Equity Trustees

EIGHT BAYS
Global ETFs

EQT EIGHT BAYS GLOBAL FUND UPDATE

June 2022

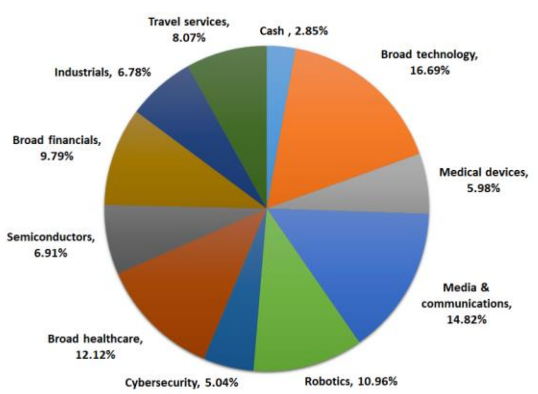
Since the start of 2022 growth stocks and high Price-Earnings multiple (P/E) sectors have suffered the sharpest declines (Nasdaq -22% YTD compared vs MSCI -13%) whilst energy, materials and utilities have fared best. Defensive sectors like healthcare and consumer staples have also outperformed the market.

In the short term it is not practical to forecast stock market movements or as Howard Marks (Co-Chair, Oaktree Capital Management) says *"we may know what is going to happen, but we never know when"*. However, in view of increasing macroeconomic uncertainty we sold our consumer discretionary position in the EQT Eight Bays Global Fund and lifted exposures to more defensive/growth ETFs such as healthcare and industrials. Recently we added to our broad technology exposure following the significant sell-off in these stocks.

These are the key portfolio changes executed:

1. Introduced an Industrials ETF (XLI) to the portfolio
2. Added to our Travel Services (AWAY) position
3. Sold our Consumer Discretionary (RTH) position
4. Reduced our Broad Financial position (FNCL)
5. Increased our Broad Technology ETF (VGT)
6. Added to our Broad Healthcare position (VHT)

EQT Eight Bays Portfolio Weights (30 May 2022)



Sector	Portfolio	MSCI	Active
Financials	10.3%	16.1%	-5.84%
Information Technology	28.7%	21.5%	7.21%
Healthcare	19.7%	11.6%	8.13%
Industrials	16.6%	9.3%	7.32%
Consumer Discretionary	7.4%	11.5%	-4.08%
Consumer Staples	0.0%	7.1%	-7.10%
Communications Services	15.3%	8.9%	6.39%
Energy	0.0%	4.1%	-4.10%
Materials	0.0%	4.6%	-4.58%
Real Estate	0.0%	2.6%	-2.64%
Utilities	0.0%	2.7%	-2.70%
Cash/Other	2.0%	0.0%	2.01%
Total	100.0%	100.0%	

Source: Eights Bay

Year to date returns of all listed stocks on US exchanges

ETF HOLDINGS AND OUTLOOK

Broad Technology (17% portfolio weighting)

Our Broad Technology ETF – VGT has a market value of US$41bn with Apple, Microsoft, Nvidia, Visa, Mastercard, Cisco being some of the larger holdings.

Recent quarterly results from companies such as Apple, Microsoft, Visa, Nvidia have been solid with most companies delivering positive earnings surprises. Much of the decline in the value of this ETF can be put down to falling Price-earnings (P/E) multiples - which is largely due to the rise in bond yields. Software, Semiconductors and Fintech stocks has suffered the steepest falls – for example, PayPal YTD -57%, Salesforce -47%, Nvidia -49%. Valuations are now attractive with the median forward P/E now at 22x, down from 31x.

Expenditure on Cloud Services by Sector

	2021	2022	2023
Cloud Business Process Services (BPaaS)	51,410	55,598	60,619
Cloud Application Infrastructure Services (PaaS)	86,943	109,623	136,404
Cloud Application Services (SaaS)	152,184	176,622	208,080
Cloud Management and Security Services	26,665	30,471	35,218
Cloud System Infrastructure Services (IaaS)	91,642	119,717	156,276
Desktop as a Service (DaaS)	2,072	2,623	3,244
Total Market	**410,915**	**494,654**	**599,840**

BPaaS = business process as a service; IaaS = infrastructure as a service; PaaS = platform as a service; SaaS = software as a service. Note: Totals may not add up due to rounding.

Source: Gartner (April 2022)

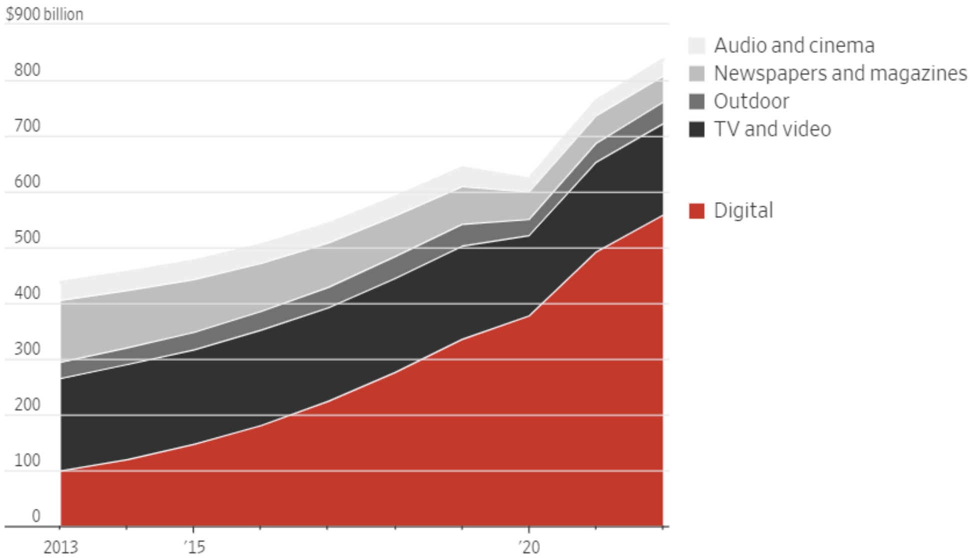
Media and Communications (15%)

Our Communication Services and Media ETF – XLC has a market value of US$10bn and holds 26 companies with the largest positions being Alphabet, Meta, T-Mobile, Activision and Comcast.

The Fund has exposures to on-line media, subscriber-video-on-demand (SVOD), on-line gaming and mobile telecommunications. The weakness in XLC can be attributed to a combination of some earnings downgrades (Netflix, Meta) and P/E multiple degradation. Netflix (YTD -69%), Meta (aka Facebook -42%) and Disney (-34%) have suffered the most in terms of share price falls. That said, these companies are industry leaders and are now at trading at significant P/E discounts to their long-term average multiples. We remain positive on the outlook for the big holdings in this ETF.

This ETF now trades on at a median forward PE of 17x. Longer term secular growth in on-line advertising, SVOD adoption coupled with likely industry consolidation, growth in on-line gaming and 5G adoption are some the underlying growth drivers for this ETF.

Estimated Global Advertising Spend by Category – Digital Ads Driving Growth



Note: Excludes political ad spending
Source: GroupM

Financials (10%)

Our Financials ETF, FNCL is exposed to US retail and commercial banks, asset managers, investment banks and insurance. Banks and insurance companies will benefit from interest rate rises and post pandemic loan growth.

Investment banks and asset managers' share prices have been clipped by falling equity markets- for example, Blackrock (-27% YTD) and JPM (-20%). This ETF includes an 8% holding in Berkshire Hathaway (+7%) which has a portfolio of quality investments (biggest exposure being Apple) and a huge cash holding that may prove useful in a market downturn.

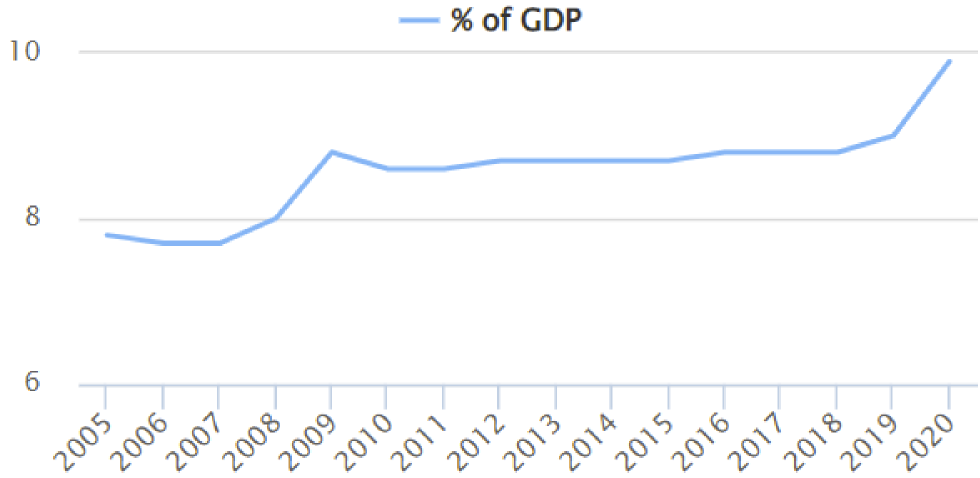
Apart from well capitalised banks such as JP Morgan, Bank of America and Wells Fargo we expect the asset managers such as BlackRock (the global leader in ETFs) to recover. The ETF has a market cap of $1.6bn, and trades on a forward P/E of 11x. Earnings are forecast to expand 12%.

Broad Healthcare (12%)

Our Broad Healthcare ETF, VHT has both growth and defensive characteristics through world class companies such as United Health, Johnson & Johnson, Pfizer and Eli Lilly.

The ETF has exposure to pharmaceuticals, biotechnology, vaccines, healthcare services (managed care & diagnostics), medical devices. One thing governments around the world have learnt from the pandemic is that the need to invest in healthcare systems is critical. The broad healthcare ETF has a $15bn market cap, trades on a forward P/E multiple of 16x and expected earnings growth of 8%.

OECD Healthcare Spending (% of GDP) 2005-2020 (estimate)



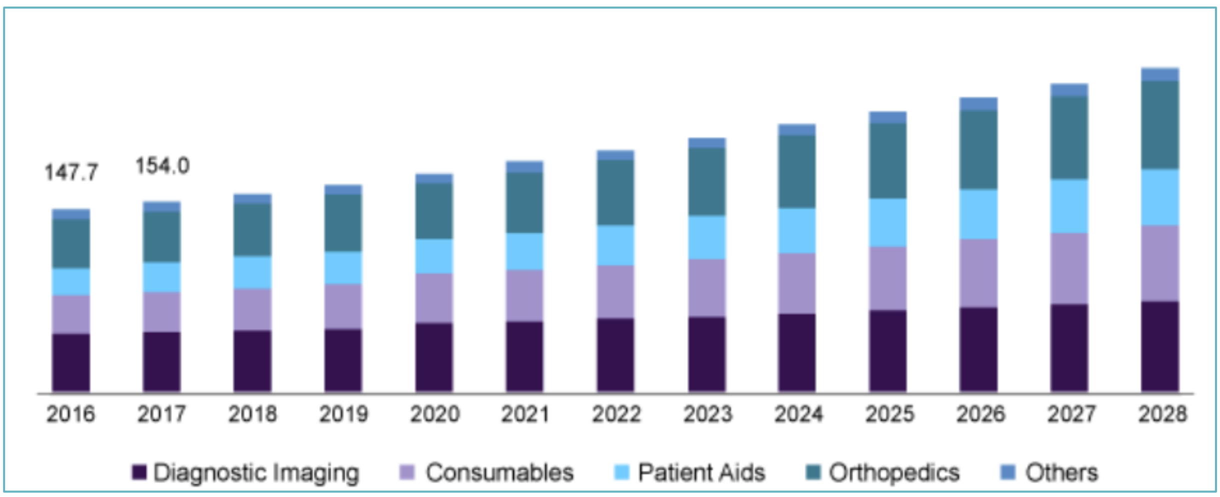
Source: OECD Health Statistics 2021

Medical Devices (6%)

The specialised Medical Devices ETF (IHI) is exposed to a broad range of medical technologies including robotic surgery, diagnostic and analytical equipment and life sciences. Companies held by this ETF generally have wide moats (barriers to entry) and include Thermo Fisher Scientific, Abbott Laboratories, Boston Scientific, Edwards Life Sciences and Intuitive Surgical. Many of these companies will benefit from the post pandemic recovery in elective surgery, ageing populations, increased healthcare spending as a percent of GDP (including emerging markets such as China and India).

Given the attractive industry and growth outlook for this sector the ETF tends to trade at a premium to the industry average and currently trades at 23x forward earnings with Earnings-per-Share (EPS) expected to grow by 12%.

US Medical Devices Market Size – 2016 to 2028 (estimated) (US$ billions)



Source: Grandview Research

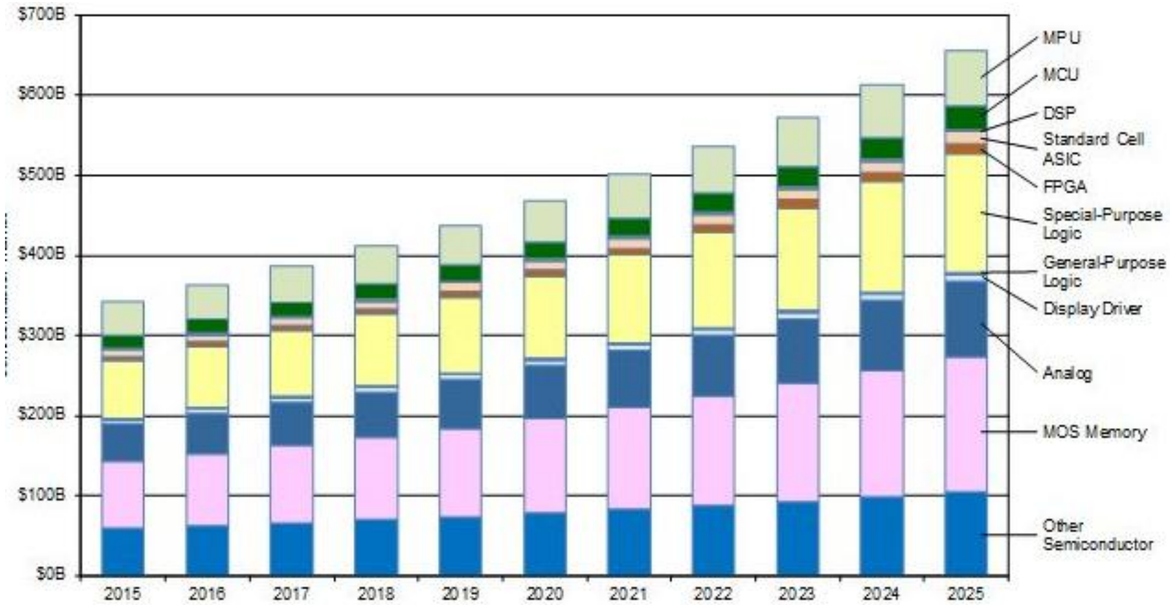
Semiconductors (7%)

This ETF, SMH, is exposed to an industry (semiconductors) with attractive dynamics including the rollout of 5G, electric vehicles, gaming, growth in cloud computing (data centres), robotics and AI, and automation – all these sub-categories are driving increased semiconductor chip utilisation.

Semiconductors enable much of the technological improvement projected over future decades across a broad sweep of industries. Nvidia, Qualcomm, ASML, Lam Research, Advanced Micro Devices and Taiwan Semiconductors all have very strong market positions and strengthening pricing power.

The ETF holds positions across the value chain from manufacturing to the end product and comprises the best of the companies listed outside the US such as ASML (the dominant supplier of EUV and DUV lithography machines) and Taiwan Semiconductor (global leader in semiconductors). This ETF has a market cap of $7bn, trades on a forward PE multiple of 15x with earnings forecast to grow by 16%.

The Global Semiconductor Market – Forecast Size & Growth



Source: International Business Strategies

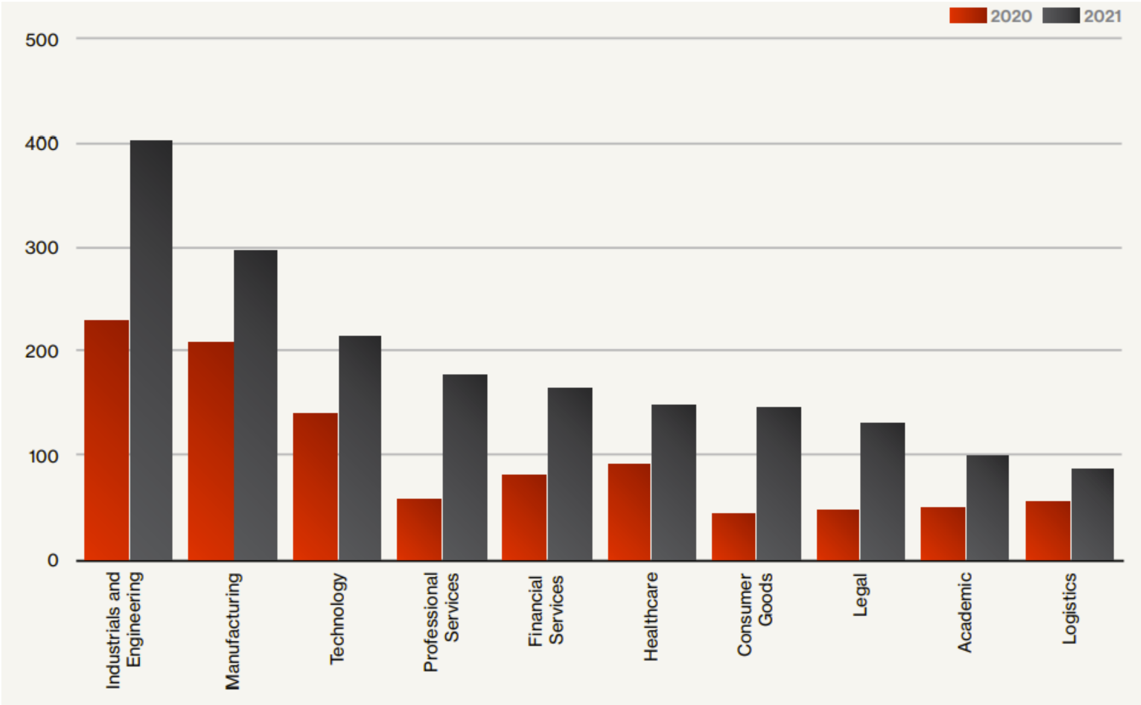
Cybersecurity (5%)

The specialised Cybersecurity ETF, CIBR, comprises high quality companies such as Palo Alto Networks, Cisco Systems, Zscaler and CrowdStrike, combined with a suite of smaller positions in emerging cybersecurity specialists such as Juniper Networks, Cloudflare and Fortinet. Demand for cybersecurity solutions is growing exponentially driven by numerous of factors including growth in the "attack surface" due to growth in the work-from-home economy, growth in cloud-based services (vs VPNs or virtual private networks), increased attacks from Nation States, and growth in crypto currency extortions.

The industry is consolidating given its strategic importance to commerce worldwide. Two companies within this fund are subject to takeover offers – Mandiant (Alphabet offering $5.4bn) and VMware (Broadcom offering $61bn).

The ETF trades at a high premium (48x) given high growth in the emerging new cybersecurity space (cloud computing security) which is due a number of companies moving from low earnings bases to high levels profitability. We retain a modest weight in this ETF due to valuation/risk factors.

Comparison of Data Leaks by Sector (Top 10), 2020 vs. 2021



Source: Crowdstrike

Robotics and Artificial Intelligence (11%)

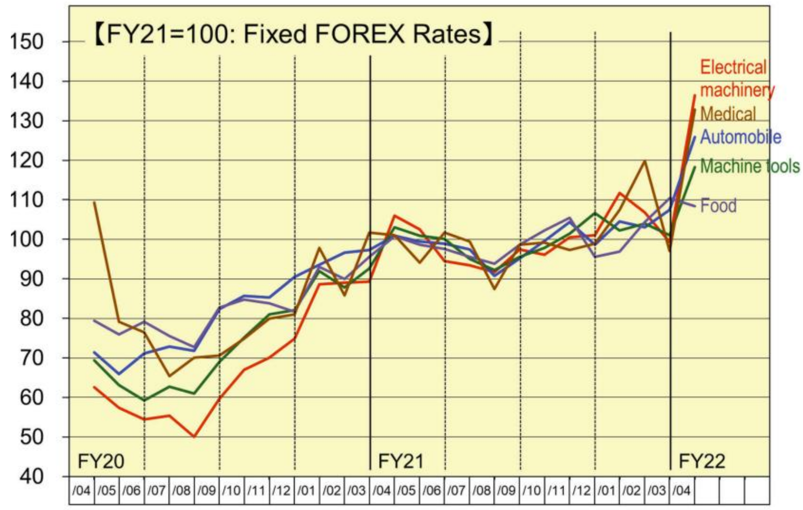
The ETF- BOTZ has a market value of US$1.7bn and holds the leading global robotic and artificial intelligence (AI) companies.

Japanese companies dominate the industrial robotics industry (45% global market share in industrial robots) and these stocks comprise about 37% of the ETF. Japanese companies include Keyence, Fanuc, SMC corporation. European companies also have a strong presence in this ETF with names such as ABB (Sweden), Autostore (Finland) and Renishaw (UK). The major US stocks in this ETF are Intuitive Surgical, the leading supplier of robotic surgical systems, and Nvidia which leads the world GPUs (graphic processing units) used in AI and machine learning processes.

We have maintained our weighting in BOTZ, despite the retracement as we believe this industry has exceptional long-term growth prospects. With the world facing rising labour costs and supply side issues, demand for autonomous solutions is likely to increase exponentially. In the first quarter of 2022 demand grew by 40% for workplace robots in the US according to the Association for Advancing Automation.

The companies represented in this ETF are at the enablers of the growth in autonomous mobility, cloud-based AI and machine-learning (ML) solutions, expanding use of 5G networks, factory automation and automated on-line services. As with other tech-related stocks, the valuations are at more attractive levels with the forecast P/E of the ETF averaging 25x, down from the mid 30x.

Industrial Robots Orders by Industry



Source: SMC Corporation Annual Report March 2022

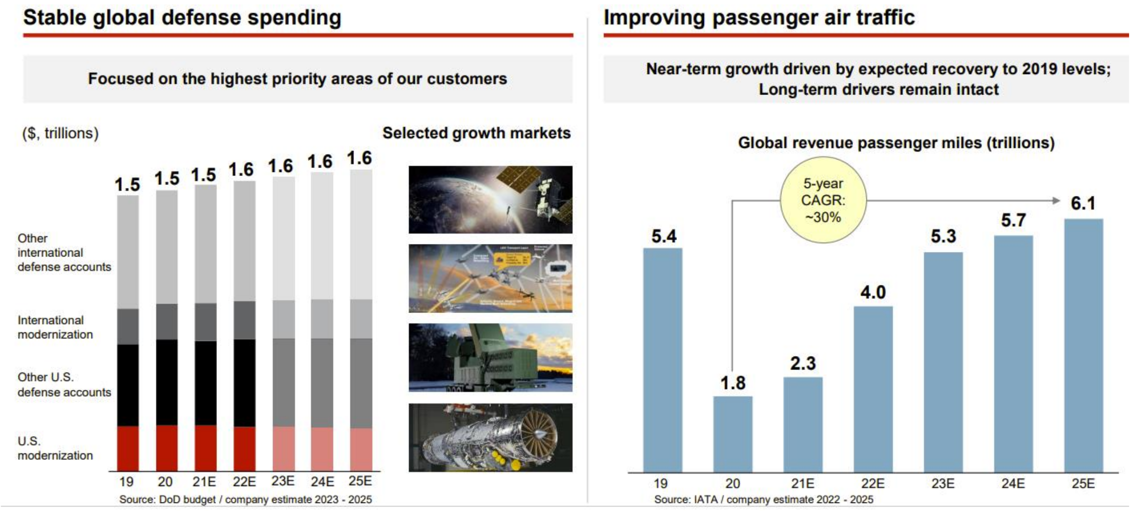
Industrials (7%)

Early in 2022, we added the XLI Industrial ETF. The Industrial ETF is a US centric portfolio of multinational leaders that will benefit from increased infrastructure, onshoring of manufacturing and accelerated defence spending. Companies in this fund include Honeywell, Caterpillar, Raytheon Technologies, Lockheed Martin and John Deere. John Deere for example is a major beneficiary from the record high prices for soft commodities caused by global shortages due to the Russian invasion of Ukraine (Russia and the Ukraine produces c30% of global traded wheat).

The military conflict has forced ongoing increase in defence spending across Western Democracies, with the beneficiary aerospace and defence companies are well represented in the ETF (21% of the fund). At the end of February Chancellor Scholtz of Germany acknowledged the need to transform his country's defence policy, beginning with Euro $100bn of the current German budget and establishing ongoing defence spending of 2% of GDP.

This ETF has a market cap of $13b and trades on a forward PE of 16x and a yield of 1.2%. Forecast earnings growth is slightly more modest at 10%.

Global Defence Spending and Passenger Air Traffic



Source: Raytheon Technologies

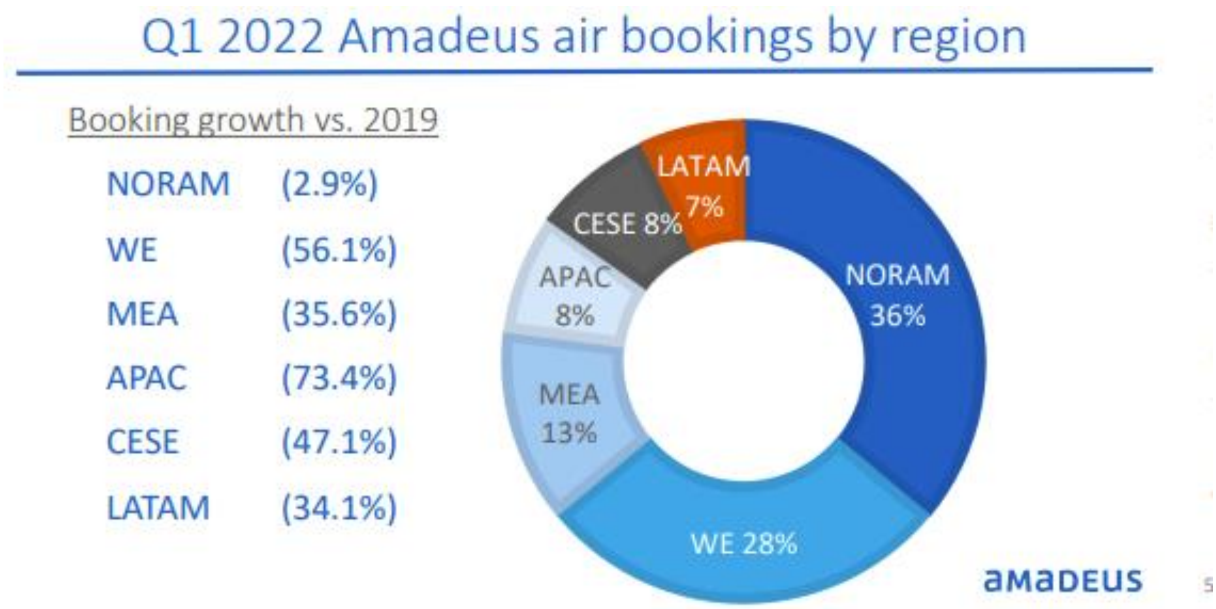
Travel Services (8%)

The ETFMG Travel Technology ETF (AWAY) provides exposure to the growing travel services industry and the Fund is comprises some of the world's leading on-line travel agents (OTAs), ride and accommodation sharing businesses and travel tech businesses. Companies include Booking.com, Expedia, MakeMyTrip, Uber, Airbnb, Amadeus IT Group and Sabre Corporation.

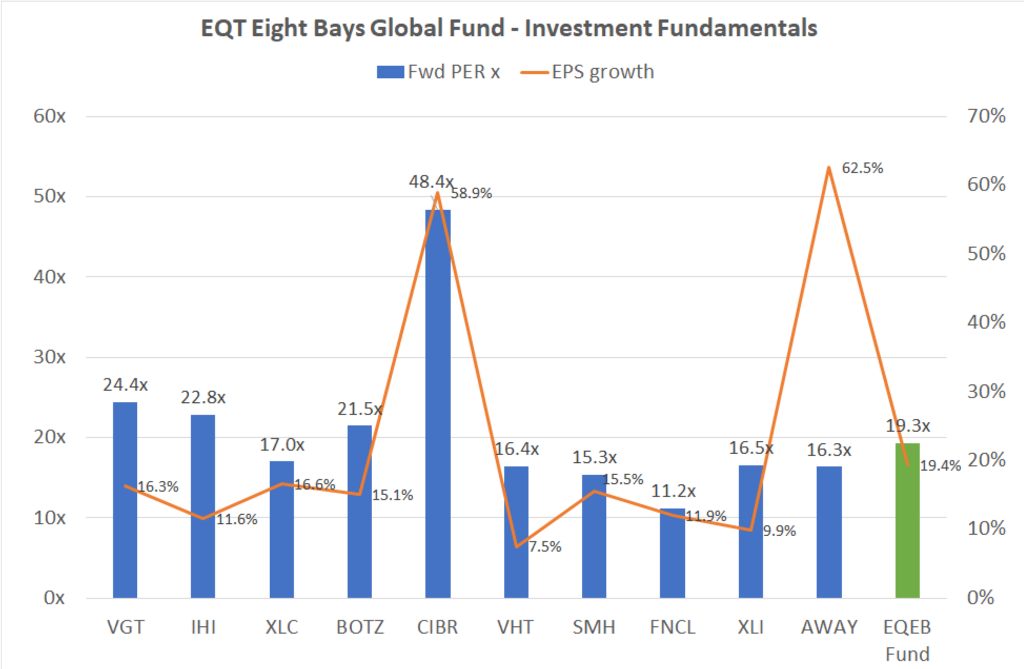
These companies are clearly benefitting from the post pandemic opening of economies and growth in cross border travel. Additionally, we believe this industry will also benefit from the growth in remote or at-home workers, a trend that evolved due to the pandemic. Despite exceptionally strong quarterly results from these companies' global travel activity is well below pre pandemic levels (see below).

Earnings for this ETF are forecast to grow by more than 50% and valuations have fallen to attractive levels (16x forward earnings).

Amadeus Air Travel Booking Levels vs 2019



EQT Eight Bays Fundamentals Snapshot



Top Twenty Holdings

Apple Inc.	3.8%
Meta Platforms Inc. Class A	3.1%
Microsoft Corporation	3.0%
NVIDIA Corporation	2.6%
Alphabet Inc. Class A	1.7%
Alphabet Inc. Class C	1.6%
Thermo Fisher Scientific Inc.	1.5%
Abbott Laboratories	1.4%
Intuitive Surgical, Inc.	1.3%
UnitedHealth Group Incorporated	1.1%
Johnson & Johnson	1.0%
Medtronic Plc	1.0%
Berkshire Hathaway Inc. Class B	0.9%
ABB Ltd.	0.9%
JPMorgan Chase & Co.	0.8%
Keyence Corporation	0.8%
Netflix, Inc.	0.4%
Walt Disney Company	0.6%
Broadcom Inc.	0.7%
Comcast Corporation Class A	0.6%

THE STRATEGY

The Eight Bays Global ETF strategy is a portfolio of Exchange Traded Funds (ETFs) designed to complement domestic equity portfolios by investing in global growth industries and equities not available on the ASX. Due to the depth and liquidity of the US ETF market, we invest only in ETFs listed on US exchanges. The portfolio has a bias towards industry ETFs with sound growth prospects and attractive structural characteristics. The portfolio holds between 5 and 15 ETFs and any given time with a maximum cash weighting of 20%.

INVESTMENT PHILOSOPHY

We believe that industry factors are the primary driver of shareholder value over the longer term. Industry dynamics such as growth rates, fragmentation, concentration, disruptive forces and regulation are the major drivers of equity performance. We believe the most cost-effective way to invest in attractive industries is via an appropriate ETF.

PORTFOLIO GUIDELINES

Benchmark:	MSCI World Index (AWCI)
Universe:	US Equity ETF Market
Number of ETFs:	5 to 15
ETF weights:	Min 5% Max 20%
Portfolio Turnover:	~20%
Cash holdings:	Up to 20%
Hedged:	No. US Dollar product
Investment objective:	2-3% pa > MSCI World

The EQT Eight Bays Global Fund can be accessed by visiting
www.eightbays/invest
www.eqt.com.au/eightbays