Equity Trustees

December 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 3.07% in the December 2022 quarter which was 0.32% below the Benchmark MSCI All Country World Index (ACWI) ex Australia index which increased 3.39%.

The best performing ETF's were US Industrials +18.5%, North American Natural Resources +13.6% and Robotics +13.4%. Underperforming positions were Information Technology +3.9%, Cybersecurity +0.6% and Communication Services +0.3%.

Since the Fund was officially launched (inception on 1 July 2021) the Fund has a net return of -9.65% which is 5.33% below the benchmark. The Fund has a focus on higher medium-term growth industries and innovation. In the current challenging markets, we have also increased allocations to some more defensive positions that still have growth attributes.

FUND PERFORMANCE

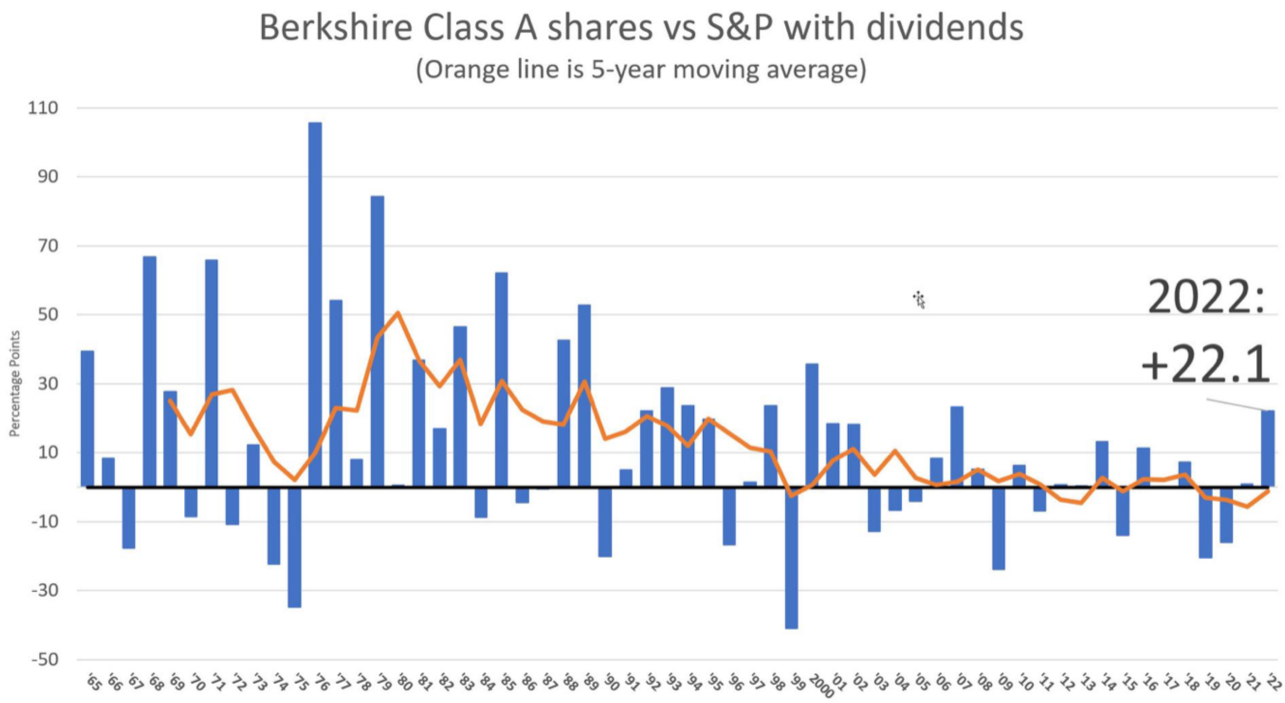
	1 MONTH	3 MONTHS	1 YEAR	SINCE INCEPTION (P.A.)[4]
Income return[1]	0.00%	0.00%	0.00%	0.00%
Capital return	-6.41%	3.07%	-20.82%	-9.65%
Total net return[1]	-6.41%	3.07%	-20.82%	-9.65%
Benchmark[2]	-5.49%	3.39%	-13.13%	-4.32%
Active return[3]	-0.91%	-0.32%	-7.68%	-5.33%

[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.

MARKET COMMENTARY

A turbulent 2022 concluded with the technology heavy Nasdaq index down 33% and the US S&P 500 index down 19.4% - its worst year since the 2008 financial crisis. Energy stocks were the standout performer in a year where value outperformed growth and defensives outperformed cyclicals. The decline of favoured technology stocks in 2022 was relentless, with **Meta** (formerly Facebook) and **Tesla** both down 65%. Also declining in 2022 were **Amazon** (50%), **Google** (39%), **Microsoft** (29%) and **Apple** (27%). Apple hit a record US$3 trillion market valuation in early 2022 but had retraced to US$2 trillion by year end. Putting the 2022 fall in tech stocks into the longer-term context, the decline came after three straight years of increases that saw the NASDAQ appreciate 136%. In fact, the rolling 3-year annual total return of the NASDAQ was 25% pa annual vs MSCI's 14%.

After underperforming over recent years, Warren Buffett's **Berkshire Hathaway** gained 4% for 2022, beating the S&P index by 22%. Berkshire Hathaway is the largest (9%) holding in the EQT Eight Bays Fund's US Financials ETF.



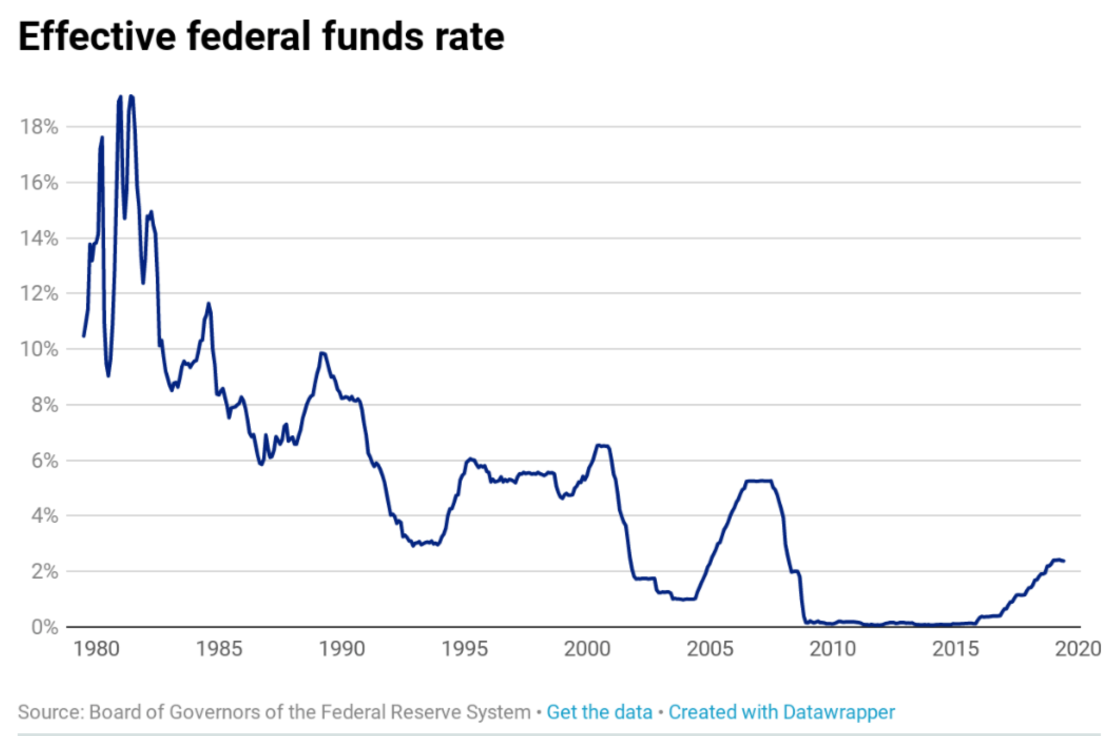
Source: **CNBC**

The possibility that we may be entering a period of stagflation last seen over 40 years ago gives further weight to the experience of investors like Buffett, Ray Dalio and Stanley Druckenmiller. Howard Marks of Oaktree published a December memo where he highlighted a potential "Sea Change": that after 53 years of investing he thinks we may be on the verge of the reversal of "an incredible tailwind" led by 40 years of declining interest rates.

In addition to the end of falling interest rates, Jamie Dimon of JPMorgan highlighted that the US economy is unaccustomed to quantitative tightening, as the effects of Federal Reserve balance sheet policy reversal impact the economy. In short, the US economy in 2023 is facing a 1970's environment of higher inflation in a slowing economy.

Howard Marks refers to the period of 2009-2021 where low inflation allowed central bankers to maintain generous monetary policies:

"This was an asset owners' market and a borrower's market. With the risk-free rate at zero, fear of loss absent, and people eager to make risky investments, it was a frustrating period for lenders and bargain hunters. Investment strategies that worked best over those periods (much of the last 40 years) may not be the ones that outperform in the years ahead."



Further uncertainty looms in 2023. Concerns that earnings will start to weaken in 2023 may outweigh the relief that inflation may have peaked, especially as it is likely to remain well above the Federal Reserve inflation target of 2%. Bonds now offer an alternative to equities, with the Federal Reserve funds rate likely to reach 5% early in 2023.

The EQT Eight Bays Global Fund remains focused on quality companies in US Industrials, Healthcare, Technology, Financials and Natural Resources, while maintaining exposure to innovation and medium-term growth in Robotics and Cybersecurity. In both Robotics and Cybersecurity, we have chosen ETFs that strike a balance between future growth companies and established profitable leaders at reasonable valuations.

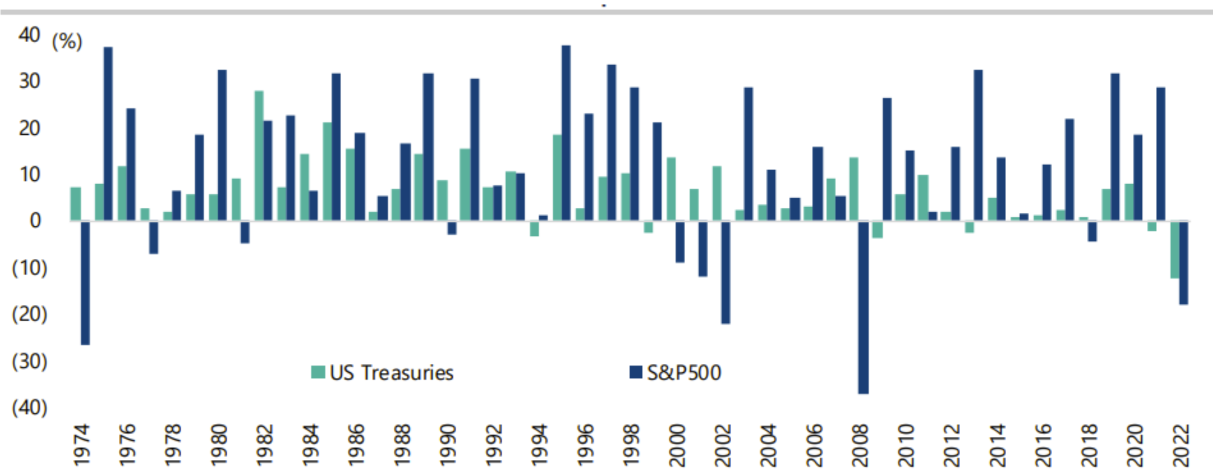
In the portfolio Robotics ETF BOTZ, the largest holdings are robotic surgery leader **Intuitive Surgical**, Swiss-Swedish industrial automation leader **ABB Ltd**, Graphic Processing semiconductor leader **Nvidia** and a portfolio of Japanese robotic/automation leaders such as **Fanuc, Keyence, Omron** and **Yasakawa Electric.**

The largest holdings in our selected Cybersecurity ETF CIBR are semiconductor software and cloud data protection **Broadcom**, network and security leader **Cisco Systems**, Indian digital IT multinational **Infosys** and cybersecurity firewall and cloud leader **Palo Alto Networks.**

FUND ACTIVITY

After a rare (once in 50 year) occurrence where stocks and bonds both declined for each of the first three quarters of 2022, the final quarter saw a strong rally in October and November which eased off in December as the market focused on the many uncertainties of 2023.

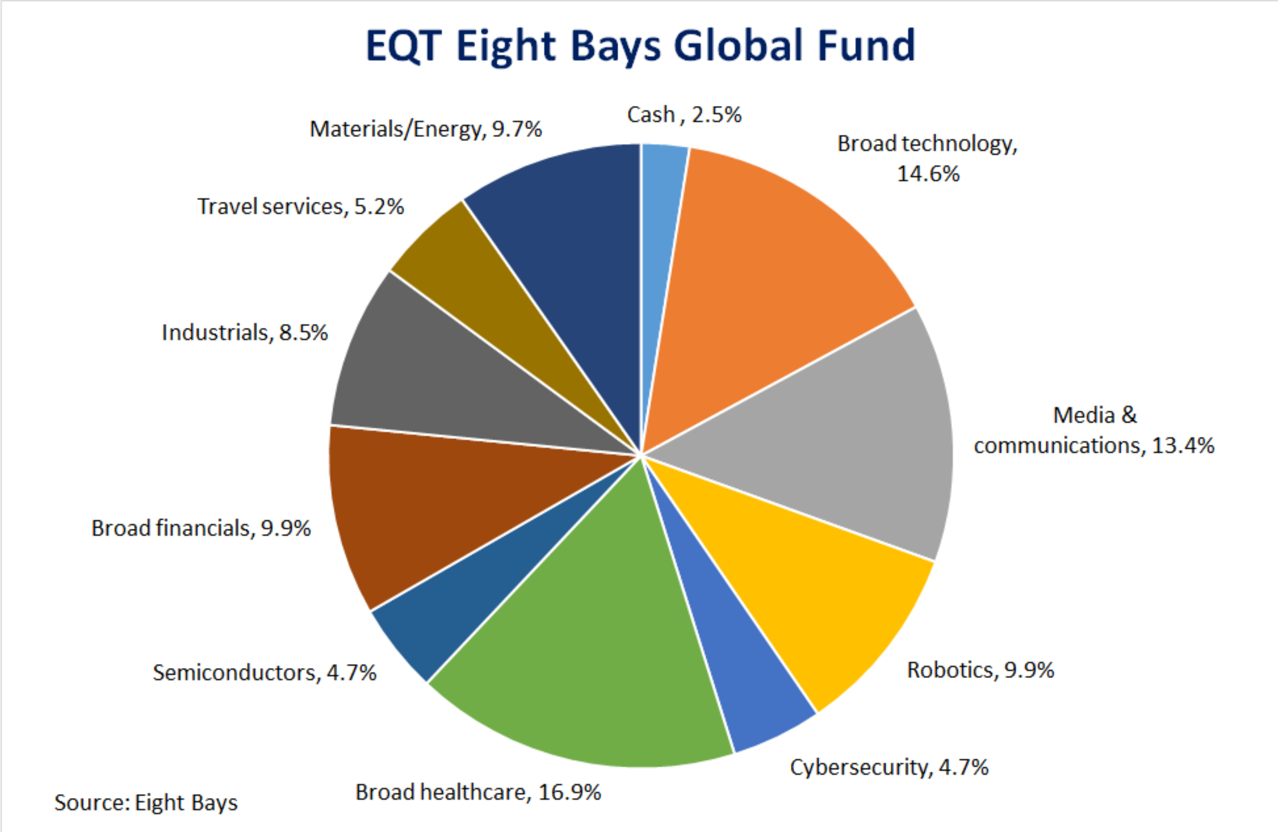
S&P500 and US Treasuries annual total-return performance



Note: Total-return basis. Treasuries = Bloomberg US Treasury Index. Source: Bloomberg

The EQT Eight Bays portfolio was largely unchanged in the December quarter, except for minor adjustments In October with a decrease in the Information Technology ETF allocation (includes **Apple** and **Microsoft**) and an increase in the North American Natural Resources ETF position (includes Energy, Metals, Agriculture).

SECTOR EXPOSURE (31 DECEMBER 2022)



Source: Eight Bays Investment Management

INDIVIDUAL LOOK THROUGH STOCK EXPOSURE (31 DECEMBER 2022)

	Holding	Weight
1	Apple Inc.	3.05%
2	Microsoft Corporation	2.53%
3	Meta Platforms Inc. Class A	1.82%
4	NVIDIA Corporation	1.76%
5	UnitedHealth Group Incorporated	1.61%
6	Intuitive Surgical, Inc.	1.44%
7	Johnson & Johnson	1.41%
8	Alphabet Inc. Class A	1.38%
9	Alphabet Inc. Class C	1.23%
10	Walt Disney Company	1.07%
11	ABB Ltd.	1.03%
12	Exxon Mobil Corporation	1.01%
13	Keyence Corporation	0.98%
14	Berkshire Hathaway Inc. Class B	0.94%
15	JPMorgan Chase & Co.	0.93%
16	Broadcom Inc.	0.90%
17	Eli Lilly and Company	0.90%
18	Freeport-McMoRan, Inc.	0.90%
19	Fanuc Corporation	0.86%
20	Pfizer Inc.	0.81%

Source: Eight Bays Investment Management

ETF IN FOCUS - VANGUARD HEALTHCARE ETF (VHT)

The Vanguard Healthcare ETF (VHT) was introduced to the EQT Eight Bays portfolio in November 2021. The VHT ETF gives exposure to broad healthcare with both growth and defensive characteristics:

Pharmaceuticals (28%), Biotechnology (18%), Medical Devices (18%), Managed Health Care (14%) and Life Sciences (12%).

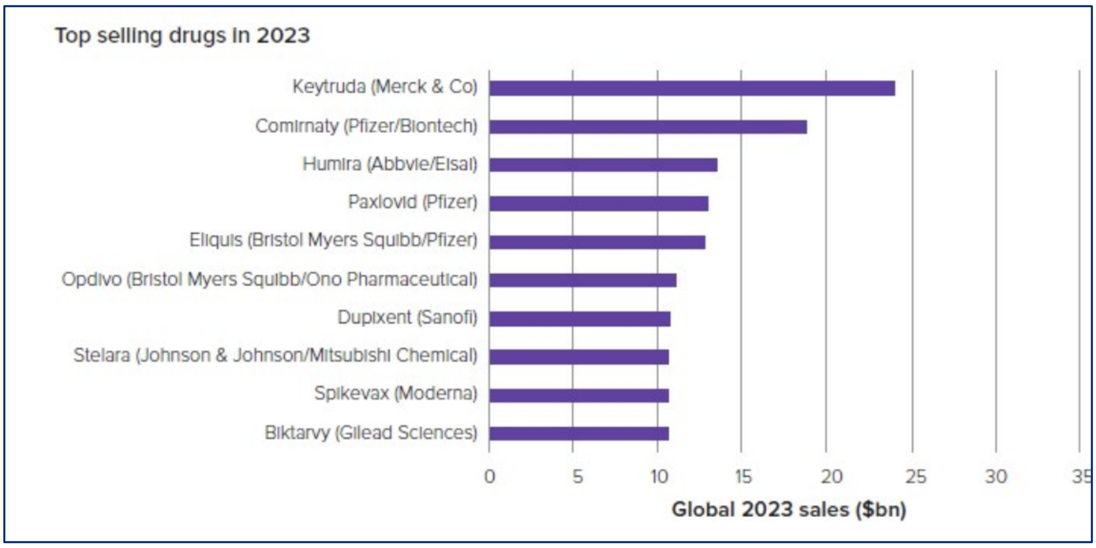
While proving its defensive attributes over a volatile year, the Healthcare position has grown to be the largest holding in the fund at 17% of the portfolio. The VHT ETF declined 7% for the year (compared to the benchmark ACWI decline of 18%) and has dividend yield of 1.4% and forecast P/E of 20.5x.

VHT ETF: TOP 10 HOLDINGS

Symbol	Holding	% Assets
UNH	UnitedHealth Group Incorporated	8.56%
JNJ	Johnson & Johnson	7.81%
LLY	Eli Lilly and Company	5.00%
ABBV	AbbVie, Inc.	4.76%
PFE	Pfizer Inc.	4.70%
MRK	Merck & Co., Inc.	4.66%
TMO	Thermo Fisher Scientific Inc.	3.67%
DHR	Danaher Corporation	3.16%
ABT	Abbott Laboratories	3.15%
BMY	Bristol-Myers Squibb Company	2.86%

Source: ETFDB

Apart from offering the established leaders, the VHT offers interesting exposure to emerging innovators in genomics and immunology, where there is a sense that the industry is on the cusp of further breakthroughs that will change patient outcomes. Corporate action is expected such as the recent US$28 billion acquisition by **Amgen** of **Horizon Therapeutics**, both holdings of the VHT ETF.



Source: Evaluate Pharma

The VHT ETF has a 5% allocation to **Merck**, and it is exciting to monitor the evolution of Keytruda, approved in 2014 it harnesses the body's immune system to fight cancer. Now being used against a wide variety of cancers from lung to melanoma, further efficacy is being achieved through collaborations.

For example, in December Merck and **Moderna** (1% of VHT) announced phase 2 trial results demonstrating that Keytruda combined with a Moderna personalized mRNA cancer vaccine (designed to train a patient's immune system) reduced the recurrence of melanoma by 44%.

Merck is also trialling subcutaneous injections of Keytruda (currently administered by infusion), which if approved may result in new patents extending Merck's exclusivity well beyond the 2028 expiry date.

Eli Lilly (5% of VHT) performed very strongly in 2022 (up 35%) such that it is arguably overvalued compared to peers such as **Pfizer**, Merck and **Johnson & Johnson**:

Still Eli Lilly has a primary focus on research (R&D) and allocates 25% of current sales to R&D. We have previously highlighted the progress in trials of Eli Lilly's donanemab, for the most elusive Alzheimer's disease treatment. Further trial results and progress is cautiously anticipated in 2023.

In 2022 it was the launch of Mounjaro by Eli Lilly for type 2 Diabetes that is also proving to be a transformative treatment for weight loss. US doctors can prescribe Mounjaro "off label" for weight loss, and recipients are routinely achieving 20% weight loss with few immediate side effects. Another diabetes drug from Novo Nordisk is also in huge demand for weight loss such that many diabetes patients were frustrated at supply shortages.

Clearly the world is facing a global obesity epidemic with more than 200 diseases linked to obesity it seems incredible that until recently, so little has been done about the "upstream cause" rather than just treating the "downstream consequences" such as diabetes and cardiovascular problems.

The World Health Organisation forecasts that of the 650 million people living with obesity only 7% engage in primary care treatment however this is projected to rise to 25% with the availability of what are likely to be "blockbuster" drugs. It is estimated that the market for injectable combination drugs for diabetes and obesity will reach $50 billion by 2030. *

*Source: Morgan Stanley Research