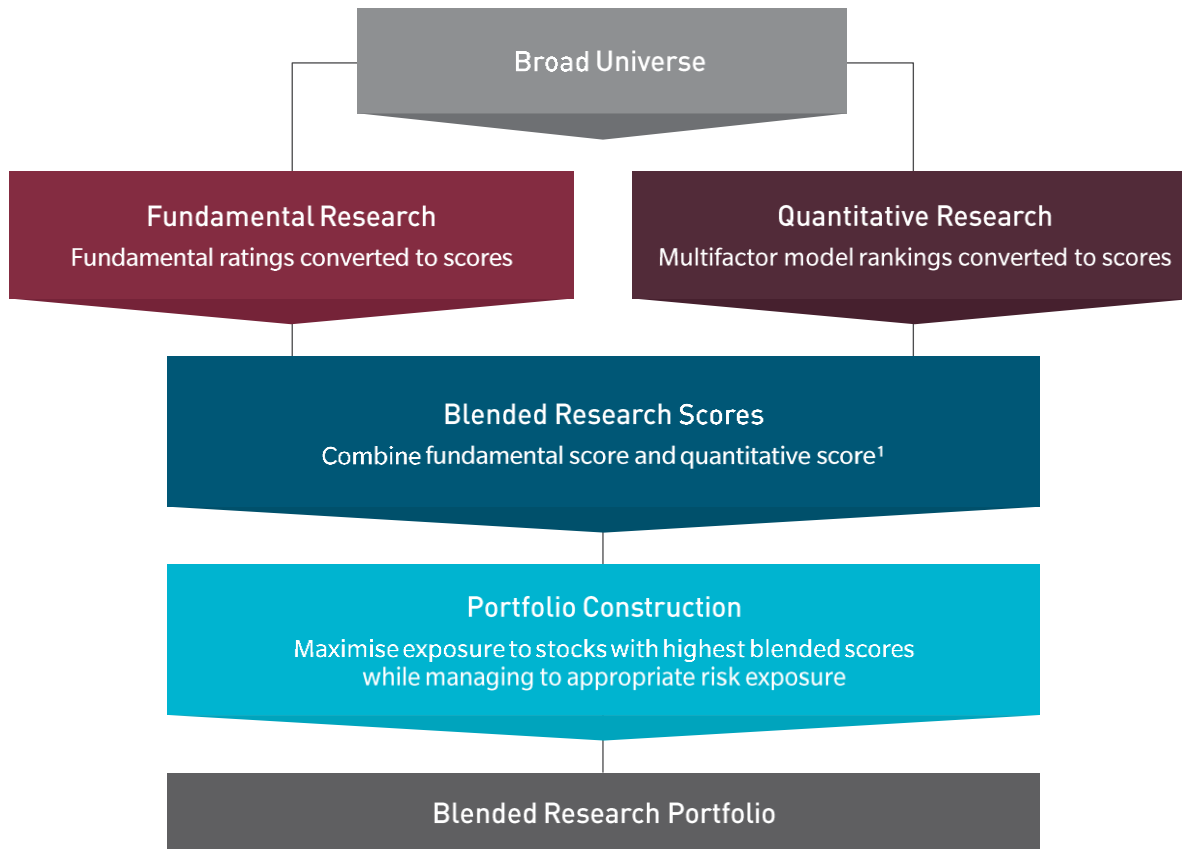
Past performance is no guarantee of future results.

Source: eVestment Alliance. Based on gross monthly returns of the Global Large Cap Equity universe. Products in the universe are then split into those that identified themselves as having a “fundamental” approach or a “quantitative” approach. Date compiled, % of firms reporting and number of observations for each year were: 2022: 31-Jan-23, 93%, 585; 2021: 31-Jan-22, 91%, 519; 2020: 8-Feb-21, 95%, 451; 2019: 6-Feb-23, 86%, 587. Information prior to 2018 was compiled on 1-Feb-19 with over 94% of firms reporting. There were 363 observations in the universe as of 31-Dec-18. The number of products in the universe has changed throughout the period shown.

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Fundamental and quantitative approaches have worked in different environments

Disciplined Investment Process That Combines Two Research Approaches



¹ Stocks without a rating are treated the same as hold rated stocks for the purpose of creating a blended research score.

Unique process captures research from two independent approaches



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CLARITY GLOBAL SHARES FUND

Global Equity & Fund Update
August 2023

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Clarity Global Shares Fund Summary

Key Features

Actively managed and diversified global equity strategy	<i>80 – 140 stock holdings; holdings may differ significantly from underlying benchmark index</i>
In partnership with leading global equity manager	<i>MFS, a US based global asset manager</i>
Responsible investment approach	<i>ESG integration; excludes controversial weapons & tobacco</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>Benchmarked to the MSCI All Country World ex-tobacco Index, 50% hedged to NZD¹</i>
Competitive pricing	<i>1.00% p.a.²</i>
Designed for NZ investors	<i>PIE structure, target 50% NZD hedged Current FUM - \$159M (as at 31/07/2023)</i>
Unique investment approach (combines quantitative and qualitative research)	<i>Potential for strong risk-adjusted results across changing market environments</i>



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

²Please refer to the PDS for Clarity Funds Management (dated 30 September 2022) for full details on fees. The fees stated above were charged in the year ending 31 March 2021.

Clarity Global Shares Fund

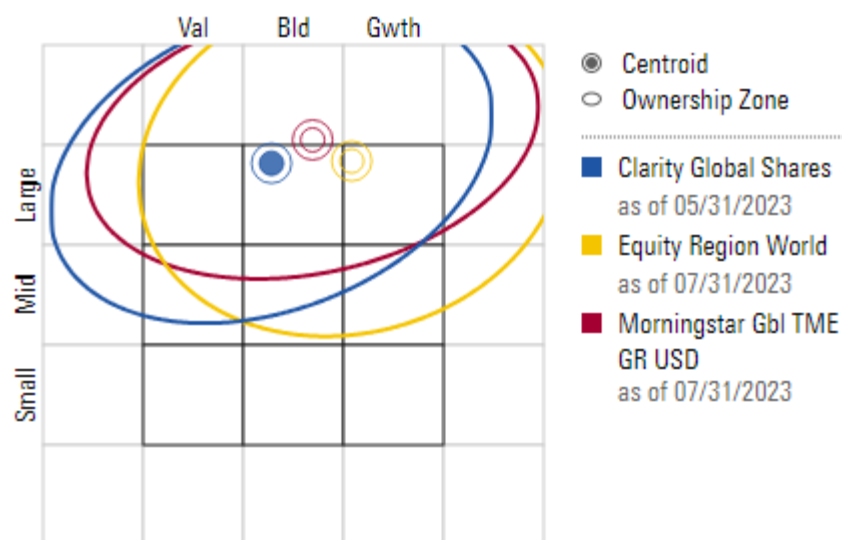
Portfolio Characteristics

As of 31-Jul-23	Portfolio	Benchmark [^]
Fundamentals - weighted average		
IBES long-term EPS growth ¹	9.3%	10.6%
Price/earnings (12 months forward)	13.7x	17.3x
PEG ratio	1.8x	2.0x
Price/book	2.5x	2.8x
Price/sales	1.2x	1.9x
Dividend yield	2.3%	2.0%
Return on equity (3-year average)	25.5%	24.8%
Return on invested capital	15.5%	14.1%
Long term debt/capital	38.5%	37.6%
Market capitalization		
Market capitalization (NZD) ²	657.3 bn	719.0 bn
Diversification		
Top ten holdings	22%	18%
Number of holdings	138	2,925
Turnover		
Trailing 1 year turnover ³	58%	—
Risk profile (current)		
Active share	73%	—
Barra predicted tracking error ⁴	2.09%	—
Risk/reward (5 year)		
Beta	1.01	—
Information ratio	0.40	—

[^] MSCI AC World ex Tobacco Index

Past performance is no guarantee of future results.

No forecasts can be guaranteed.



Magnificent Seven

Current fund exposure

	Current weight	Contribution To Return YTD to July 31
Microsoft Corporation	4.3%	1.6%
Alphabet Inc Class A	3.7%	1.6%
Apple Inc	3.1%	1.4%
Amazon.Com Inc	1.9%	0.8%
Meta Platforms Inc	1.8%	0.8%
NVIDIA Corp	1.7%	0.5%
Tesla Motors Inc	-	0.3%
Total	16.5%	6.9%

Clarity Global Shares Fund

Performance (to 31 July 2023)

	3 months	YTD	1 year	2 years (p.a.)	3 years (p.a.)	5 years (p.a.)	Inception (p.a.)
Clarity Global Shares Fund*	8.3%	19.1%	14.3%	6.8%	15.0%	9.5%	10.2%
Benchmark Index**	8.2%	19.1%	12.7%	4.0%	11.9%	9.2%	10.2%
Relative	0.1%	0.0%	1.6%	2.8%	3.1%	0.3%	0.0%

*These returns are after deductions for charges and before tax. **Benchmark returns reflects no deduction for charges and tax. The Fund inceptioned on 26 April 2017. Past performance is not necessarily indicative of future performance. The Quarterly Fund Update is available at <https://clarityfunds.co.nz/quarterly-fund-updates-and-commentaries>.



The benchmark is the MSCI AC World ex Tobacco Index 50% hedged to NZD.

Peer comparison – Morningstar Global Equity

2nd of 39 PIE funds in this category over three years

3 years to July 31 2023

Fund	Return % (Annualised)
Peer 1	16.6
Clarity Global Shares	15.0
Peer 2	13.6
Peer 3	13.5
Peer 4	13.3
Peer 5	13.2
...	
Median	10.5
...	
Peer 37	4.8
Peer 38	1.3
Average	10.2

Clarity Global Shares Fund
Global Equity Market, Strategy and Performance Update

QUESTIONS?

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