

MARCH 2023

Net return for  
March 2023

**6.14%**

After fees, pre-tax

Net return for FY2023

**-6.61%**

After fees, pre-tax, March y/e

Net return for FY2023  
for the MSCI ACWI

**2.90%**

March y/e

If you'd invested \$10,000  
five years ago it'd be worth

**\$19,943**

At 0% PIR

| Net Returns As At 31 March 2023 | 1 month | 6 months | 1 year | 3 years (pa) | 5 years (pa) | Inception (pa) |
|---------------------------------|---------|----------|--------|--------------|--------------|----------------|
| Lighthouse Global Equity Fund   | 6.1%    | -2.0%    | -6.6%  | 15.0%        | 14.8%        | 14.8%          |
| MSCI ACWI net in NZD            | 2.1%    | 6.5%     | 2.9%   | 13.3%        | 10.0%        | 10.8%          |

## COMMENTARY FOR THIS MONTH

March was a solid gain of 6.1%, and capped off a quarter with three up months that delivered a total net return of 15.4%.

March started with solid gains as equity markets shrugged off January's surprisingly high inflation numbers. But then markets staggered as it became apparent some of the US regional banks were facing financial stress. There were several underlying causes, so it isn't as simple as saying all these banks are facing the same challenges, but the fear is the same – that some of these banks will become insolvent and fail. That fear dominated the middle two weeks of March. For now markets have been calmed by the Federal Reserve and the US Treasury but the underlying cracks and weaknesses still remain.

In the face of inflation or overheated economic growth central banks will raise interest rates ... until something breaks. What typically breaks is economic growth, with the rate rises leading to an economic pullback, aka "recession". But here in 2023 it's possible the first thing to break has been the US banking sector. Central bank's official stated mandate is to manage inflation but they also have a regulatory mandate to ensure the stability of the financial system. The US Federal Reserve now needs to carefully weigh whether any further interest rate rises will damage that financial stability. We suspect March marks the end of interest rate rise programme. That said, consumers worrying about their bank has its own chilling effect on inflation, so the Fed may be okay resting here.

This fund has never held any banking stocks, so it wasn't directly affected by March's issues. But it's also under-weight in the large-cap tech stocks that seemed to benefit most from the banking fears, so the solid March result was a pleasing outcome.

Looking back across the last few years equity markets peaked in Nov/Dec 2021 and then slid to a bottom in Nov/Dec 2022. Since then they've mounted a recovery. Through that time the companies the Fund is invested in have continued to deliver strong financial results and don't appear to be in any financial stress. The slide in their market values has largely been due to how interest rates feed into equity valuations (as interest rates rise they push up the cost of capital, which in turn reduces the company's value). The particular interest rate that most drives stocks prices is the US 10 year government bond rate. At the start of 2021 that was 0.9% pa. It peaked in late-October 2022 at 4.25% pa. By the end of March 2023 it had fallen back to 3.5% pa, and it's still falling. This, more than any other single factor, explains the share price movements over the last 18 months or so.

Looking forward the Q1 (Jan-Mar) earnings season begins later in April. Earnings, in particular whether there's earnings growth, will be a big factor for markets in 2023, as it speaks to the risk, or not, of recession. So far the Fund's companies seem on-track.

# KEY INFORMATION

## FUND FEATURES

The Lighthouse Global Equity Fund is a portfolio of very large market capitalisation “blue chip” stocks, listed on the major United States exchanges, that have strong growth characteristics. The Fund intentionally seeks companies with high liquidity, very conservative levels of debt, and strong histories of revenue and profit growth. This is a high conviction portfolio of approximately 18 to 20 positions.

The Fund’s objective is to deliver long-run net returns that are at least 2% pa higher than those of the MSCI All Country World Index. That index has averaged 11% pa over the last 5 years, so the Fund targets net returns of at least 13% pa.

## FUND FACTS

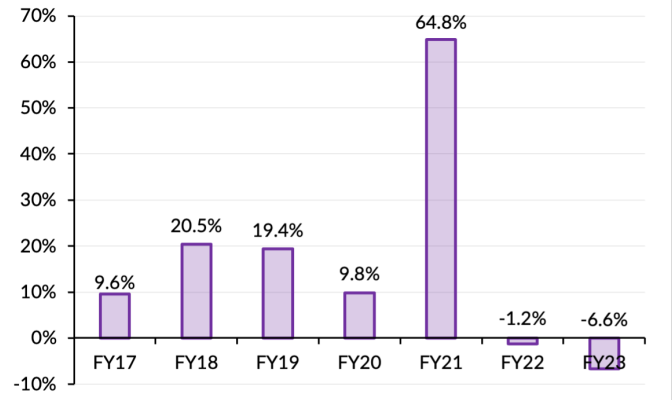
|                    |                                                                                                                                           |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| Fund name          | Lighthouse Global Equity Fund                                                                                                             |
| Fund type          | PIE unit trust                                                                                                                            |
| Benchmark          | MSCI ACWI, net, in NZD                                                                                                                    |
| Management fee     | 1% pa + GST (approx. 1.05% pa)                                                                                                            |
| Performance fee    | 30% of returns in excess of the MSCI ACWI + 2% pa (we expect this hurdle to average 13-14% pa over time), with a perpetual high tide mark |
| Buy/sell spread    | 0.10%/0.10%                                                                                                                               |
| Manager            | Implemented Investment Solutions                                                                                                          |
| Investment manager | Lighthouse Funds                                                                                                                          |
| Supervisor         | Public Trust                                                                                                                              |
| Custodian          | Adminis                                                                                                                                   |
| Auditor            | KPMG                                                                                                                                      |

## TOP 10 HOLDINGS

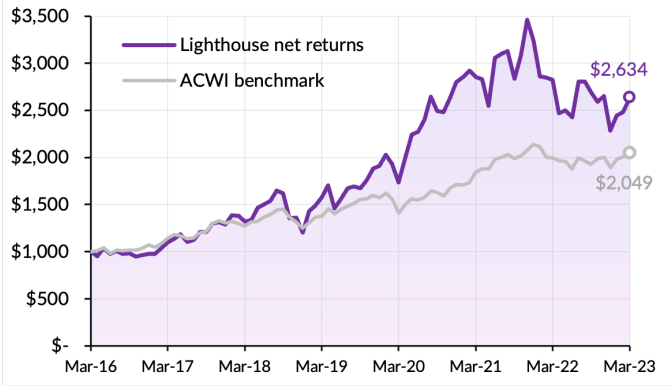
| Holding                | % of Fund |
|------------------------|-----------|
| Ulta Beauty            | 10.3%     |
| United Rentals         | 9.6%      |
| Vertex Pharmaceuticals | 9.4%      |
| Fortinet               | 7.3%      |
| Moderna                | 7.3%      |
| Enphase                | 7.2%      |
| Lam Research           | 6.7%      |
| AMD                    | 6.5%      |
| The Trade Desk         | 6.0%      |
| KLA Corporation        | 5.8%      |

## PERFORMANCE

Returns by financial year (March year ends)



Cumulative returns



## RISK

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the Fund’s assets goes up and down (volatility). A higher risk generally means higher potential returns over time, but more ups and downs along the way.

## Important Notice

This factsheet provides key information about the Lighthouse Global Equity Fund. It tells you how the fund has performed and it will help you to compare it with other investments. It is based on information that we believe to be accurate and reliable but we can't guarantee that is the case. The net returns information uses a blend of this fund, across its full history, and returns from a wholesale fund Lighthouse Funds manages that uses the same strategy and has been operating since March 2016. The returns for the wholesale fund have been provided by Lighthouse Funds from the audited financial statements for that fund. Past performance does not guarantee future returns. For more details please refer to the Product Disclosure Statement (PDS) and the latest quarterly fund update. You can find these documents at <https://lighthousefunds.nz/library> or contact us at [enquiries@lighthousefunds.nz](mailto:enquiries@lighthousefunds.nz)

# LOOKING BACK OVER THE 2023 FINANCIAL YEAR

## HOW THE LAST TWELVE MONTHS PLAYED OUT

Ex-All Black Murray Mexted had a great phrase, “psychic energy”, to describe the flow of energy and dominance between the two teams at play on the field. It’s a concept that translates into other fields, including equity markets. In the last twelve months the “psychic energy” of the market has swung between bearish pessimism and bullish optimism to an unusual degree.

The bearish narrative has had plenty of fuel, and ultimately dominated. Even before the financial year began markets were falling as central banks began to raise interest rates to combat “transitory” inflation. By February 2022 there were signs this inflation was beginning to peak, as Covid-damaged supply chains got back into action, although it would still have been at least another 6-12 months before that first inflation surge would have fully washed through. But then Russia invaded the Ukraine. That triggered a second wave of inflation, particularly in oil and agricultural commodities. As a result inflation became more widespread, persistent and prolonged than expected.

The inflationary pulse peaked in June/July 2022. But central banks had been late to start responding when inflation began to rise in 2021 and so have had to keep raising interest rates long after inflation has peaked.

The second dimension of this bearish narrative has been the fear that this tightening cycle, like similar cycles in the past, will end with a recession. And so from mid-2022 onwards market have also been battling this fear of a recession, although that recession always seems to be 3-6 months away.

So the last twelve months has felt a little like slogging through deep snow – with the sense of that drag on your forward progress.

Meantime, there’s the bullish narrative that corporate profits have remained strong (one reason for the persistent inflation may well be that corporates have retained pricing power and have been able to maintain their profits by passing on rising costs to consumers). Employment trends have also been strong, and so has consumer spending. So the companies we’re invested in have remained strongly profitable.

The outcome then is that throughout the financial year we’ve seen surprising and unexpected volatility as these bull and bear narratives competed for that “psychic energy”. The average monthly move was nearly 6% and three of the twelve months (Apr, Jul, Dec) posted double-digit moves. Yet at no point in the year did we think the underlying news and events justified that level of volatility. There was no sudden break or development that had you re-assessing share prices to that extent – it was basically just fear and panic dominating the rational case. So the hope for the next twelve months is that a clear economic path develops and markets settle back into more traditional levels of fear, greed and volatility.

## THE GOOD, THE BAD AND THE UGLY

As we look back over the (March year end) financial year it’s tempting to break things out into some good, some bad, and some ugly. But let’s cover it in reverse order, so we can finish on a more optimistic note.

The ugly part is that the overall result for FY2023 was a loss of 6.6%. We would like to have no losing years, but the reality is that equity markets do have lots of bumps in the road. Nonetheless, a losing twelve month period is a deep disappointment to us – and no doubt also to you the investor.

The bad part is that in FY2023 the Fund also under-performed its benchmark index, the MSCI All Country World Index. That’s bad rather than ugly because we realistically expect to under-perform that index about 1 year in 5. This fund uses a consistent strategy that is optimised for long-run (5 year or longer) returns. Inherent in that is that we recognise and accept there will be periods when that strategy isn’t optimal for the market at that specific time, even though we remain confident it is a good overall strategy for the long-term.

We define investment risk as being just two things – firstly, the risk of permanent loss and, secondly, the risk of under-performing your required or target rate of return. All other “risks” are just subsets of those two over-arching investment risks. On that basis FY2023 has been a period where both those risks came to pass. The price you pay for the good long-term returns is that in the short-term the market can bite you. Investing for the long-term means being able to stomach the short-term setbacks.

The (relatively) good part is that the extent of the loss in FY2023 was broadly in-line with the peer funds we track. We expect that in good times this fund will grow in value faster than its peers, and that has indeed been the case since its inception in March 2016. You might then think that in bad market times this fund may in turn fall further than its peers. But, in FY2023 at least, this Fund has performed better than its direct peers (high-growth-focused global equity funds) and about average for the global equity asset class as a whole.

Where this matters is that while funds report their performance in percentages investors more naturally measure their wealth in dollars. We track this Fund’s performance against nearly 20 of its peers that are readily available to New Zealand investors. If you had invested \$1,000 in each of these funds back in March 2016 then, at the end of March 2023, you would have more dollars in this Fund today than you would in any of those other funds. In fact, you would still have more dollars in this Fund today, after the recent falls, than all but two of those other funds were able to reach at their peaks in late-2021.

That’s been our thesis from the outset – that in the good times this Fund will grow faster than the average fund, and then in the bad times will fall back at the same pace as the average fund, leaving you the investor with more money overall. The silver lining of FY2023 is that we’ve seen that demonstrated in practice.