

Clarity Global Shares Fund

Plain Sailing? A Global Equity Update



Josh Barton, MFS Investment Management
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1 May 2024

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Clarity Global Shares Fund

Plain Sailing? An Update on Global Equities

Josh Barton

Managing Director, Head of Australia and New Zealand

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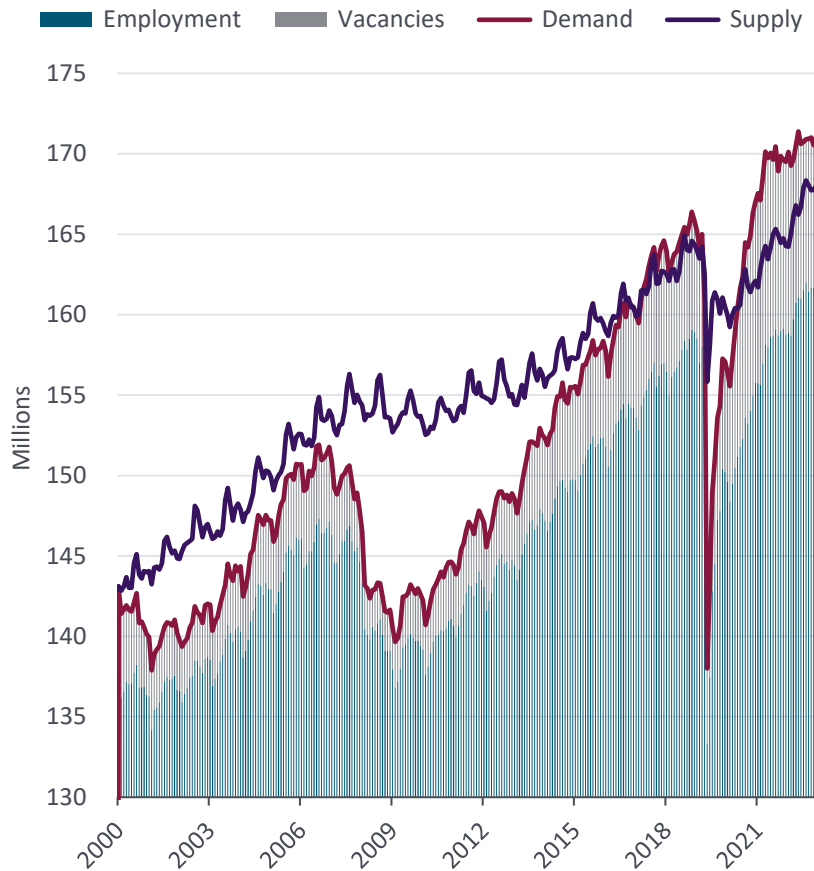
Plain sailing?

Reasons for Optimism

The US Labor Market and Consumer Remain Resilient



US Labor Picture



Atlanta Fed Wage Tracker



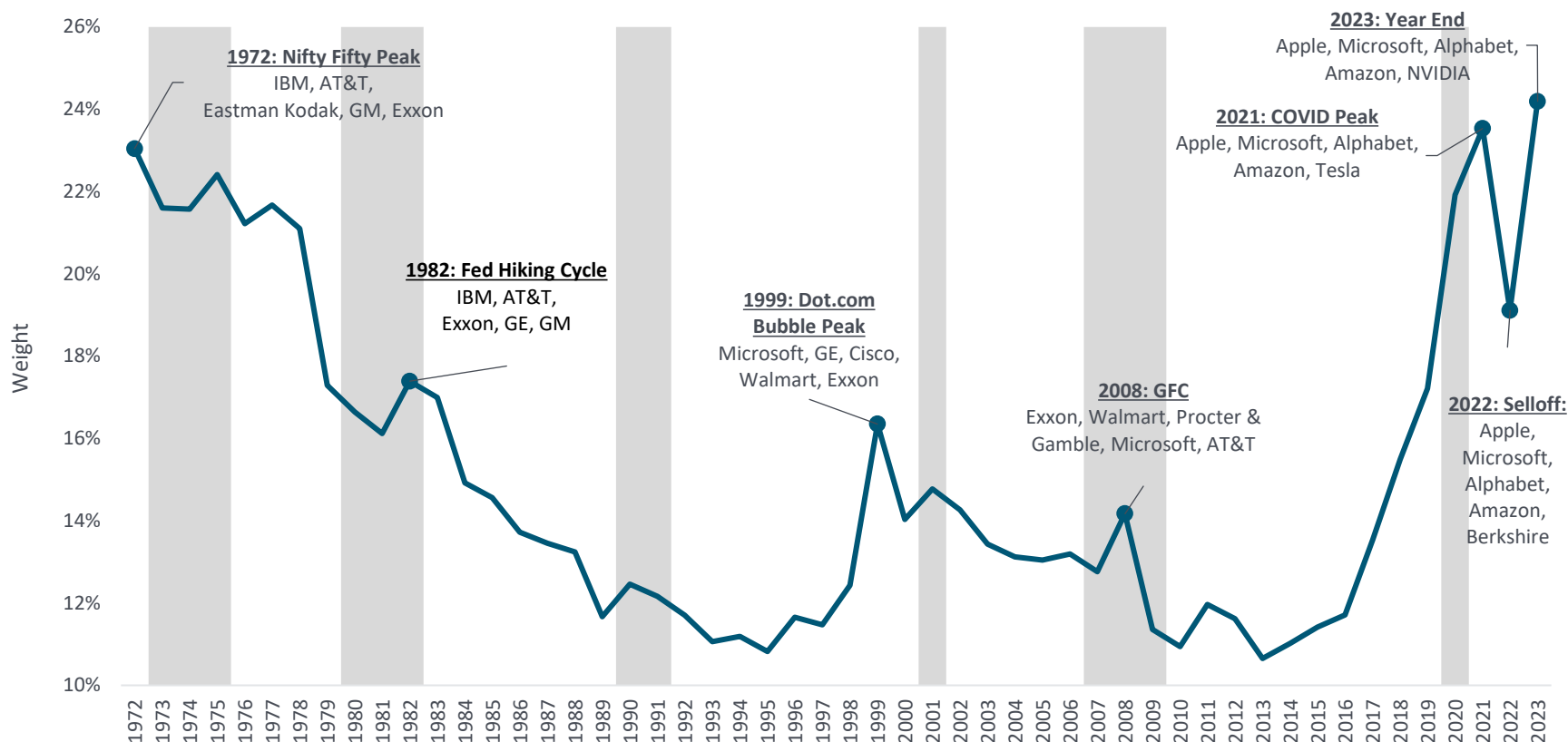
Source: LHS: Bloomberg. Monthly Data from January 2000 through January 2024. Vacancies = BLS US job openings. Employment = BLS Labor Force Survey, NSA. Demand = Vacancies + Employment. Supply = BLS Total Labor Force, NSA. RHS: Bloomberg & the Federal Reserve of Atlanta. Monthly data from January 2005 through January 2024.

A tight US labor market, healthy US consumer, and easing inflation may be supportive of a softer landing

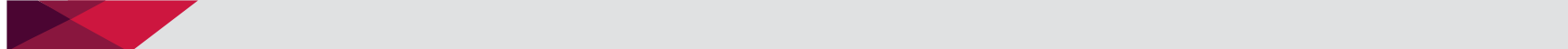
Market Concentration at Historical Levels



S&P 500: Top-5 Largest Companies



Source: S&P Dow Jones Indices, Ned Davis Research (NDR). Annual data as of 29 December 1972 to 31 December 2023. Gray bars indicate a U.S. recession occurred during that calendar year.
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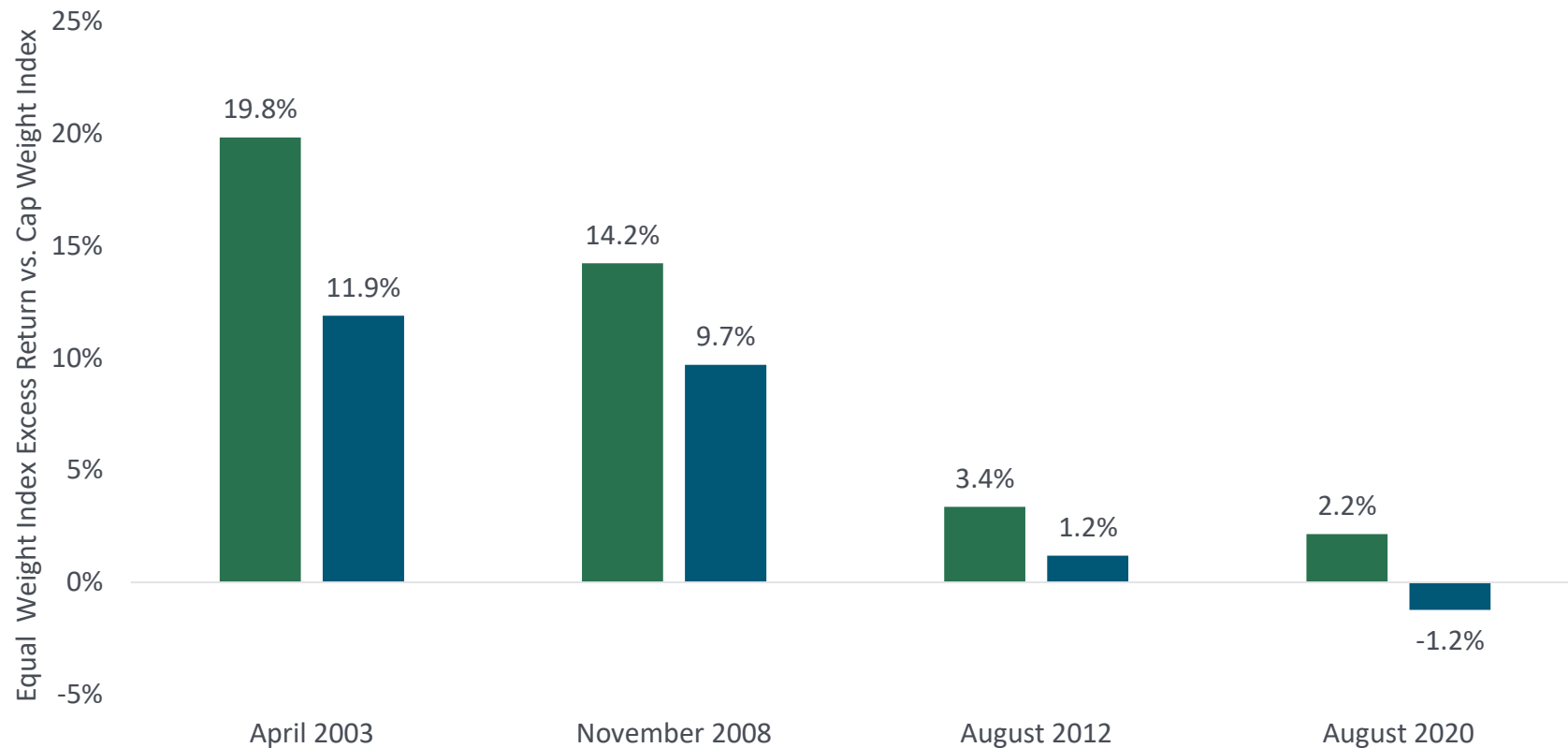
Breadth Typically Returns After Market Concentration Spike

Equal Weight tends to outperform Cap Weighted index following periods of peak market concentration



MSCI World Equal Weight Outperformance After Peak Market Concentration

- MSCI World EW Index Excess Return vs Cap Weight Index over next 1 yr
- MSCI World EW Index Excess Return vs Cap Weight Index over next 2 yrs



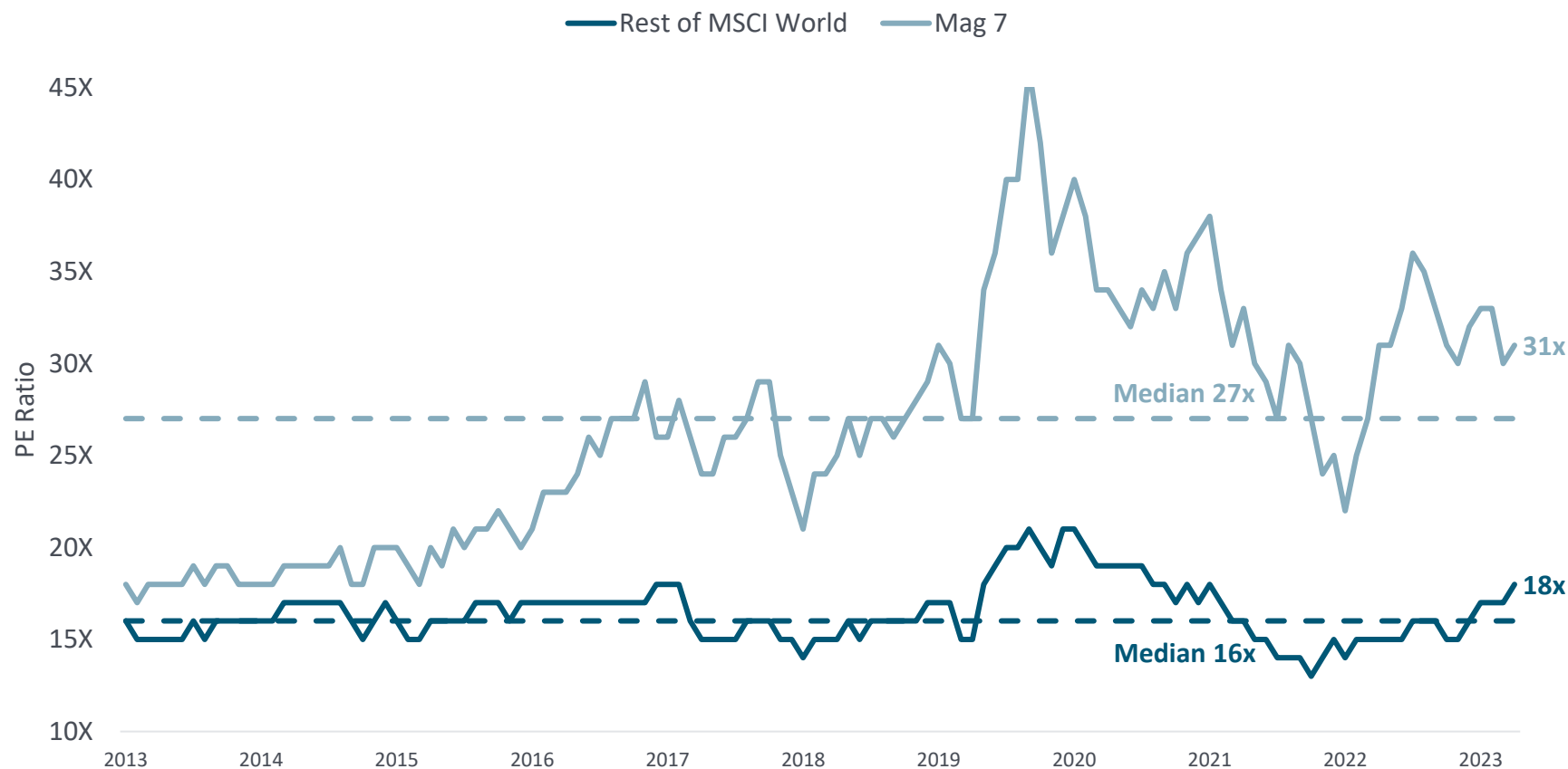
FactSet. Monthly data. Total returns are net, in USD. Start dates are as follows: April 2003 - 30 April 2003, November 2008 - 30 November 2008, August 2012 - 31 August 2012, August 2020 - 31 August 2020. Peak concentration is defined as an increase in the weight of the top-10 index holdings of greater than 2%, and a subsequent drop of greater than 2% in the weight of the top-10 index holdings. Note that index hit another concentration peak in November 2021.

Magnificent 7 at a Significant Premium to the Broader Index

MSCI World P/E



Mega-cap Tech vs. Rest of MSCI World P/E



Source: FactSet Portfolio Analysis. P/E calculated using fiscal year earnings estimate as a weighted harmonic average. Data from 31 December 2013 to 29 March 2024. Median is the median over the measurement period. **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.**

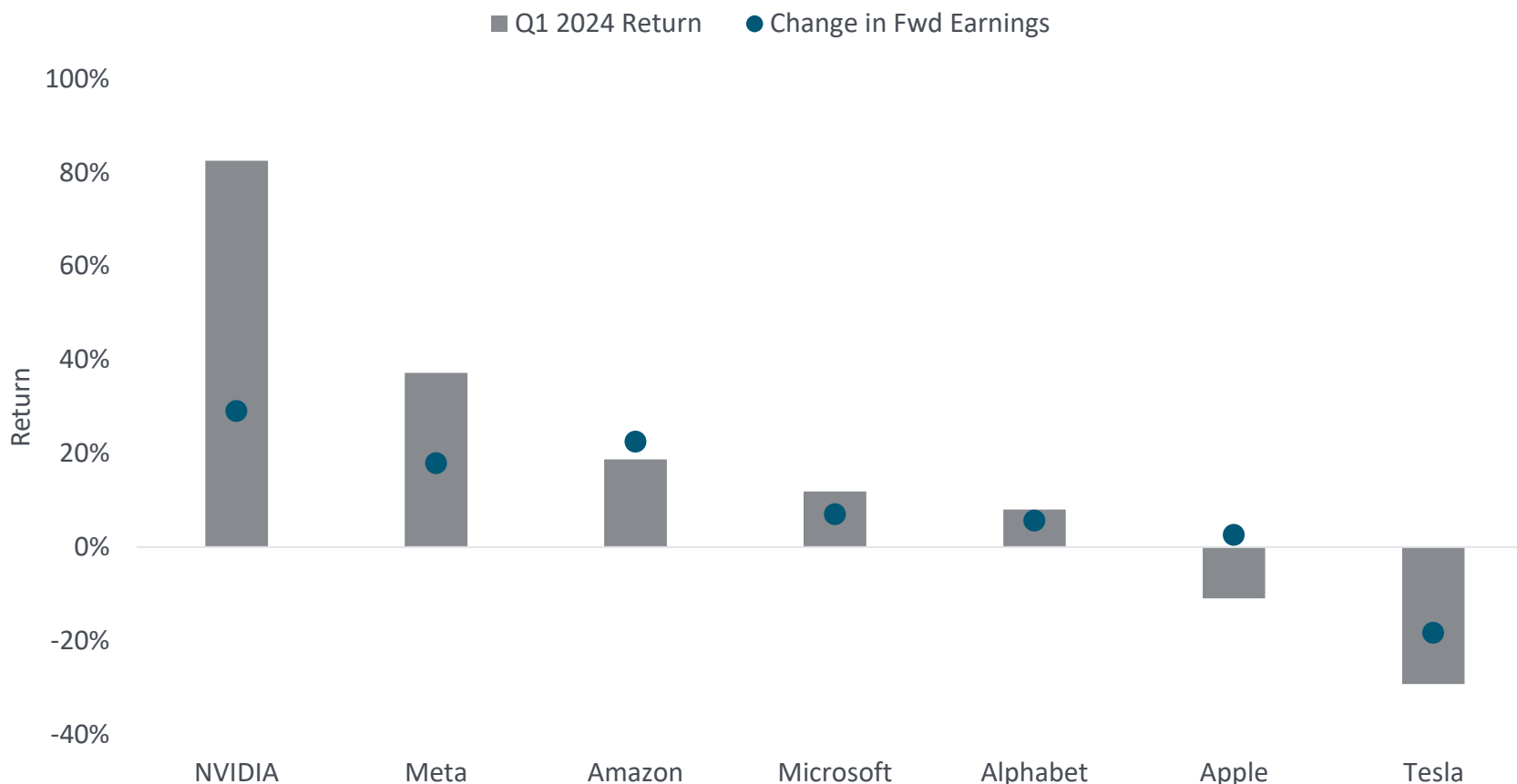
Excluding the Magnificent 7, valuations look reasonable

Decoupling of the Magnificent 7

Performance of the largest index weights diverging with dispersion in earnings results



Performance of the Magnificent Seven Diverging



Source: FactSet. Return and change in earnings from 29 December 2023 through 29 March 2024. Price returns are in USD. Fwd earnings = next-twelve-months mean consensus estimates. **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.**

Breadth Recovering

Q1 breadth improved from lows of 2023



Percentage of MSCI ACWI Companies Outperforming - Rolling 1-year



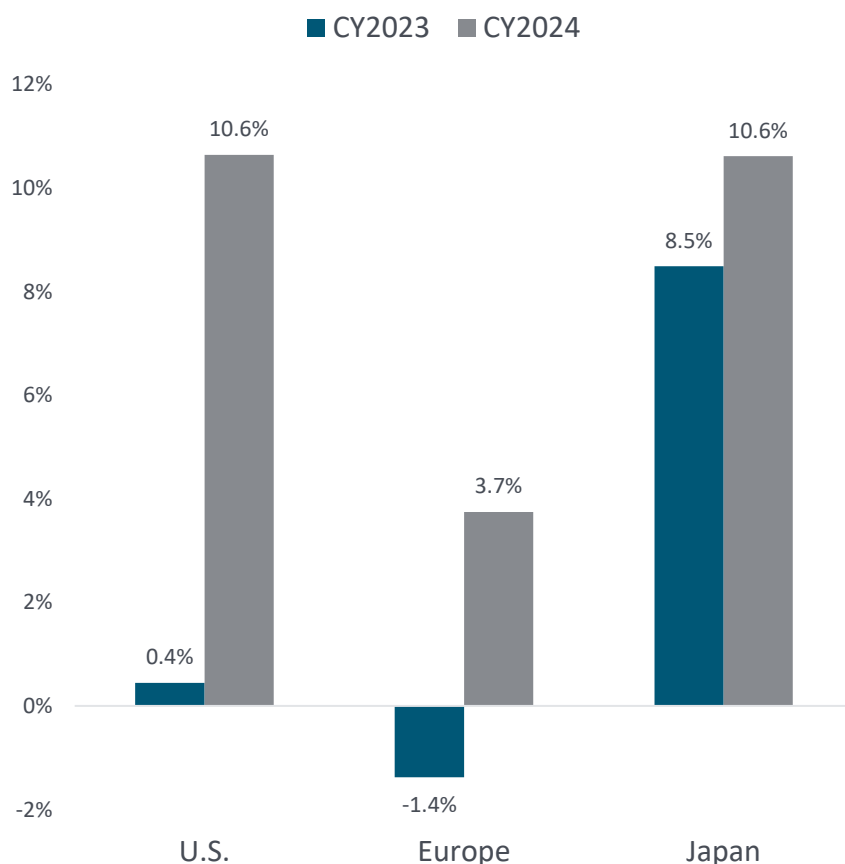
Source: FactSet Portfolio Analysis. Annual data as of 31 March 2004 through 29 March 2024. Companies not included in the index for any full calendar year were excluded in the calculation.

But leadership remains narrow

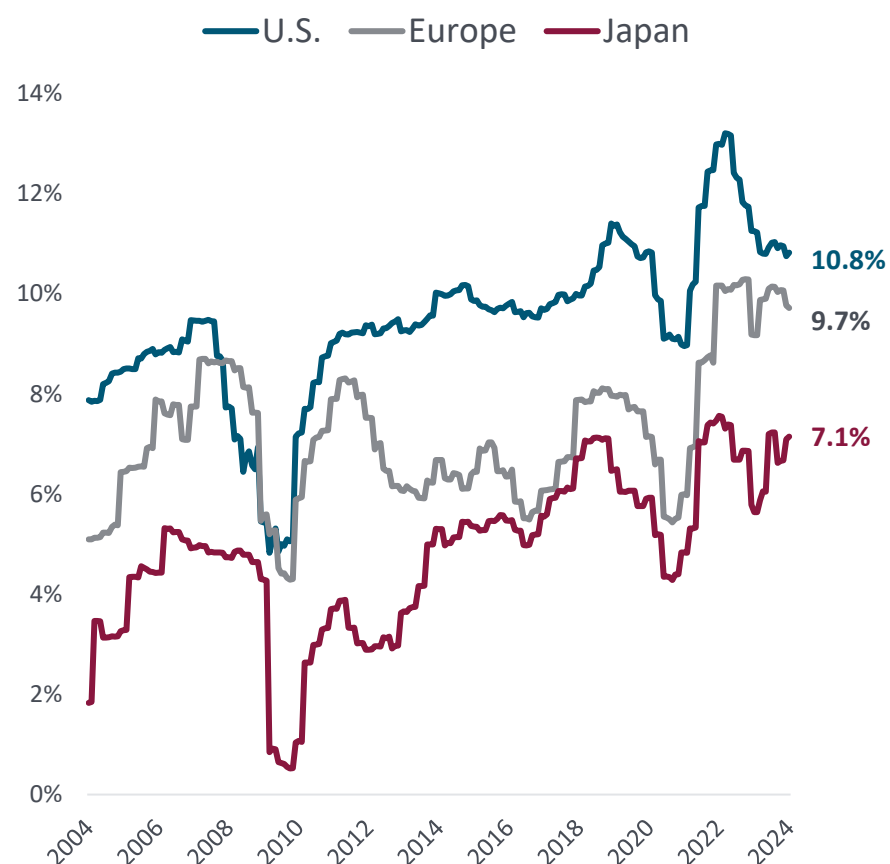
EPS Growth Estimates and Profit Margins Across Regions



Consensus Estimates for EPS Growth



Profit Margins

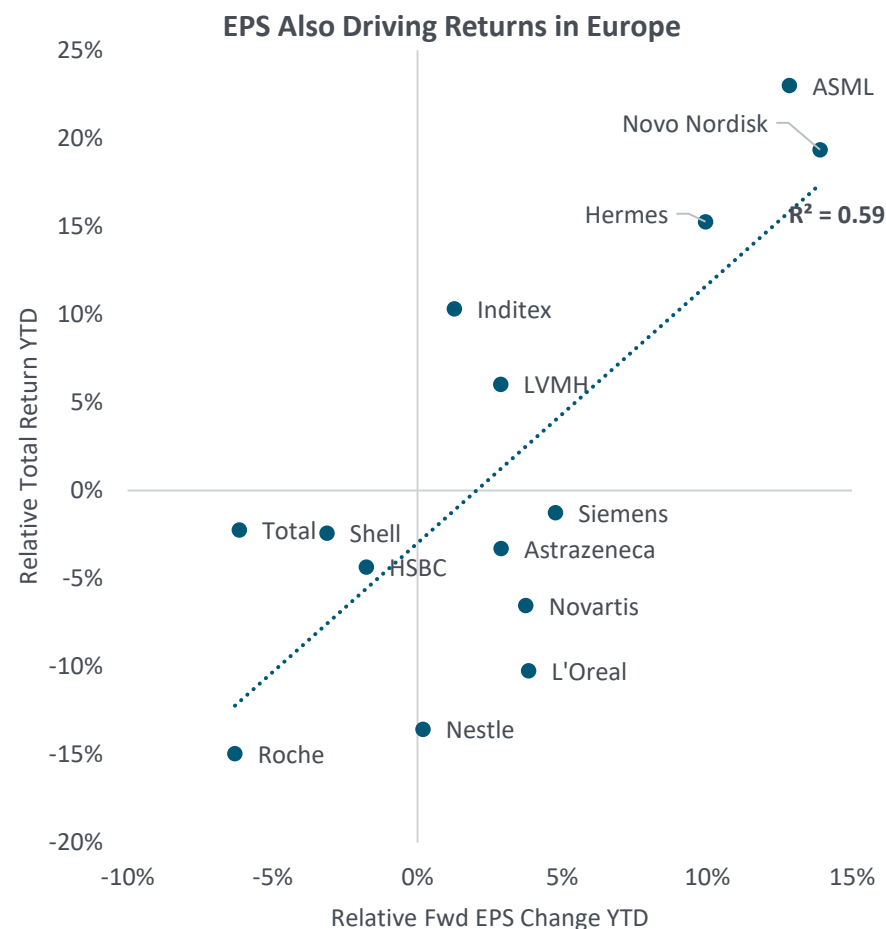
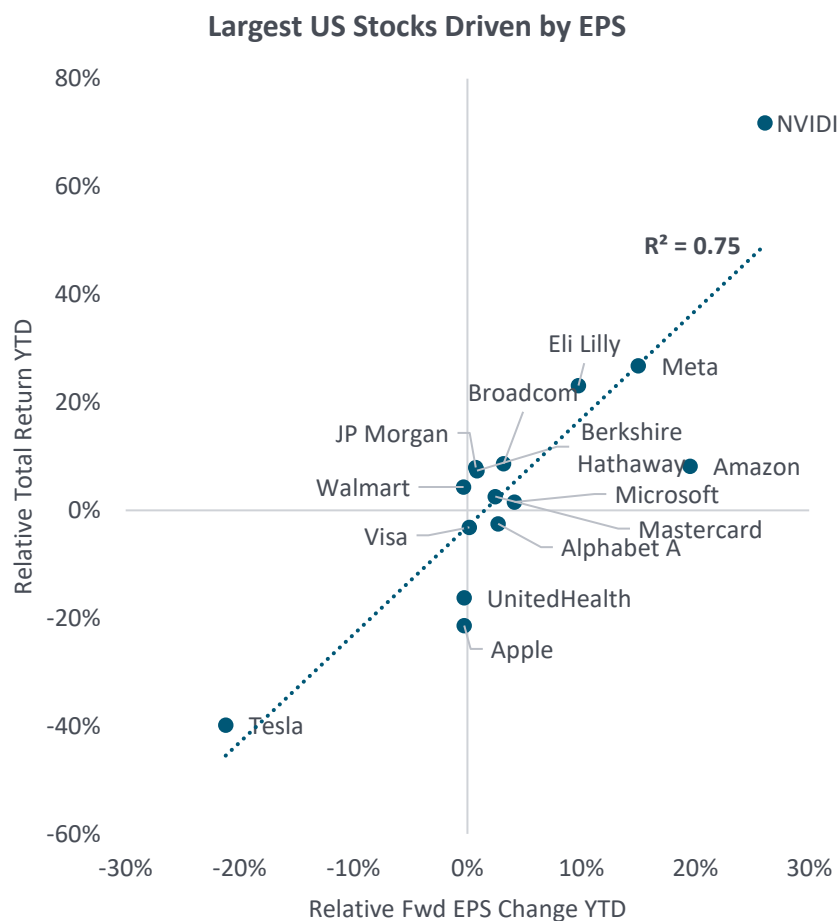


Source: FactSet Market Aggregates. LHS – As 29 March 2024. RHS – Monthly data as of 31 March 2004 through 29 March 2024. Profit margins = earnings per share / sales per share. U.S. (S&P 500, USD), Japan (MSCI Japan, JPY), and Europe (MSCI Europe, euros) earnings and profit margins are calculated in local currency.

2024 EPS growth is projected to accelerate while margins remain elevated relative to recent history

Since the October Fed Pivot, Market Focus Shifted from Macro to Micro

Market has behaved rationally, earnings matter



Source: FactSet. Returns and change in forward EPS are from 31 December 2023 to 29 March 2024. Fwd/forward EPS = next-twelve-months mean consensus earnings estimates. Relative results in the US are vs. the S&P 500 Index. Relative results in Europe are vs. the Stoxx Europe 600 Index. Results 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.**

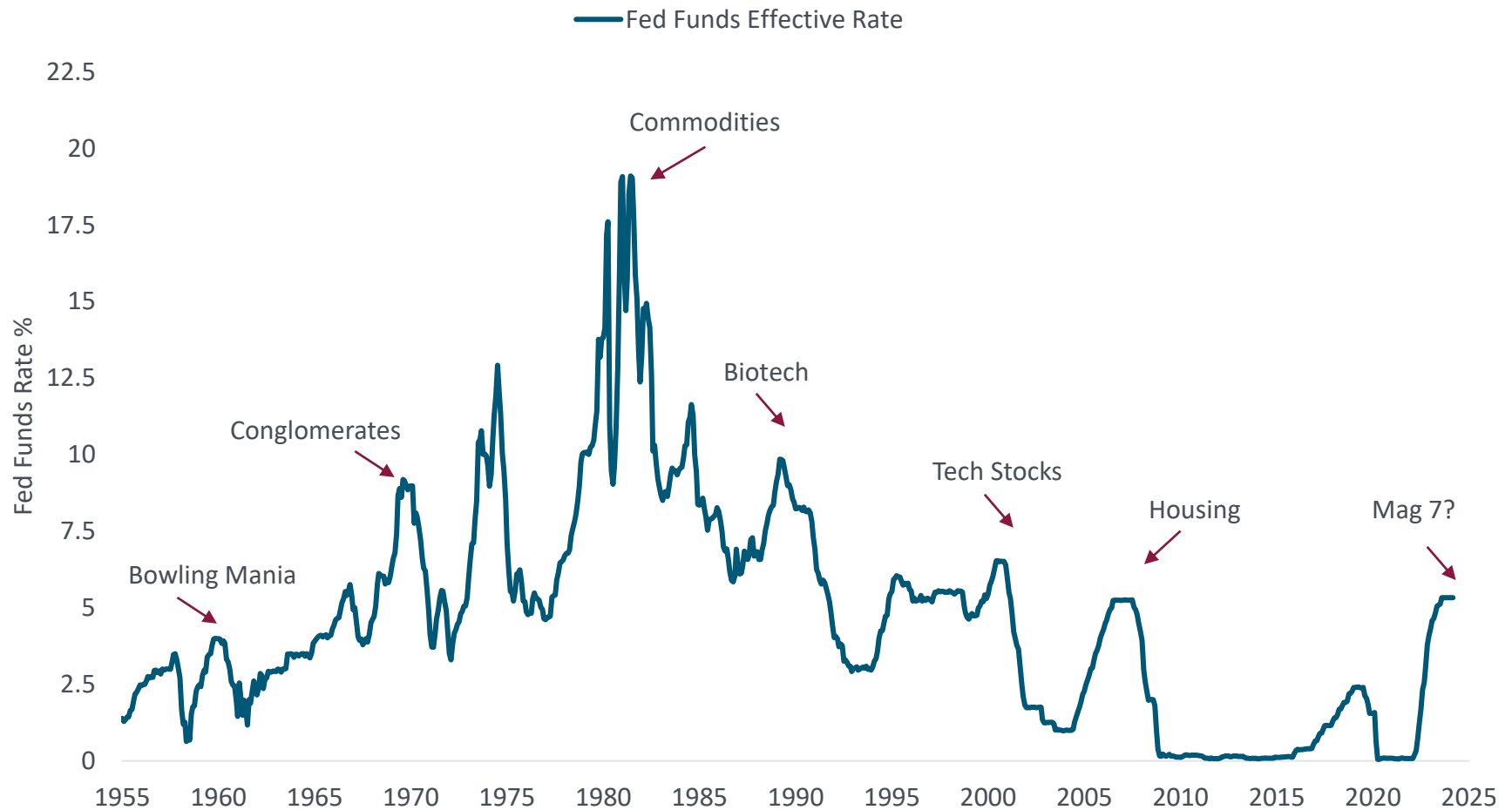
Companies announcing earnings upgrades were rewarded while downgrades were punished



Plain sailing?

Reasons for Caution

Tightening Cycles Associated With Bursting of Asset Bubbles



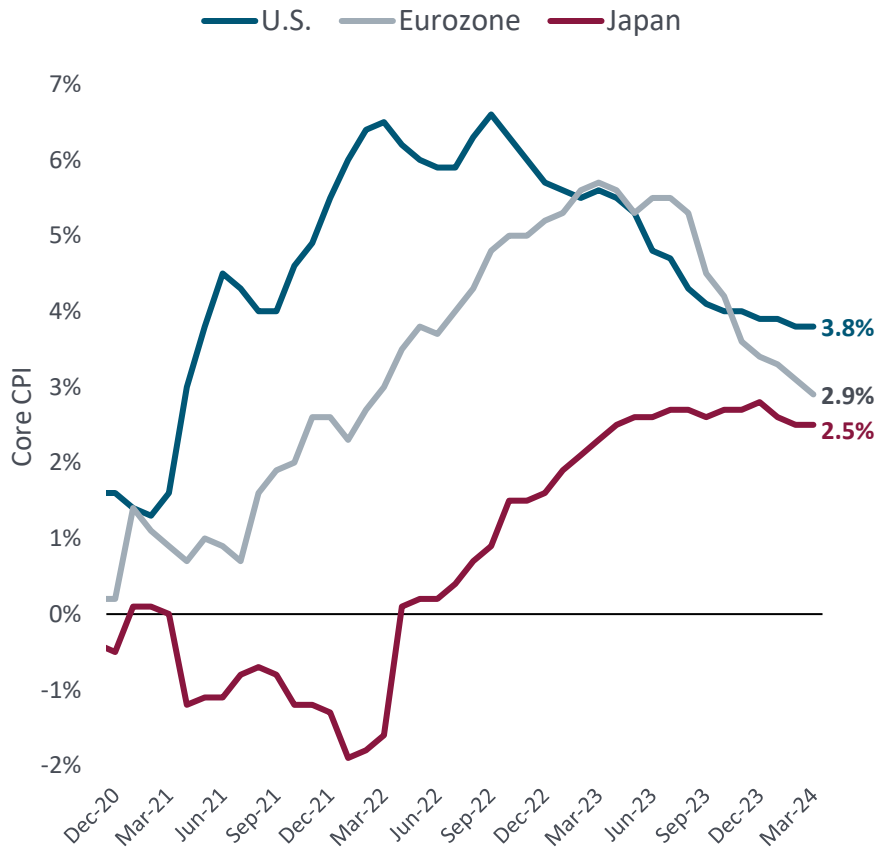
Source: Bloomberg. Monthly data as of 31 January 1955 to 29 March 2024.

Monetary tightening has historically ended speculative excesses

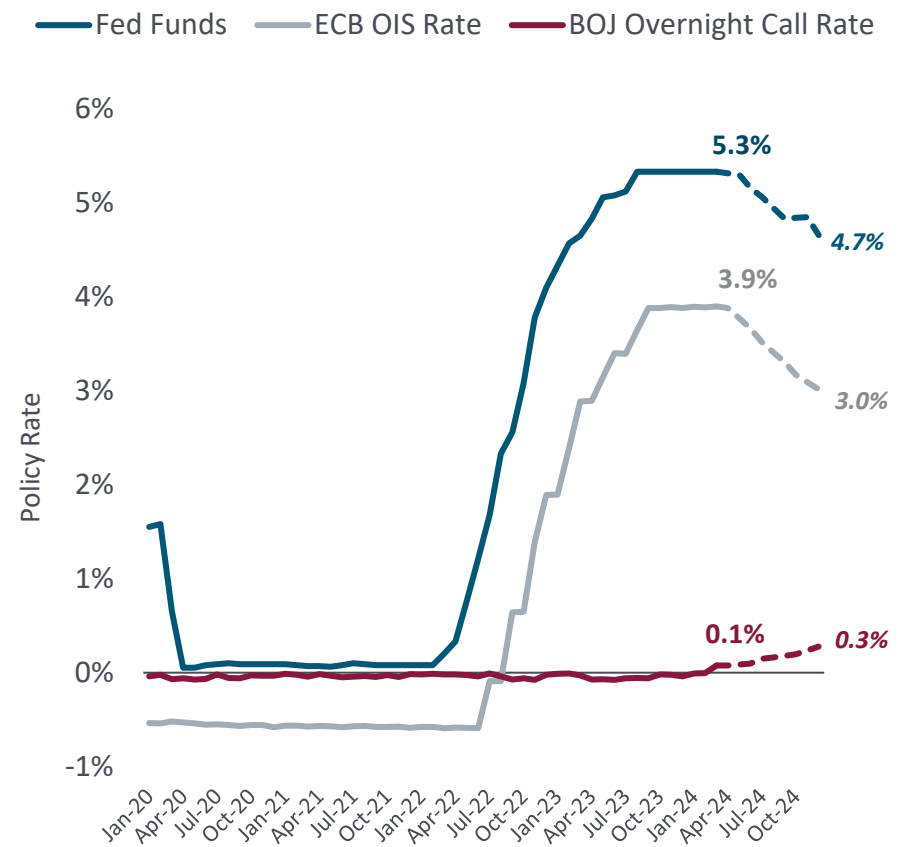
Cause and Effect: Inflation Trends and Central Bank Policy



Core Inflation Across Major Economies



Central Bank Rates and Futures Curves



Source: LHS: Bloomberg. Monthly data from 31 December 2020 through 31 March 2024. Core CPI excludes food in energy. RHS: Bloomberg as of 31 March 2024. Dashed lines indicate the implied policy rates based on Fed Fund Future monthly contracts, ECB OIS Forecast and BOJ Overnight Call Rate Forecast from March 2024 to December 2024.

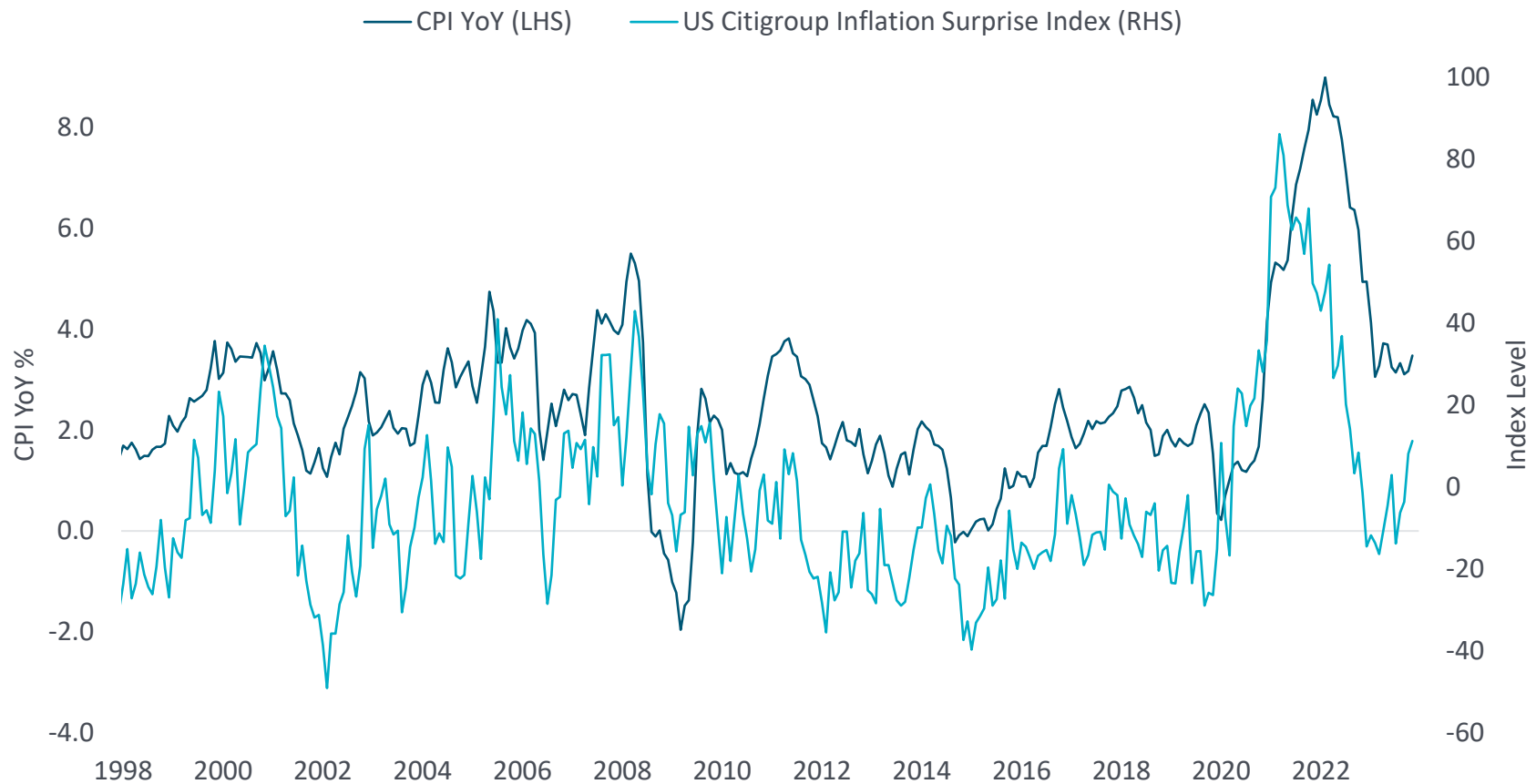
While inflation rates have declined, they remain above target levels, putting central banks in a quandary

Inflation Data Hotter Than Expected In The Last Few Months

CPI vs Inflation Surprise Index



US CPI vs Citigroup Inflation Surprise Index



Source: FactSet. Monthly data as of 31 May 1998 to 29 March 2024.

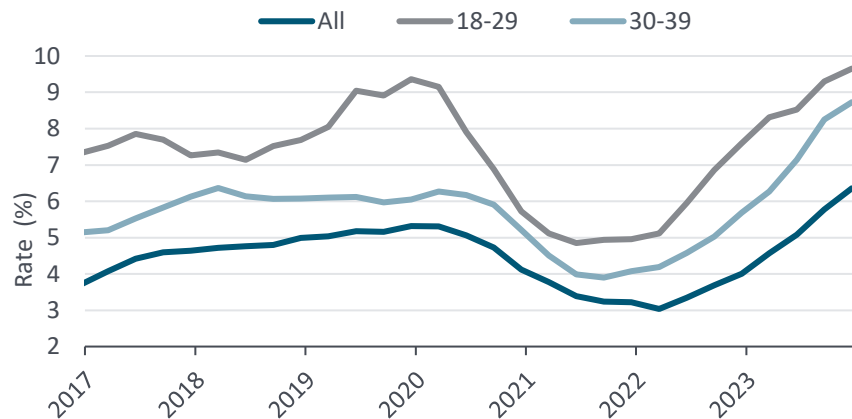
What if the Fed doesn't lead?

US Consumers Shutting Their Wallets Could Revive Recession Debate

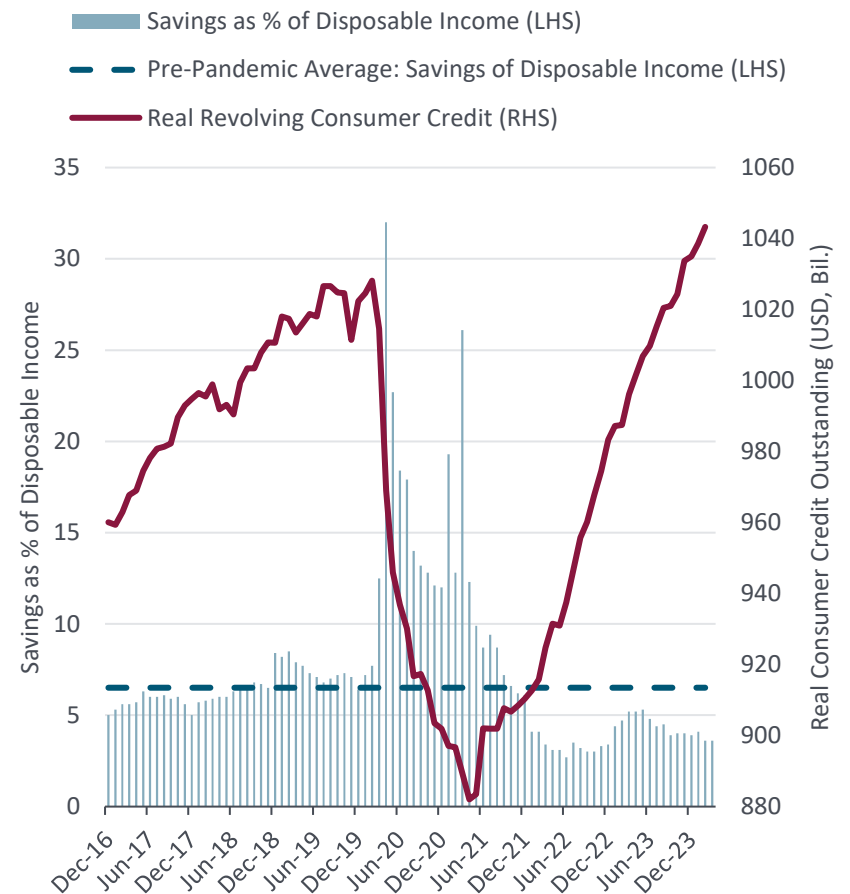
Consumers showing some strain



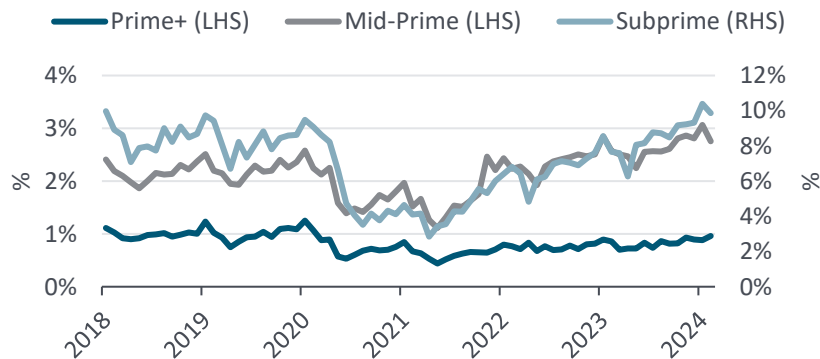
Equifax: 90+ Day Credit Card Delinquency Rates by Age



Excess Savings & Consumer Credit



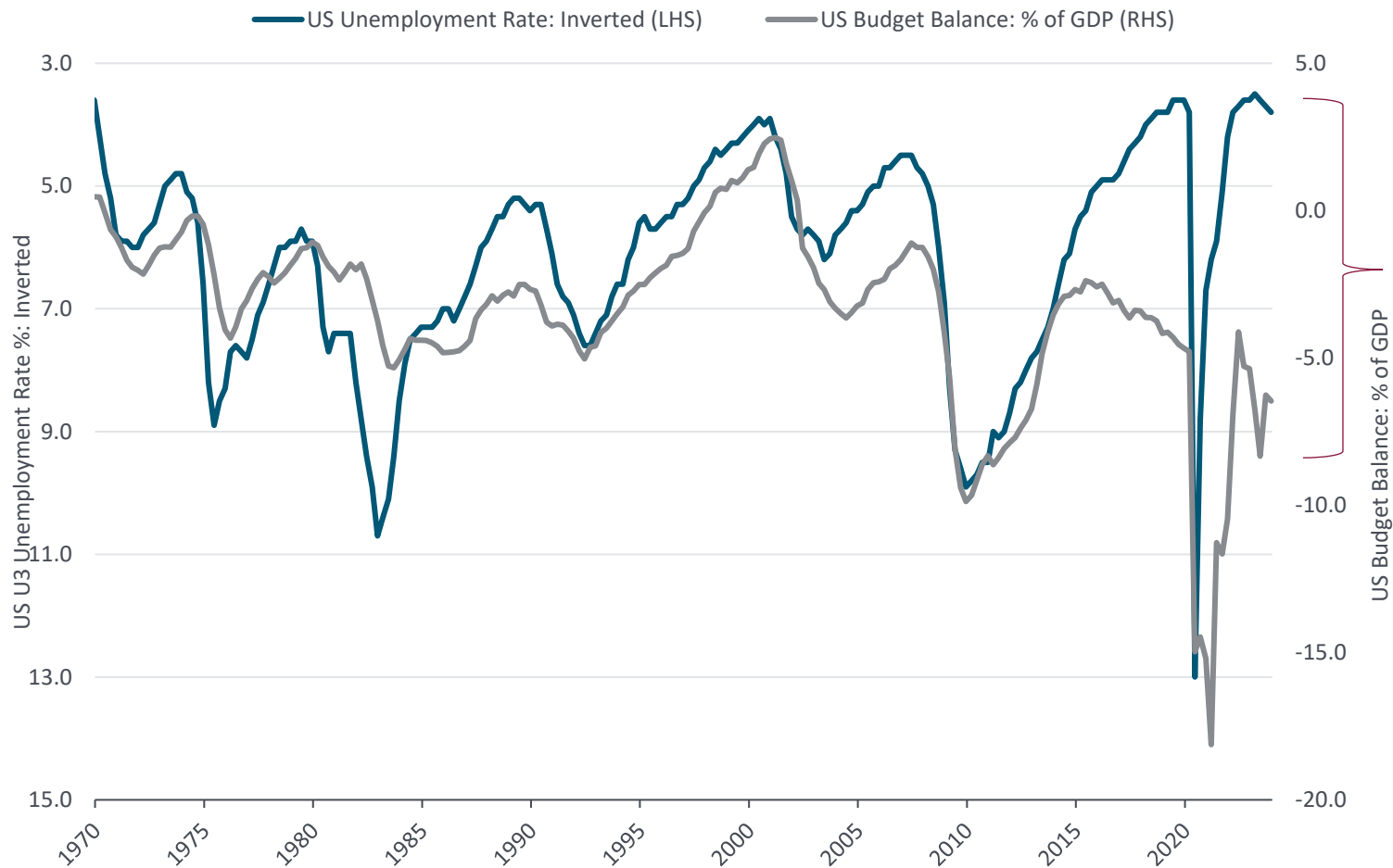
Early Stage Auto Delinquency (%)



Source: Top LHS: Bloomberg, Equifax. Quarterly data from 31 December 2016 to 29 December 2023. 18 – 29 and 30 – 39 represent credit card delinquencies for people with that age bracket. RHS: Bloomberg, Federal Reserve. Monthly data from December 2016 through December 2023. Pre-pandemic average calculated from January 2017 through February 2020. Real Consumer Credit deflates federal reserve estimate of consumer credit outstanding by monthly CPI starting in December 2016. Bottom LHS: Intex. Monthly data from 31 January 2018 to 29 February 2024. Delinquency rates are for early-stage auto loans.

Some “cracks” are appearing in the story of consumer strength

A Challenging US Fiscal Picture



Suggestive of a potentially large unsustainable budget deficit

Source: Bloomberg. Quarterly data from December 1969 through December 2023. US unemployment rate represented by the U3 US unemployment rate seasonally adjusted.

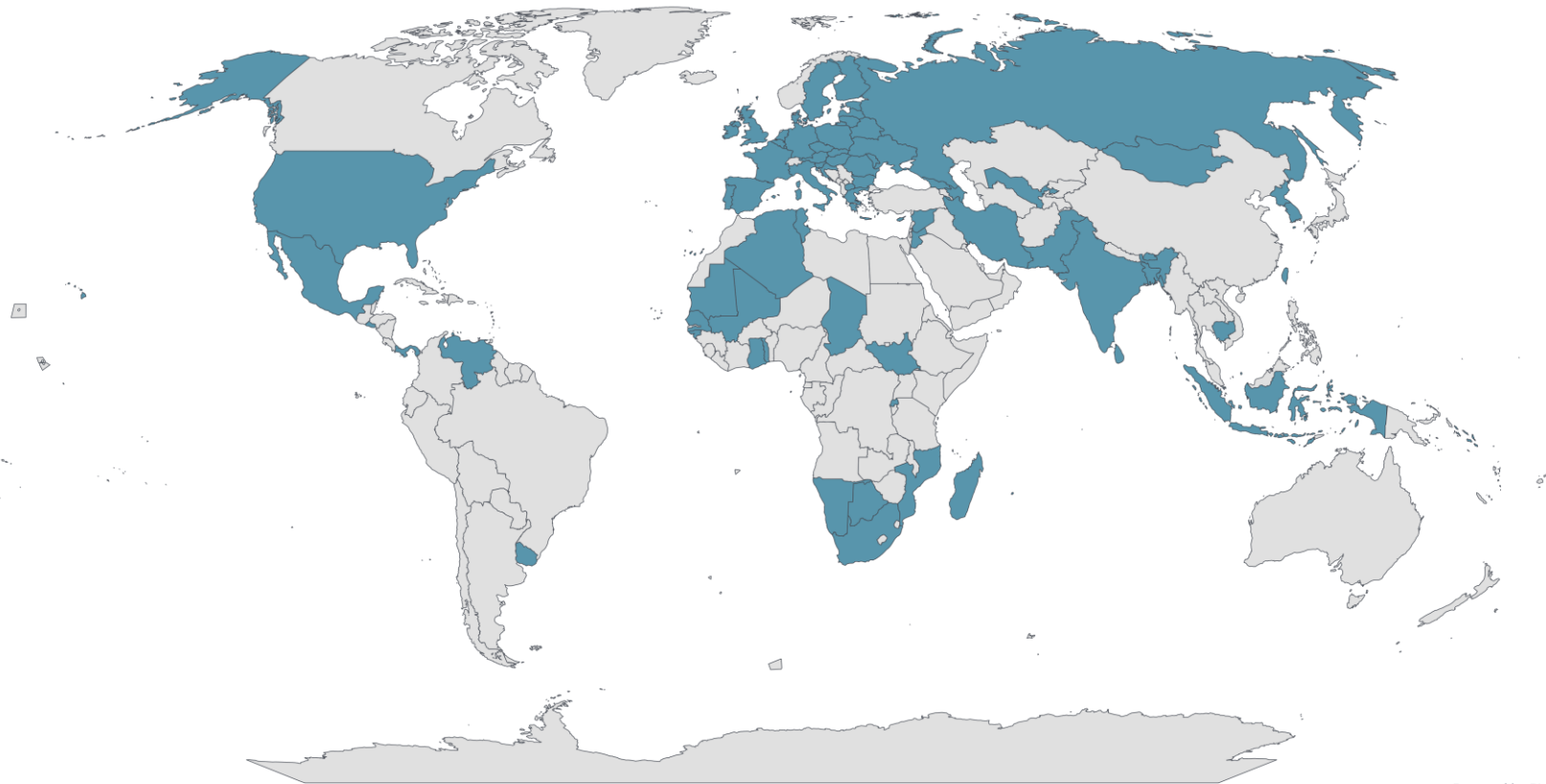
Pro-cyclical fiscal US policy had aided relative US growth but has weakened sovereign fundamentals

Elections in 2024 Impact 60% of Global GDP

2 billion people in 50 countries go to the polls



A Global Look at Countries with a Major Election



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Source: TIME, National Democratic Institute, International Foundation for Electoral Systems, Anchor Change. "The Ultimate Election Year: All the Elections Around the World in 2024" as of 28 December 2023.

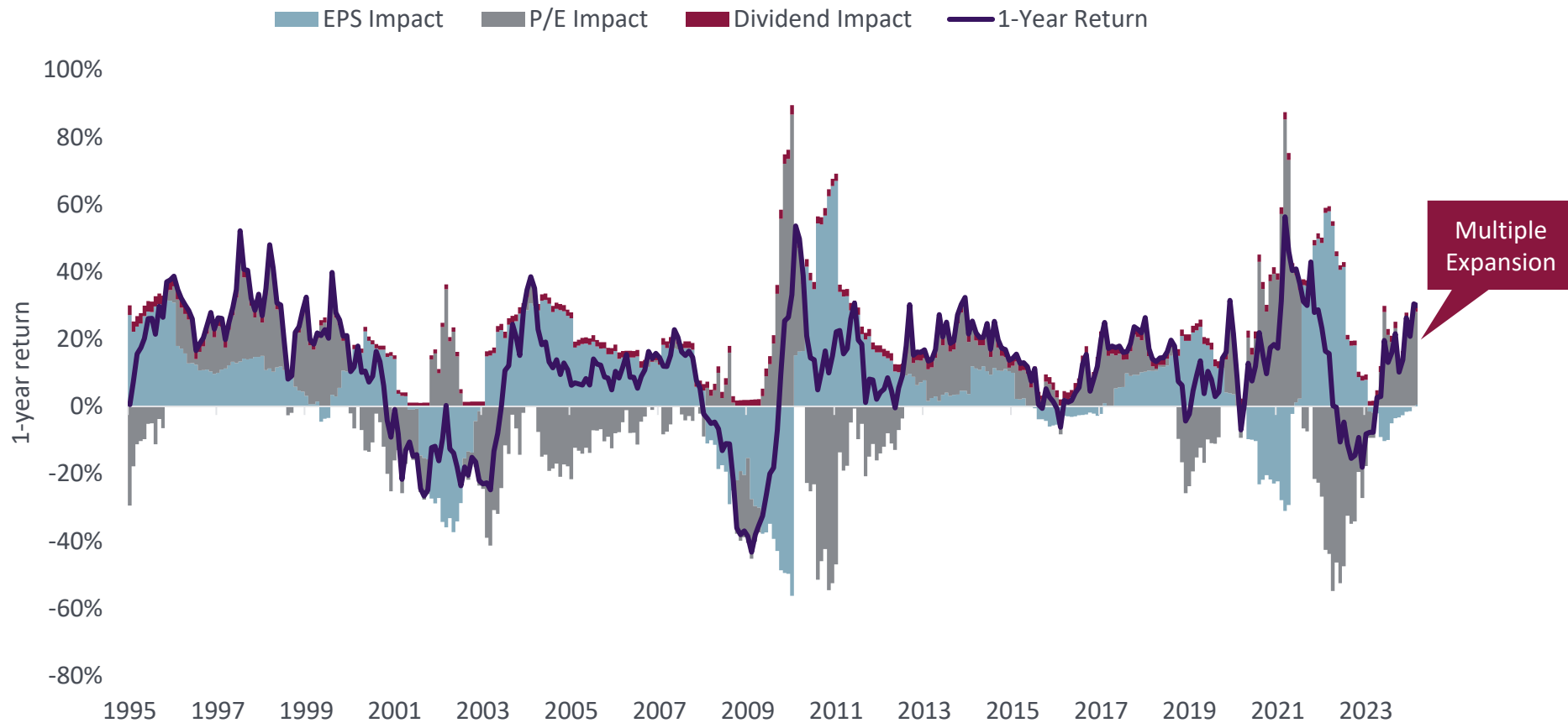
Will incumbents open the fiscal spigots to gain an electoral edge?

Expectations Are High In The US

US equity market driven by multiple expansion



S&P 500 Return Decomposition



Source: FactSet Market Aggregates. Monthly data as of 31 January 1994 through 29 March 2024. Decomposition shows the year over year impact of dividends, P/E (multiple) expansion/contraction, and the change in earnings per share on the total return of the S&P 500 Index. Data is in USD.

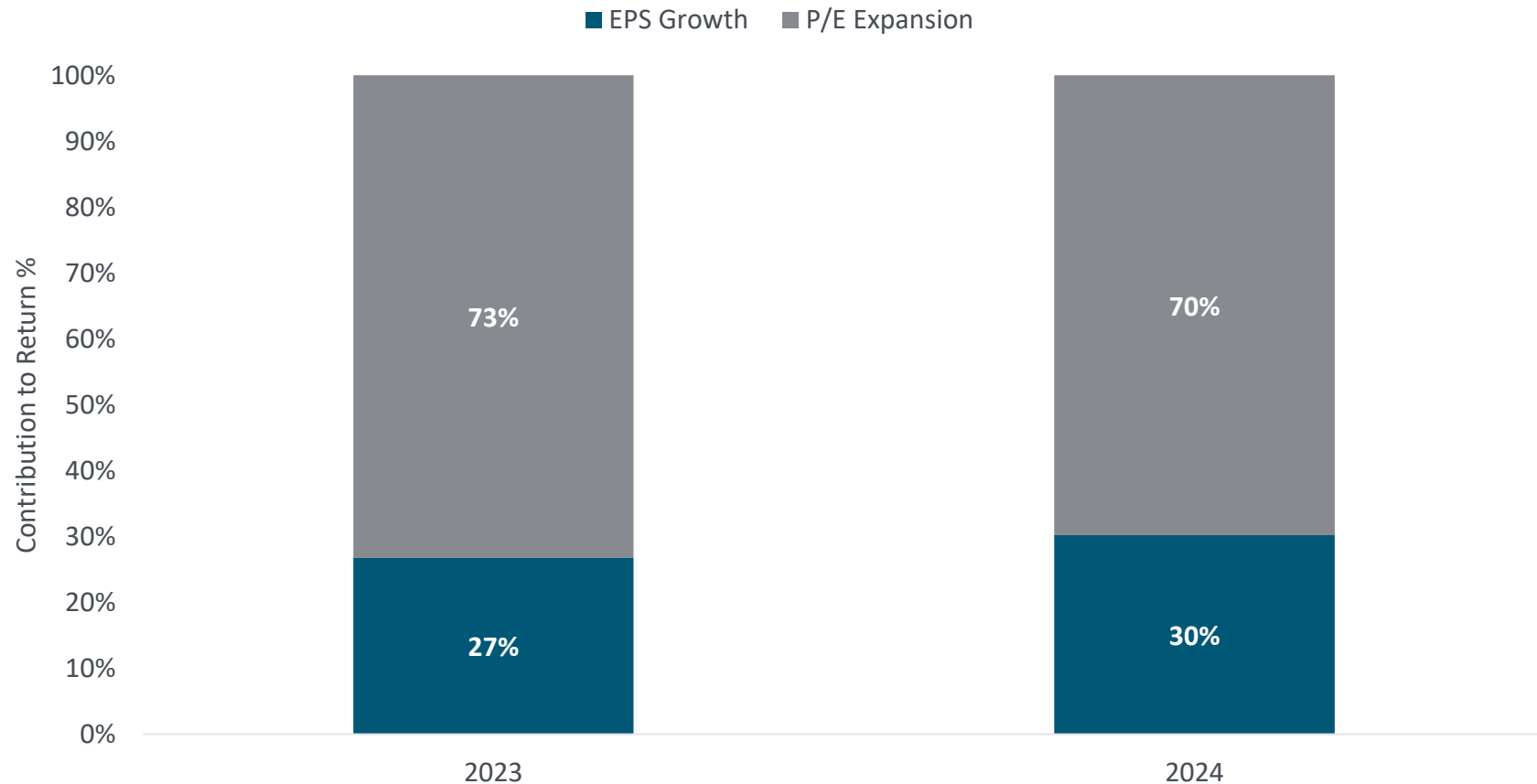
Falling inflation and improving growth outlook driving expectations

Multiple Expansion Cannot Drive Returns Ad Infinitum

Earnings growth needed to support valuations



Share of S&P Price Return Contributed by:



Source: FactSet Market Aggregates. Data as of 31 December 2022 to 29 March 2024. EPS and P/E are based on next-twelve-months consensus earnings estimates.



Clarity Global Shares Fund

MFS Blended Research Overview



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

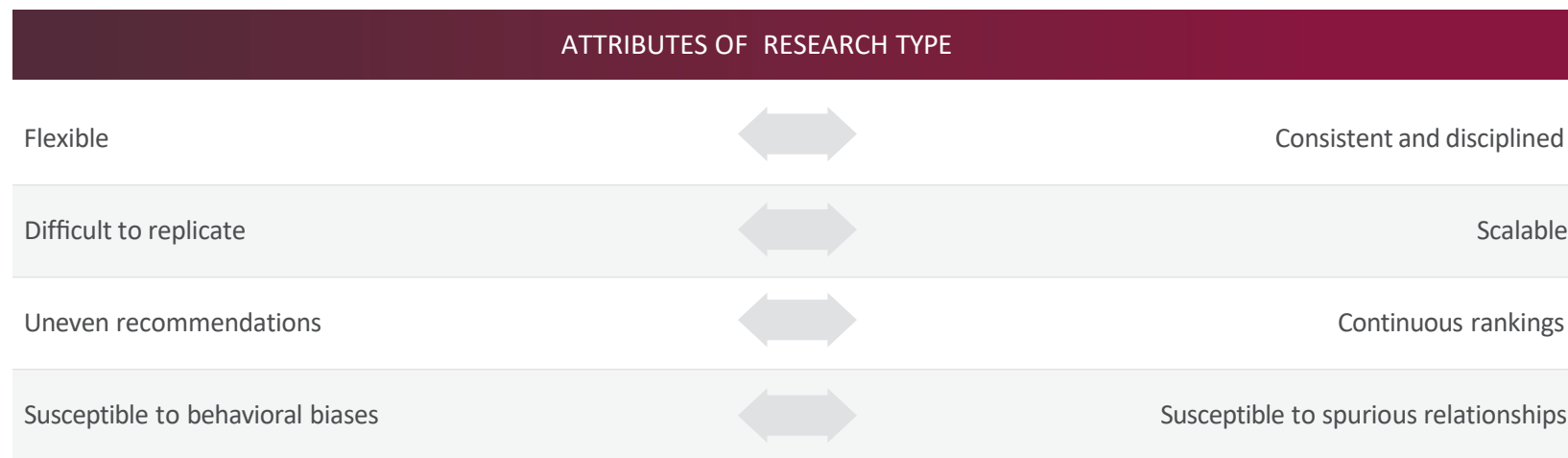
Disciplined process with the potential for outperformance

Quantitative and Fundamental Research are Complementary

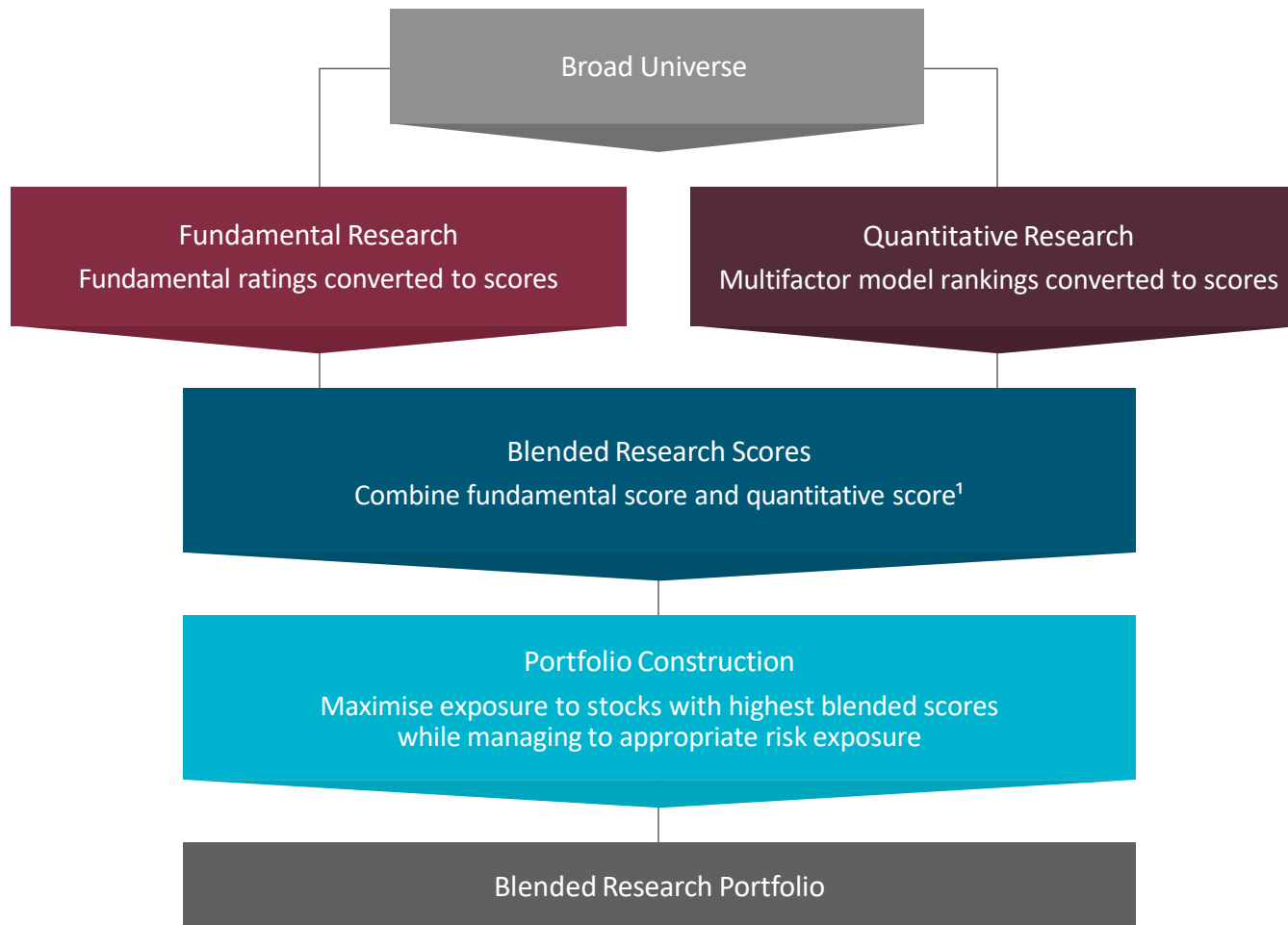


Fundamental Research

Quantitative models



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

Focused on buy-rated companies



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



Maximize exposures relative to portfolio strategy



Thank You

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CLARITY GLOBAL SHARES FUND

Global Equity & Fund Update
May 2024

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Clarity Global Shares Fund Summary

Key Features

Actively managed and diversified global equity strategy	<i>80 – 150 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 over medium term (at least 5 years) net of fees and expenses	<i>Benchmarked to the MSCI All Country World Index, 50% hedged to NZD¹</i>
Competitive pricing	<i>1.00% p.a.²</i>
Designed for NZ investors	<i>Tax efficient PIE structure with shares directly held by the fund</i> <i>Target 50% NZD hedged</i> <i>Current FUM - \$192M (as at 31/3/2024)</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 (net dividends reinvested), measured in NZ dollars 50% hedged to NZ dollar.

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

Clarity Global Shares Fund

Portfolio characteristics

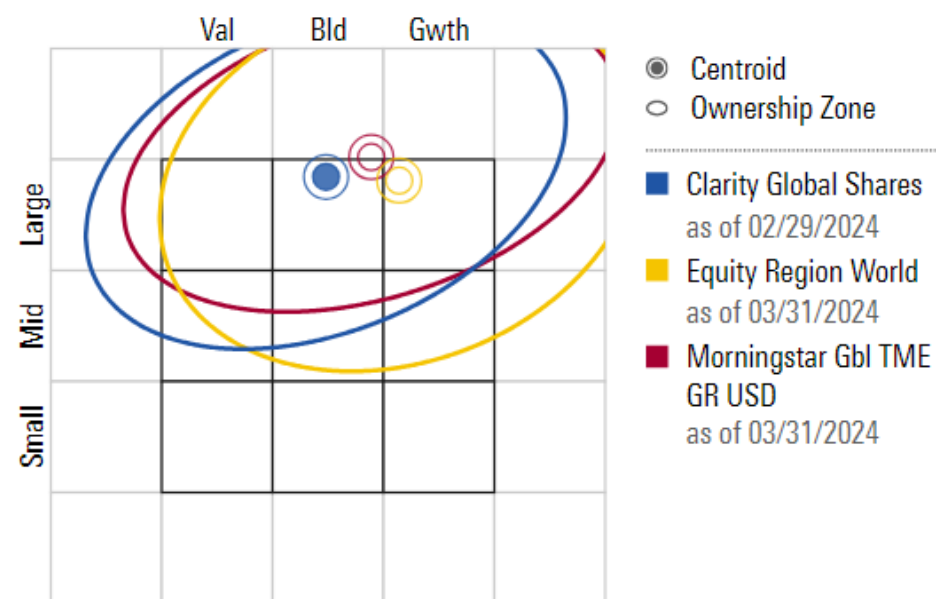
As of 31-Mar-24	Portfolio	Benchmark [^]
Fundamentals - weighted average		
IBES long-term EPS growth ¹	12.1%	13.5%
Price/earnings (12 months forward)	14.6x	18.3x
PEG ratio	1.6x	1.9x
Price/book	2.6x	3.0x
Price/sales	1.3x	2.1x
Dividend yield	2.2%	1.9%
Return on equity (3-year average)	28.8%	26.9%
Return on invested capital	17.2%	15.6%
Long term debt/capital	36.2%	36.1%
Market capitalization		
Market capitalization (NZD) ²	885.4 bn	879.2 bn
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	—

[^] MSCI ACWI 50% Hedged To NZD Index

Past performance is no guarantee of future results.

No forecasts can be guaranteed.

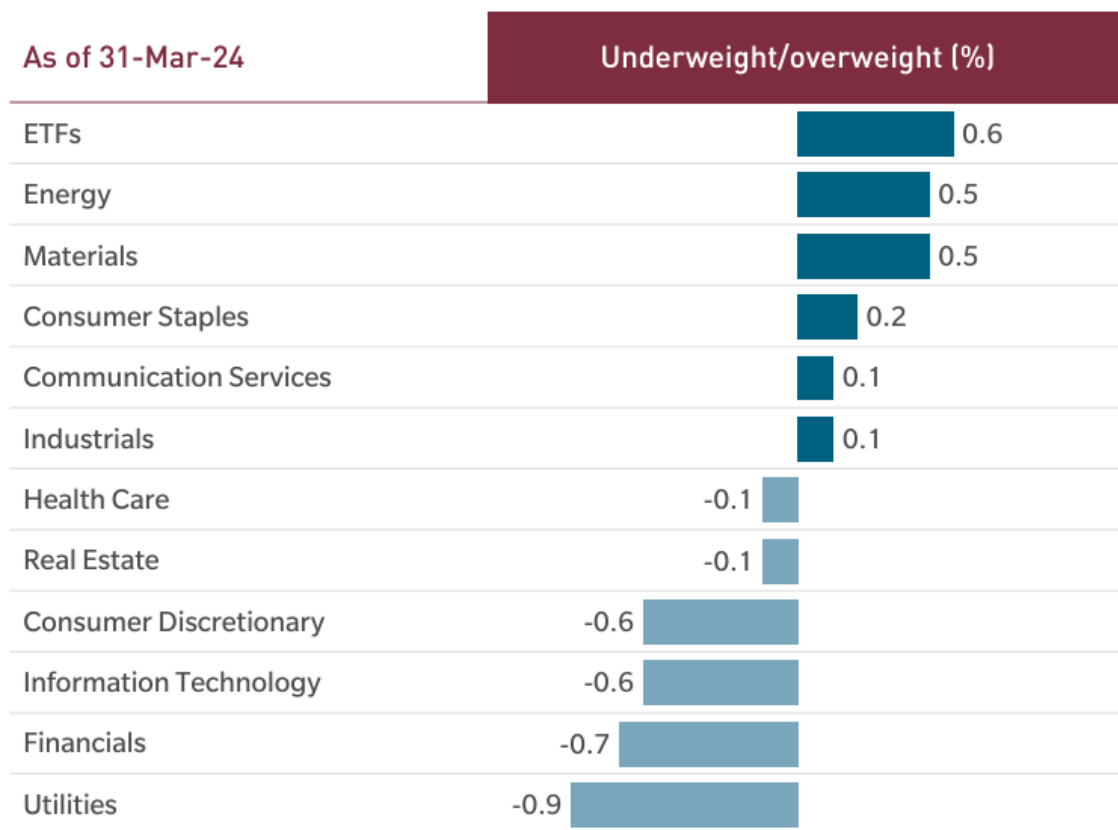
Morningstar Style Analysis



Portfolio positioning

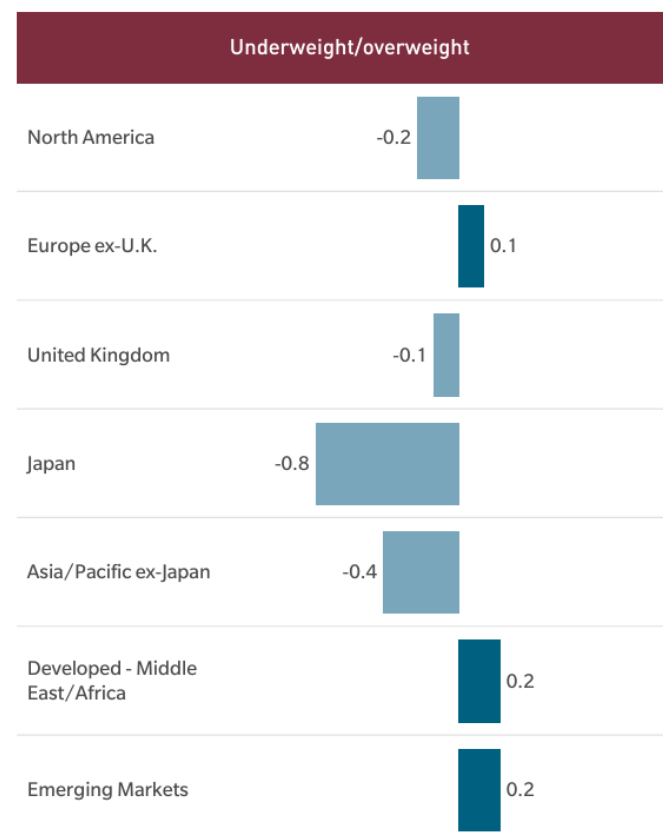
Value added through stock selection rather than sector or regional tilts

Sector Weights



MSCI ACWI 50% Hedged To NZD Index

Region and Country Weights



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

Magnificent ~~Seven~~ Six

Current Fund exposure

	Portfolio %	Overweight / Underweight
Microsoft Corporation	4.5%	0.4%
Alphabet Inc	3.6%	1.3%
NVIDIA Corp	3.5%	0.4%
Meta Platforms Inc	2.7%	1.2%
Amazon.Com Inc	2.6%	0.3%
Apple Inc	2.5%	-1.0%
Total	19.4%	2.6%

- These stocks have been big drivers of returns recently and have caused many active managers trouble if not owned.
- The Blended Research risk controls have served well in this regard.
- The Fund currently holds a moderate overweight position in the Magnificent Six stocks. This position fluctuates but has never been a significant under or overweight.
- Five of the stocks are currently ‘intersection’ holdings – rated buy on both a fundamental and quantitative basis (generally somewhat expensive but strong momentum and quality).
- Apple is underweight but still held (strategy has a maximum 2% underweight limit).
- Tesla has a fundamental ‘Sell’ rating and is not held.

Clarity Global Shares Fund

Performance (to 31 March 2024)

	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	5 years (p.a.)	Inception (p.a.)
Clarity Global Shares Fund	14.3%	22.2%	31.7%	15.8%	13.7%	14.0%	11.9%
Benchmark Index**	12.1%	20.2%	26.9%	11.4%	10.4%	12.4%	11.4%
Relative	2.2%	2.0%	4.8%	4.4%	3.3%	1.6%	0.5%

*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 Index 50% hedged to NZD.