Eight Bays Global ETFs

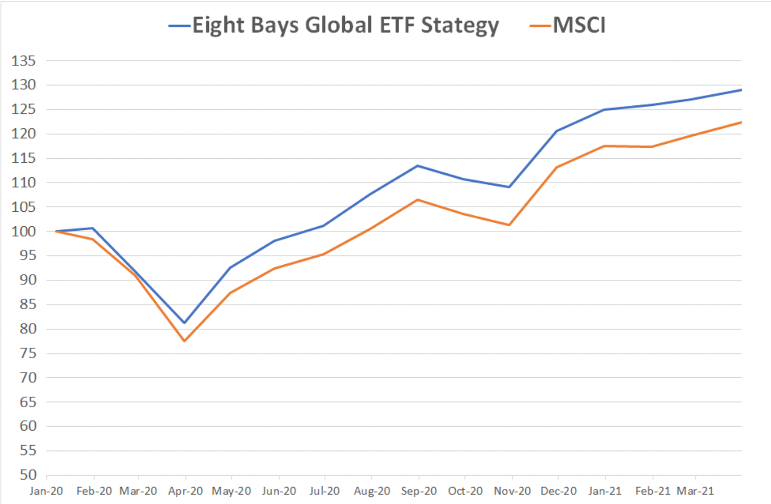
Global Fund

MONTHLY UPDATE – MARCH 2021

The Eight Bays Global Exchange Traded Fund (ETF) Strategy gained 1.97% in March, which was 0.85% below of the benchmark MSCI All Country World Index (ACWI) which gained 2.82%.

Since inception (January 2020) the Eight Bays Fund has increased by 29.7% compared to the ACWI increase of 21.3%, therefore outperforming the benchmark by 8.4%.

The main contributors to performance in March were Consumer Discretionary +7.4%, Industrials +7.4% and Financials +5.3%. Underperforming positions were China – 6.1%, Genomics/ Immunology – 2.8% and Robotics – 1.4%.



Source: Saxo, SeekingAlpha

PORTFOLIO CHANGES

There were no changes to the portfolio in March 2021.

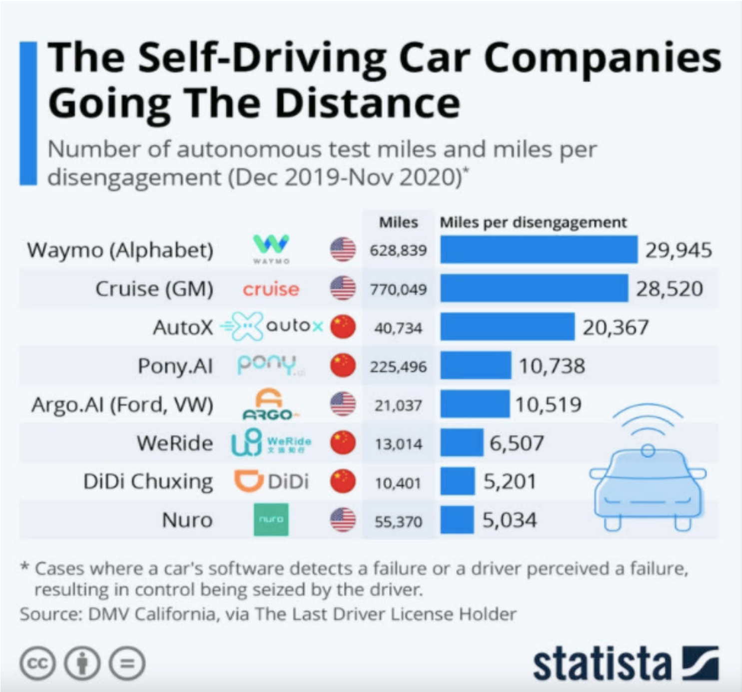
COMMENTARY

The first quarter of 2021 saw frenetic US market activity with a mix of logic and craziness.

The “crazy” was characterized by the ongoing wild price fluctuations in Gamestop with anyone from hedge funds to novice day traders participating in this gambling counter. The collapse of Archegos Capital and the loss of its $10 billion in equity plus an estimated $10 billion losses for the financiers that facilitated its $30 billion leverage exploded the myth of the family office as a conservative custodian of wealth. Then there is the tone of political debate, where the addition of an extra $US 1 trillion of debt through government stimulus can be blithely discussed with little mention of the long term implications.

However, the quarter also produced some logical adjustments to an overheated stock market:

(1) From late January boom stocks such as Peloton, Zoom Video and Tesla had an orderly but substantial correction to their stock prices, with Zoom ending at $321 compared to an October 2020 peak of $588. Tesla reached a peak of $900 in late January but ended at $667 with analysts increasingly polarized. In late March high profile innovation fund ARK investment produced a 2025 price target for Tesla of $3000 and a market value of $3 trillion. Amazingly nearly half this valuation is for “Robotaxis”, which seems a stretch given the problems Tesla is having with the automatic braking feature in their current models.



* Tesla hasn’t reported enough miles to be included

(2) Large technology stocks such as Amazon and Apple continued to drift lower from their September 2020 peaks. Quite rationally, larger corrections were felt by high multiple or zero earnings technology stocks.

(3) the US 10year bond rate defied the Federal Reserve rising past 1.7% as a portent for higher rates and inflation. This drove outperformance in the “value” sectors of Financials, Energy and Industrials.

(4) The realization that the level of stimulus and liquidity in the US would likely lead to inflation. There has been $US900 billion in December, $US1.9 trillion this March and it is believed households have saved a lot of the earlier funds from the peak pandemic Cares Act,and are ready to go out and spend on more discretionary items.

On 31 March President Biden announced a $US2 trillion Infrastructure package, much of which (such as $US400 billion for home and community services) is not infrastructure. The passage of this package through Congress is more uncertain, though at least some attempt was made to address funding, with a proposed increase in the corporate tax rate and an interesting proposal of a “Global Minimum Tax Rate” of 21% for US Corporations.

(5) In the UK food delivery company Deliveroo became London’s biggest IPO in 10 years but slumped 26% on its first day of trading. It was clearly mispriced, doesn’t make any money and there are legitimate concerns about its treatment of workers in the “gig” economy. Yet it made a contrast with 2020 when just about every zero earnings IPO listed at a 50-100% premium.

Looking forward the big question may be the interplay between rising bond rates and rising inflation and what this does to real interest rates and therefore equity valuations. If real interest rates are negative then stocks are likely to be in demand, with economic growth metrics positive.

ETF FOCUS – STREAMING SERVICES

The Eight Bays fund holds a core position in Communication Services. Although Google and Facebook make up 45% of our Communication Services ETF, a collection of media companies now competing in TV streaming services comprises 25% of this ETF. These include Disney, Netflix, Comcast (Peacock), Viacom CBS (Paramount) and Discovery.

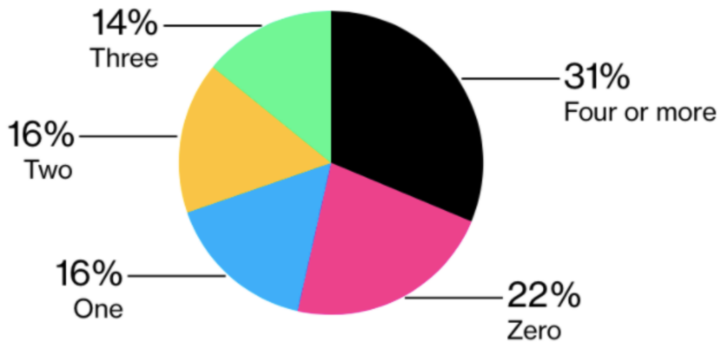
The success of Disney+ has seen Disney’s share price increase by 48% over the last 6 months, even with their theme parks slow to emerge from lockdown. During the same period Netflix is up 4%, after enjoying a large increase in market value through the early stages of the Covid pandemic lockdown.

The table below shows that the aggregated cost of all these services has reached $US 92 per month, whereas the traditional premium cable TV package is $US 93.50 per month. Cable TV package subscriptions are in free fall, with 27% of households planning to cut the cord in 2021, according to a Trade Desk survey.

STREAMING SERVICE	MONTHLY COST IN THE U.S.
Amazon Prime	$9
Apple TV+	$5
Discovery+	$5
Disney+ bundle	$20
HBO Max	$15
Netflix	$18
Paramount+	$10
Peacock	$10
Total	**$92**

The big question is whether, in the post pandemic world, households that have “signed up for everything” will start to be more selective, with more than 30% of households subscribing to four or more streaming services, and both Netflix and Disney pushing through price increases. Cost and time pressure may lead households to rationalize their subscriptions, and utilize some lower cost services such as AT&T’s advertising supported cheaper version of HBO Max.

US STREAMING SERVICES PER HOUSEHOLD



Source: Q3 2020 Parks Associates survey of U.S. broadband households

Individual Look Through Stock Exposure (31 March 2021)

Alphabet	3.6%
Facebook	3.1%
Apple	2.6%
Amazon	2.5%
Microsoft	1.9%
Abbott Labs	1.4%
Home Depot	1.3%
Nvidia	1.3%
Thermo Fisher Scientific	1.3%
Tencent	1.1%

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.