Equity Trustees

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

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

MARKET COMMENTARY

International equities as measured by the MSCI World ex Australia Index (USD) fell 3.46% over the September quarter. However, in $A terms, the MSCI World ex-Australia Index fell only 0.05%. Some of the best performers for the quarter (in local currency) included UK's FTSE 100 (+2.2%) and India - India BSE 30 (+2%). The UK has been helped by a cheap market valuation, supportive fiscal policy, a lower pound, higher oil prices and better-than-expected trade outturns. Underperforming markets included Germany's DAX (-4.7%), Hong Kong's Hang Seng (-4.2%) and the US Nasdaq (-3.9%).

Over the last 12 months, however, most markets have performed strongly with the Euro Stoxx rallying 30%, US Nasdaq up 26.1% and Japan's Nikkei gaining 25.4%. In $A terms, the MSCI World ex-Australia Index has rallied 21.89%.

Global equity market performance – Sept Qtr and Last 12 months (LTM)

Legend: ■ Local Currency % move (Sept Qtr) ■ Local Currency % move (LTM)

Source: Equity Trustees
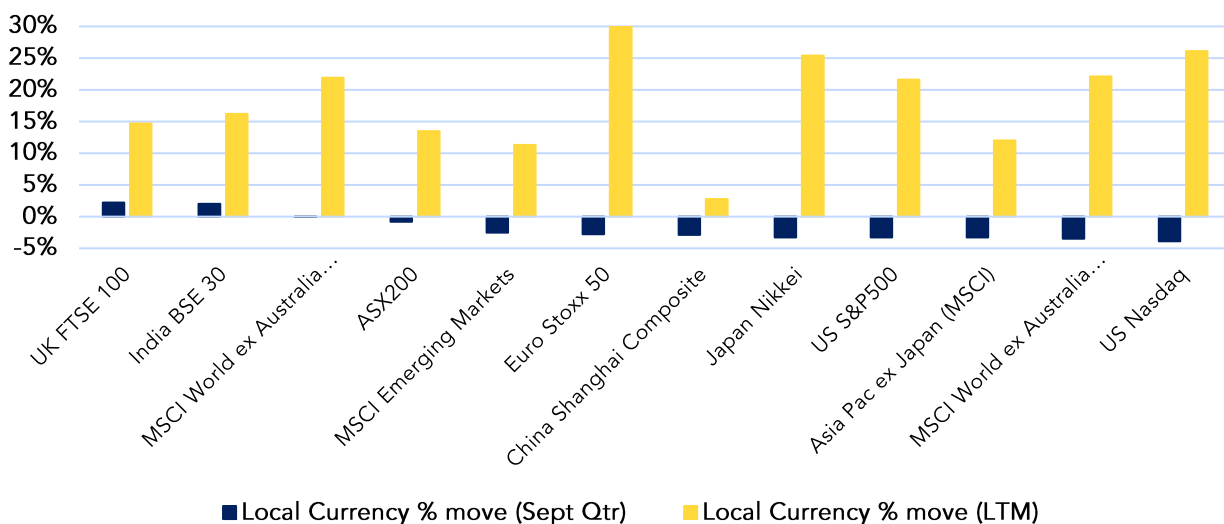
Globally, the top performing sectors in the quarter were Energy, Communication Services and Financials. Energy benefited from higher oil prices. Conversely, Utilities, Real Estate and Consumer Staples relatively underperformed with the prior two impacted negatively by higher rates.

Developed Markets outperformed Emerging Markets (in USD terms). Rising US bond yields and a strong US Dollar typically doesn't support Emerging Markets, quickening the pace of outflows from regional debt and equities portfolios.

Global growth has been surprisingly resilient led by the US. Global growth is expected to come in around 2.3% for 2023. The global manufacturing Purchasing Managers Index (PMI) has been in contraction over the past year but has started to stabilise. The global services PMI is still expanding but has fallen in past months. Interestingly, there has been a desynchronised cycle with US growth solid, while growth rates in Europe and China have both disappointed. Interest rates are near peak levels in many developed markets. Inflation has declined, but is still elevated, and central bankers remain watchful.

In the US, the Federal Reserve (Fed) hiked the Federal Funds rate 25bps to 5.25-5.5% in July before keeping rates steady. The Fed upgraded their economic growth forecasts in September. US inflation retraced and consumption remained stronger than expected driven by a strong labor market, wage growth and excess savings. Markets progressively moved to a "soft landing" view of the economy. US government spending remained supportive also, despite a deteriorating fiscal position. Corporate earnings in the US have remained resilient, and many forecasters have "pushed out" the timing of a US slowdown.

European economic data weakened as the ECB raised rates 50bp to 4%. European growth is expected to be very weak over the next few quarters as weaker services, less fiscal support, high inflation and structural headwinds impact mainland economies. Consensus earnings growth for 2023 is 0%.

Chinese data remained weak (led by property) but stabilised as the government initiated stimulus measures. The government has rolled out several easing measures, including those targeted at the property sector. Recent data points have been more encouraging, and the government aims to meet its 5% growth target. China-US dialogue also improved over the quarter.

FUND PERFORMANCE

PERFORMANCE[1]	3 MONTHS	6 MONTHS	1 YEAR	SINCE INCEPTION (P.A.)[2]
Income return[1]	0.00%	0.00%	0.00%	0.00%
Capital return	-1.24%	6.17%	20.82%	0.30%
Total net return	-1.24%	6.17%	20.82%	0.30%
Benchmark return[3]	0.02%	6.79%	20.70%	4.35%
Active return	-1.26%	-0.61%	0.12%	-4.05%

Table 1
[1] Performance: Income and total net returns are fund returns after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions. Results greater than one year are annualised
[2] Inception date is 1 July 2021.
[3] Benchmark return is the MSCI ACWI ex Australia net return Index (AUD).
Past performance is not an indicator of future performance.

The EQT Eight Bays Global Fund recorded a total net return of -1.24% in the September 2023 quarter which was 1.26% under the Benchmark MSCI All Country World Index (ACWI) ex Australia index.

Over the last 12 months the Fund has delivered a very strong total net return of 20.82% outperforming the benchmark by 0.12%.

PERFORMANCE SUMMARY

The best performing Exchange Traded Fund (ETF) positions in the September 2023 quarter were North American Natural Resources (+2.8%) and Communication Services (+0.75%). Robotics and Artificial Intelligence (-14%) and Information Technology (-6.2%) reversed their strong performance in the June quarter as equity markets digested the initial euphoria around artificial intelligence. This remains a focus for the Fund, with overweight positions in **Nvidia, Alphabet** and **Meta**.

Year-to-date, sector ETFs have diverged in performance, in part due to rising interest rates. This is because bond yields are returning to their historic long-term levels, which were seen before central banks implemented quantitative easing in the wake of the 2007 financial crisis and the 2020 pandemic. Sectors with high dividend yields but low growth, such as utilities and infrastructure (-16%), REITS (-9%), and consumer staples (-10%), have significantly underperformed growth sectors with higher retained earnings.

In simple terms, if interest rates are expected to remain high for longer, fixed-income investing becomes more attractive than buying high-yield equities with low growth and low retained earnings (high payout ratios). On the other hand, investing in equities, a growth asset, typically requires growth to compensate for the higher risk. As a result, we have seen money flows move to higher-growth sectors such as broad technology (+32%) and online media and communications (+38%).

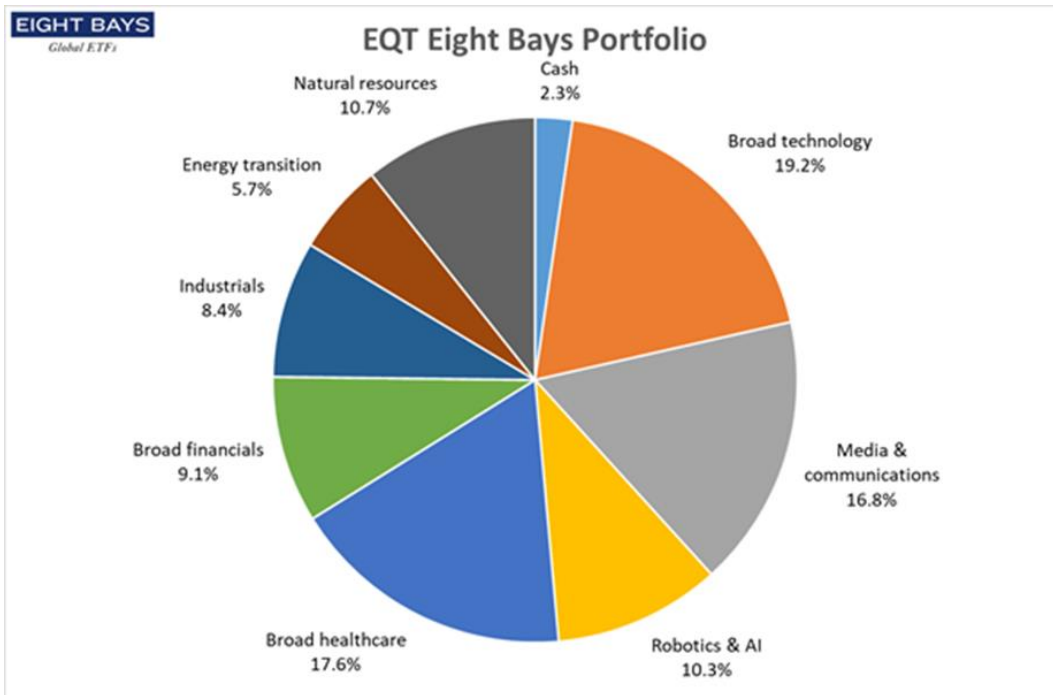### Performance Year-to-date of selection of Sector ETFs
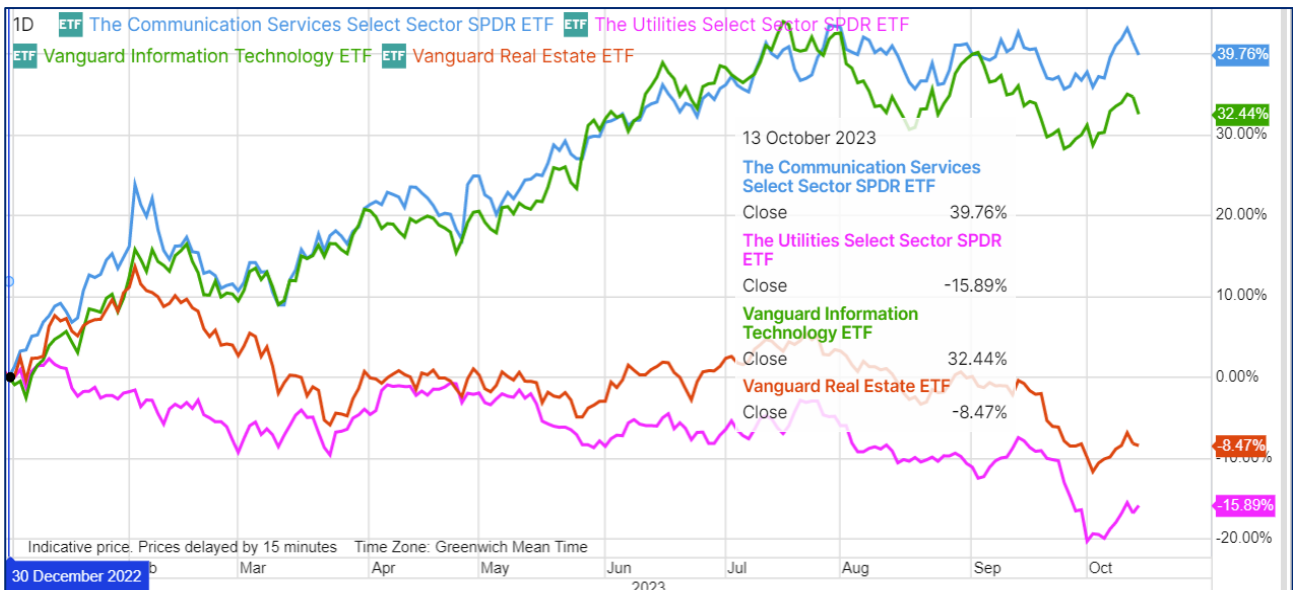
Source: Saxo Capital

FUND ACTIVITY

There were no changes to the EQT Eight Bays portfolio during the September 2023 quarter.

SECTOR EXPOSURE

Source: Eight Bays Investment Management 30 September 2023

EQT EIGHT BAYS INDIVIDUAL LOOK THROUGH STOCK EXPOSURE

	Holding	Weight
1	Apple Inc.	4.30%
2	Microsoft Corporation	4.20%
3	Meta Platforms Inc. Class A	4.00%
4	NVIDIA Corporation	2.60%
5	Alphabet Inc. Class A	2.10%
6	Alphabet Inc. Class C	1.90%
7	Intuitive Surgical, Inc.	1.50%
8	ABB Ltd.	1.40%
9	UnitedHealth Group Incorporate	1.40%
10	Johnson & Johnson	1.30%
11	Berkshire Hathaway Inc. Class B	1.10%
12	Exxon Mobil Corporation	1.00%
13	Keyence Corporation	1.00%
14	Eli Lilly and Company	1.00%
15	Merck & Co., Inc.	0.90%
16	Fanuc Corporation	0.90%
17	Freeport-McMoRan, Inc.	0.80%
18	Chevron Corporation	0.80%
19	AbbVie, Inc.	0.80%
20	JPMorgan Chase & Co.	0.80%
21	Netflix, Inc.	0.80%

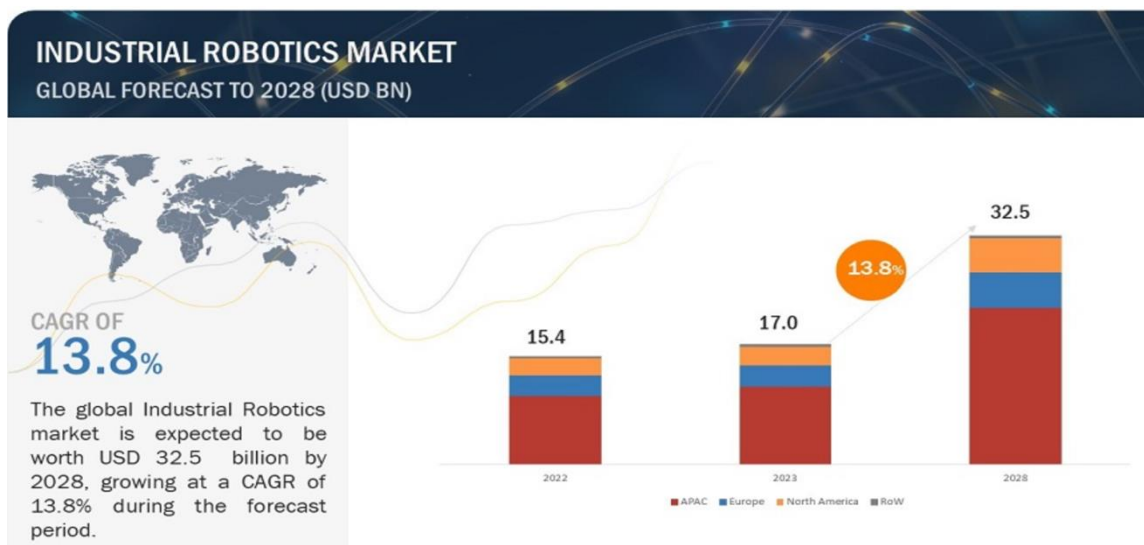Source: Eight Bays Investment Management (30 September 2023)

ETF IN FOCUS – ROBOTICS AND ARTIFICIAL INTELLIGENCE (BOTZ)

Since inception the Fund has had a strong allocation (currently 10%) to BOTZ the Robotics and Artificial Intelligence ETF. In 2023 much attention has been given to Artificial Intelligence, and the strong outperformance of graphic processing unit leader Nvidia, the largest holding with a 15% allocation. However, the 2023 weakness of the Japanese Yen has contributed to underperformance of the Japanese robotics and industrial automation stocks. Weakness in their largest export market China has also impacted performance.

BOTZ ROBOTICS AND ARTIFICIAL INTELLIGENCE ETF

Symbol	Holding	% Assets ▼
NVDA	NVIDIA Corporation	14.96%
ISRG	Intuitive Surgical, Inc.	10.05%
ABBN	ABB Ltd.	8.39%
6861	Keyence Corporation	6.74%
6954	Fanuc Corporation	6.02%
DT	Dynatrace, Inc.	4.94%
PATH	UiPath, Inc. Class A	3.93%
6506	Yaskawa Electric Corporation	3.91%
6273	SMC Corporation	3.89%
CGNX	Cognex Corporation	3.62%
6645	OMRON Corporation	3.52%
6383	Daifuku Co., Ltd.	3.43%
AUTO	AutoStore Holdings Ltd.	2.21%
TECN	Tecan Group AG	2.09%

Source: ETFDB 7 October 2023

INDUSTRIAL ROBOTICS MARKET
GLOBAL FORECAST TO 2028 (USD BN)

CAGR OF
13.8%

The global Industrial Robotics market is expected to be worth USD 32.5 billion by 2028, growing at a CAGR of 13.8% during the forecast period.

15.4 (2022) • 17.0 (2023) • 13.8% • 32.5 (2028)

APAC • Europe • North America • RoW

Source: Markets and Markets July 2023

Japan has achieved its dominant position in industrial robotics led by innovative companies.

KEYENCE is Japan's third largest corporation with a market capitalization of $US 90 billion. Keyence is the world leader in sensors – essential to automated safety and operation. The product range also includes data analysis systems, measurement systems and vision units.

KEYENCE PRODUCT RANGE

Source: Keyence

FANUC is best known for its yellow industrial robot arms. Fanuc's Q1 FY 2023 results in July showed a 5% revenue fall and 22% profit fall leading to share price weakness. In the results briefing Fanuc highlighted inventory adjustments in China (weak economy) and the USA (previous over ordering by US Electric Vehicle makers).

The medium to long term outlook for the Japanese robotics companies remains strong, with tailwinds from onshoring or reshoring of manufacturing and likely ongoing skilled labour shortages. The **BOTZ ETF** also provides exposure to **OMRON, DAIFUKU, SMC** and **YASAKAWA ELECTRIC.**

Further, Japan has strong capability in Semiconductors, which combined with its Robotics expertise will lead to productivity gains by integrating with generative Artificial Intelligence to create new technologies that will make robots more able to learn, solve and react.