Equity Trustees

June 2022
Quarterly Report

EQT EIGHT BAYS GLOBAL FUND

FUND 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.

PERFORMANCE SUMMARY

The EQT Eight Bays Global Fund recorded a total net return of -12.34% in the June 2022 quarter which was -3.86% below the Benchmark MSCI All Country World Index (ACWI) ex Australia index.

The major underperforming ETF's were Robotics -30%, Travel Technology -26% and Semiconductors -24.5%. Relatively better performing positions were Broad Healthcare -7%, Industrials -15% and Medical Devices -17%. As outlined below the Fund is focused on ETFs and industries with attractive medium-term growth. Some of these have suffered in the short term but retain strong investment cases.

Since the fund was officially launched (inception on 1 July 2021) the Fund has a net return of -16.19% which is -6.89% below the benchmark ACWI.

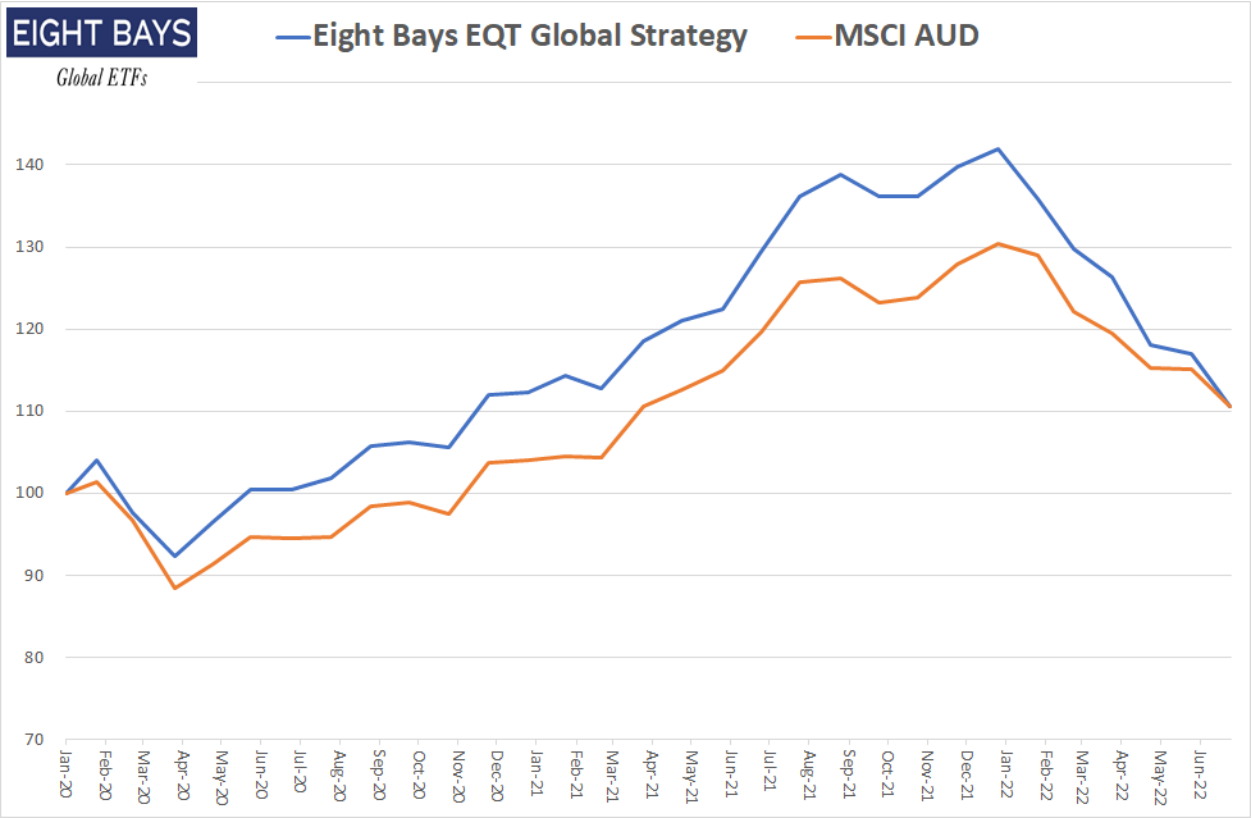
FUND PERFORMANCE

	1 MONTH	3 MONTHS	1 YEAR	SINCE INCEPTION (P.A.)[4]
Income return[1]	0.00%	0.00%	0.00%	0.00%
Capital return	-5.82%	-12.34%	-16.19%	-16.19%
Total net return[1]	-5.82%	-12.34%	-16.19%	-16.19%
Benchmark[2]	-4.71%	-8.48%	-9.30%	-9.30%
Active return[3]	-1.11%	-3.86%	-6.89%	-6.89%

[1] Income and Total net returns include the deduction of ongoing fees and expenses.
[2] MSCI ACWI ex Australia Net Return Index (AUD)
[3] Calculated as Total net return less Benchmark.
[4] The inception date is 1 July 2021
Past performance is not an indicator of future performance.

PERFORMANCE SINCE INCEPTION OF STRATEGY

Short term performance of the Fund has been impacted by the sell-off in equity markets, especially sectors with long duration growth characteristics. However, as longer-term guide, the strategy since inception (January 2020) has increased by 9.99% compared to the benchmark ACWI increase of 9.87%.



Source: Saxo, EQT, Seeking Alpha
Note: Combined gross returns in AUD of the Eight Bays Global Strategy (7.1.20-30.6.21) and EQT Eight Bays Global Fund (from 1.7.21)

MARKET COMMENTARY

US stocks had their worst first half year decline since 1970, with a $9 trillion decline in stock values (Bloomberg) and the S&P 500 down over 20%. Every sector declined except Energy which is up 30% for the year, and bonds have provided little protection for investors as inflation surged. Although the Federal Reserve raised interest rates by 0.75% in June and signalled further increases, they remain well behind the inflation curve with real (inflation adjusted) interest rates falling after an inflation CPI figure for May of 8.6 %.

It is likely that the Equity market is to some extent pricing in a US recession. The EQT Eight Bays Global Fund portfolio is focused on medium term growth, and we continue to hold that several of the core investment sectors that have suffered significant falls such as Robotics and Cybersecurity continue to have a strong investment case and the ETF's held are well constructed and diversified.

This didn't prevent the Robotics ETF (BOTZ) from being the worst Fund performer for the June 2022 quarter with a fall of 30%. We have reviewed the components of the Robotics ETF and the significant (32% of BOTZ ETF) Japanese Robotic stocks (Keyence, Fanuc, Yasakawa Electric, Daifuku and Omron) which declined significantly largely due to the weakness of the Japanese yen and flow on effects from the severe Chinese Covid lockdowns. However, valuations now look undemanding, and their 3-year outlook remains strong. Onshoring and regionalization with attendant labour shortages will only accelerate efforts to automate production.

US technology giants fell heavily in the June quarter with Apple down 21%, Amazon down 35%, Alphabet down 22% and Microsoft down 17%. There is much discussion that the earnings results of these majors at the end of July will have a significant impact on US share market direction.

As mentioned above the EQT Eight Bays Global Fund sold its Consumer Discretionary (Retail) ETF in early May, with Amazon the largest holding of this ETF. Many of the retail constituents of this ETF had enjoyed a productive Covid pandemic, but now despite strong employment growth and some residual cash balances from pandemic savings, many of their customers have suffered a significant decline in purchasing power.

Lacey Hunt of Hoisington Investment Management describes the situation as follows:

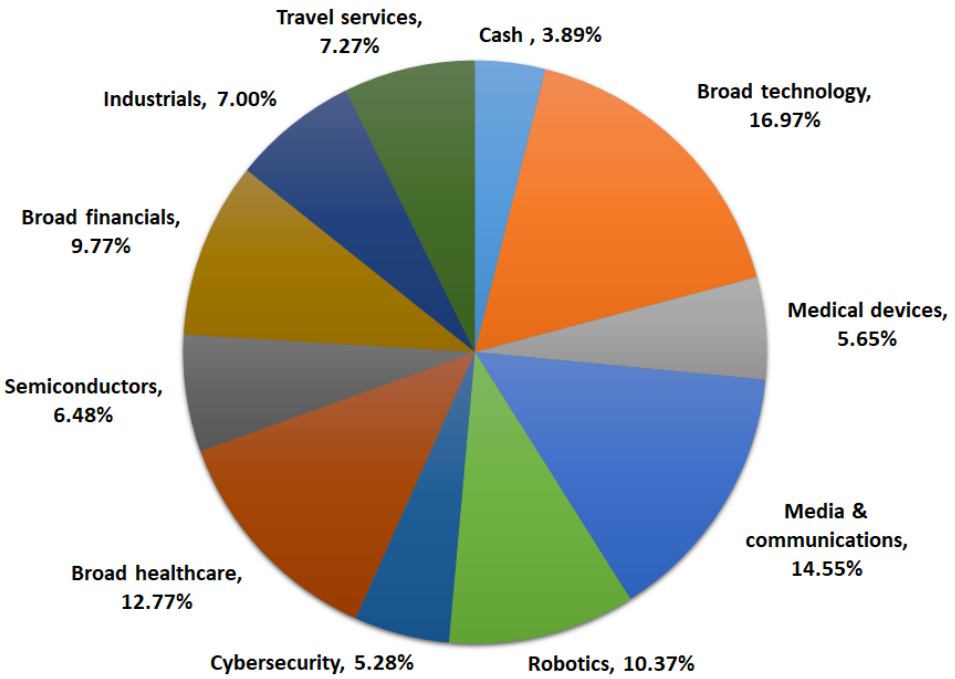
*"Eight five percent of US households make under $150 000 a year, with many living from pay check to pay check or on steady salaries. The imbalance between those who benefitted and those who were harmed from the monetary and fiscal policies pursued over the last two years is abundantly clear. The 8.5% inflation rate has dramatically lowered the standard of living of over 170 million individuals." **

*Hoisington First Quarter 2022 Review and Outlook

FUND ACTIVITY

During the June 2002 quarter the Consumer Discretionary Retail ETF (RTH) was sold. The largest stockholdings in this ETF are **Amazon**, **Home Depot** and **Walmart**, the latter reporting a surprising 32% jump in inventories in early June. The Walmart CEO referenced the harm that inflation is doing to the consumer, particularly in food and gasoline. It is also clear that many of these retailers did well during the Covid pandemic lockdowns, such that the US consumer is now looking to allocate expenditures towards services including travel and holidays.

SECTOR EXPOSURE (30 JUNE 2022)



Source: Eight Bays Investment Management

INDIVIDUAL LOOK THROUGH STOCK EXPOSURE (30 JUNE 2022)

	Name	Weight
1	Apple Inc.	3.8%
2	Microsoft Corporation	3.0%
3	Meta Platforms Inc. Class A	2.8%
4	NVIDIA Corporation	2.2%
5	Alphabet Inc. Class A	1.9%
6	Alphabet Inc. Class C	1.8%
7	Thermo Fisher Scientific Inc.	1.7%
8	Abbott Laboratories	1.5%
9	Intuitive Surgical, Inc.	1.2%
10	Johnson & Johnson	1.2%
11	UnitedHealth Group Incorporated	1.2%
12	Medtronic Plc	1.0%
13	ABB Ltd.	0.9%
14	Berkshire Hathaway Inc. Class B	0.8%
15	JPMorgan Chase & Co.	0.8%

Source: Eight Bays Investment Management

STOCK IN FOCUS – BERKSHIRE HATHAWAY

The EQT Eight Bays Global Fund has a portfolio allocation of 10% to a Financials ETF, the Selected Fidelity ETF (FNCL) holds US Banks such as **JP Morgan**, **Goldman Sachs**, **Morgan Stanley** and **BlackRock**. The largest (9%) holding in this ETF is Warren Buffett's **Berkshire Hathaway**, which meets the threshold for inclusion in a Financials ETF through its large Insurance operations and its substantial shareholdings in US Banks led by Bank of America.

The table below outlines the major listed investments of Berkshire Hathaway and is indicative of the investment choices of Warren Buffett and his team. It does not include the much larger valued wholly owned suite of businesses across the US economy in Insurance, Transport, Energy, Industrials and more.

BERKSHIRE'S TOP U.S. STOCK HOLDINGS - Jul 1, 2022

Stock (Ticker)	Holdings	Stake	Mkt. price	Value
Apple Inc (AAPL)	911,347,617	5.6%	$138.93	$126.6B
Bank of America Corp (BAC)	1,032,852,006	12.8%	$31.56	$32.6B
Coca-Cola Co (KO)	400,000,000	9.2%	$64.38	$25.8B
Chevron Corporation (CVX)	159,178,117	8.1%	$146.51	$23.3B
American Express Company (AXP)	151,610,700	20.1%	$140.40	$21.3B
Kraft Heinz Co (KHC)	325,634,818	26.6%	$38.64	$12.6B
Occidental Petroleum Corporation (OXY)	163,395,275	17.4%	$60.44	$9.9B
BYD Co. Ltd (BYDDF)	225,000,000	7.7%	$39.97	$9B
Moody's Corporation (MCO)	24,669,778	13.4%	$274.91	$6.8B
US Bancorp (USB)	144,046,330	9.7%	$46.59	$6.7B

Source: CNBC.com Berkshire Hathaway Portfolio Tracker

CNBC

At the end of April, Berkshire Hathaway held its annual "Woodstock For Capitalists" annual meeting, where Buffett revealed that they had finally found an investment environment to their liking, with their huge cash pile falling from $147 billion to $106 billion in the first quarter of 2022. Berkshire invested $21 billion in oil and gas giant **Chevron** and $11 billion to add **Allegheny** to its insurance business, with its reinsurance operations a likely good fit with Berkshire's existing business.

Chevron's fully integrated operations may have appealed to Berkshire Hathaway – from oil and gas exploration and production to transmission pipelines, refineries and chemical production. Chevron offers a 3.5% dividend yield and a $10 billion share buyback allocation while still making significant investments in renewable energy and low carbon projects. In the June 2022 quarter Berkshire also continued to build its stake in **Occidental Petroleum** to 17%.

Berkshire Hathaway also increased its stake in interactive entertainment/ gaming company **Activision Blizzard** to 9%, which is essentially an arbitrage play as Activision Blizzard has reached agreement with Microsoft to be acquired for $95 per share subject to regulatory approval – with the shares trading below this at $78 per share. The Fund also has exposure to Activision Blizzard as a 5% portfolio holding of our Communication Services ETF (XLC).

Berkshire Hathaway's one-year relative outperformance over the S&P 500 and the MSCI Global Indices can be attributed to is overweight positions in Apple, Energy and Insurance and high cash holding. On a longer-

term basis Berkshire Hathaway has provided consistent returns with defensive qualities although it has underperformed the S&P500 over the last 10 years.

Berkshire Hathaway Total Returns vs S&P500

	YTD	1Y	3Y	5Y	10Y
BRK Total Return	-7.2%	-1.0%	29.3%	63.8%	233.0%
S&P 500 Total Return	-19.1%	-10.1%	35.7%	72.7%	241.7%
Alpha	11.9%	9.2%	-6.4%	-8.8%	-8.7%

Source: Seekingalpha.com