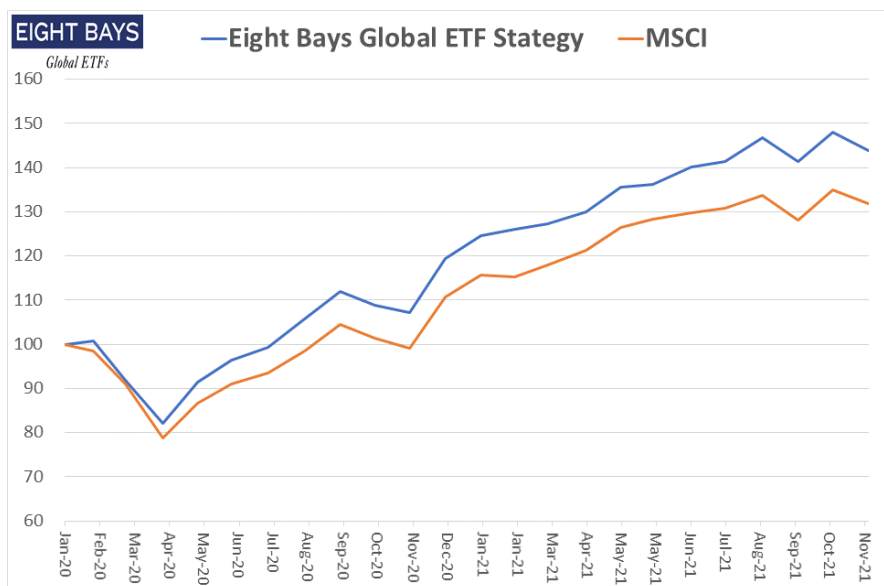


# Eight Bays Investment Management

## Investor Update

### NOVEMBER 2021

The Eight Bays Exchange Traded Fund (ETF) Strategy fell 2.8% in November, which underperformed the benchmark MSCI All Country World Index (ACWI) which fell 2.3%. Since inception (January 2020) the Eight Bays Strategy has increased by 43.9% compared to the ACWI increase of 31.8%. The main contributors to performance in November were Semiconductors +11.4%, Information Technology +3.1% and Consumer Discretionary Retail +2.6%. Underperforming Positions were Consumer Discretionary Travel -13.7%, Communication Services -6.1% and Medical Devices -5.6%.



Source: Saxo, SeekingAlpha

### PORTFOLIO CHANGES

During November a new position was established in the VHT, the Vanguard Healthcare ETF. This investment delivers an overweight position in healthcare. VHT adds leaders such as **United Health, Pfizer** and **Eli Lilly** to the portfolio and includes small positions in several emerging biotechnology companies. As this ETF has exposure to Medical Devices, the specialized ETF, IHI Medical Devices ETF was adjusted to maintain weightings in Medical Devices, and the Information Technology ETF was also reduced after strong performance.

## COMMENTARY

Towards the end of November market falls accelerated in response to uncertainty around the new Covid variant Omicron. The portfolio position in the Travel Technology ETF suffered a sharp fall, despite evidence that the US consumer is planning to allocate discretionary cash to travel and “experiences”, with strong advance bookings for the 2022 northern hemisphere summer.

Reappointed Federal Reserve Governor Mr Jay Powell adopted a more definitive tone towards tapering of bond purchases and acknowledging inflationary pressures. In response a broad range of stocks fell, with the index somewhat supported by a flight to the perceived safety of mega cap stocks such as **Apple, Microsoft and Amazon**, and strong buying of Semiconductor leaders such as **Nvidia** and **Advanced Micro Devices**.

Of interest was the nomination of Lael Brainard as vice chair of the Federal reserve. Ms Brainard has made several comments this year on digital currencies and stablecoins, where the US payments system might become unstable, noting “It is not obvious that new forms of private money that reference fiat currency, like stablecoins, can carry the same level of protection as bank deposits or fiat currency.” \*

In her new position Ms Brainard may advance the creation of a Central Bank Digital Currency. If this extends to allowing individuals to have a digital account with the Central Bank, then the impact on large banks and financial institutions should be closely monitored.

\*SOURCE: Forbes.com 24 May 2021.

## ETF PORTFOLIO FOCUS – BROAD HEALTHCARE

We added a 10% of portfolio exposure to the VHT (Vanguard Health Care ETF) to complement an 8% weight in IHI (iShares US Medical Devices ETF) and thus delivering an overweight position in the healthcare sector. This position is defensive in nature but also has growth characteristics through its balanced mix of Healthcare Providers (Hospitals, Insurers etc), Pharmaceuticals, Biotechnology and Medical Devices. VHT is a large ETF with a current fund value of US\$17 billion and an attractive expense ratio of 0.10%. It trades on a forward P/E ratio of 22 and a dividend yield of 1.3%. It therefore trades cheaper than the overall market despite carrying small exposures to several promising but pre earnings biotechnology stocks in genomics and immunology.

Earnings growth for VHT is expected to exceed 11% over two years underpinned by the following favorable secular and cyclical factors;

- i) hospital admissions recovering as elective procedures recover as the pandemic regresses
- ii) an aging global demography particularly in developed economies, but also in China
- iii) growing public expenditure on drugs, medical devices & healthcare services and infrastructure and
- iv) growth in new diagnostics and treatments driven by advancements AI and genomics.

**VHT Vanguard Healthcare ETF Top Holdings**

Symbol	Holding	% Assets ▼
UNH	UnitedHealth Group Incorporated	7.06%
JNJ	Johnson & Johnson	6.97%
TMO	Thermo Fisher Scientific Inc.	4.04%
PFE	Pfizer Inc.	3.98%
ABT	Abbott Laboratories	3.72%
MRK	Merck & Co., Inc.	3.62%
LLY	Eli Lilly and Company	3.37%
ABBV	AbbVie, Inc.	3.29%
DHR	Danaher Corporation	3.25%
MDT	Medtronic Plc	2.62%
BMY	Bristol-Myers Squibb Company	2.12%
ISRG	Intuitive Surgical, Inc.	2.08%
AMGN	Amgen Inc.	1.93%
CVS	CVS Health Corporation	1.91%
MRNA	Moderna, Inc.	1.91%

Source: ETFDB

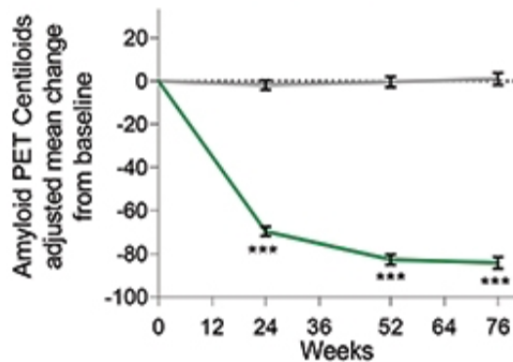
**VHT ETF STOCK FOCUS – ELI LILLY and COMPANY**

**ELI LILLY** (LILLY) is a high-quality US pharmaceutical company with \$US27 billion in sales and gross margins approaching 80%. It offers a dividend yield of 1.4% on a low payout ratio of 40%.

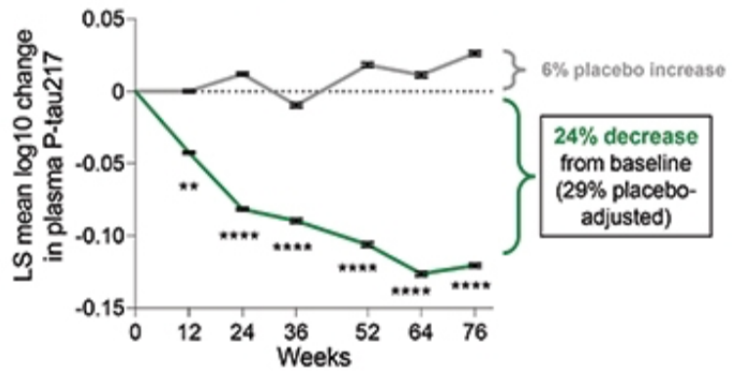
LILLY focuses on pharmaceuticals in the areas of neuroscience, endocrinology, oncology and immunology. It has an impressive stable of existing oncology drugs including recently approved verzenio for early stage breast cancer, and treatments for diabetes and arthritis. However, it is LILLY’s near term pipeline that contains two of the most exciting projects in the industry worldwide. An effective treatment for Alzheimers Disease is an industry holy grail, and the controversial approval of Biogen’s aduhelm may be overshadowed by the emergence of LILLY’s donanemab, which early data suggests may provide a superior treatment, especially with respect to brain plaque clearance. In 2019, the estimated total global societal cost of dementia was US\$1.3 trillion, and these costs are expected to surpass US\$ 2.8 trillion by 2030 as both the number of people living with dementia and care costs increase.

**Donanemab Trial Results**

**Amyloid plaque significantly lowered with donanemab treatment (MMRM)**



**Plasma P-tau217 significantly lowered with donanemab treatment (MMRM)**



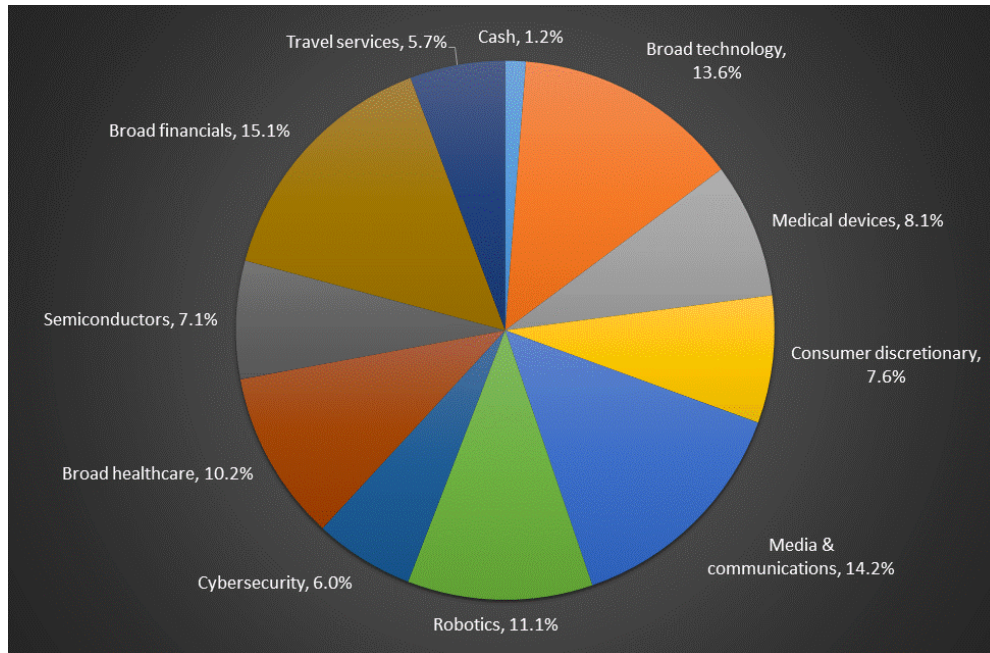
**Plasma p-Tau217 Plummetts.** In response to donanemab treatment, amyloid plaque burden (left) and plasma p-tau217 dropped throughout the trial. [Courtesy of Eli Lilly.]

LILLY expects to receive accelerated approval from the FDA before phase 3 study completes in 2023. As research house Morningstar explains:

**“Lilly is developing a best-in-class pipeline. Diabetes drug tirzepatide and Alzheimer’s drug donanemab should gain approval in 2022”.**

Both treatments are rated by analysts (JP Morgan, BMO Capital) as \$US10 billion annual revenue streams, with Bernstein estimating \$US16 billion for donanemab by 2028.

**Sector Exposure (30 November 2021)**



Source: Eight Bays

**Individual Look Through Stock Exposure (30 November 2021)**

Name	Weight
NVIDIA Corporation	3.14%
Apple Inc.	2.63%
Microsoft Corporation	2.49%
Alphabet Inc. Class A	1.89%
Alphabet Inc. Class C	1.78%
Thermo Fisher Scientific Inc.	1.61%
Intuitive Surgical, Inc.	1.46%
Abbott Laboratories	1.44%
Amazon.com, Inc.	1.44%
JPMorgan Chase & Co.	1.41%
Danaher Corporation	1.31%
Home Depot, Inc.	1.26%
Berkshire Hathaway Inc. Class B	1.06%
Bank of America Corp	1.01%
Keyence Corporation	1.00%
Taiwan Semiconductor Manufacturing Co	0.99%
Medtronic Plc	0.86%
ABB Ltd.	0.85%
Upstart Holdings, Inc.	0.82%
Netflix, Inc.	0.77%

Source: Eight Bays, eftdb.com

## **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

## **EQT Eight Bays Global Fund**

The EQT Eight Bays Global Fund can be accessed by visiting the following websites:

[www.eightbays/invest](http://www.eightbays/invest)

[www.eqt.com.au/eightbays](http://www.eqt.com.au/eightbays)

DISCLAIMER : This report is intended as a source of information only. No reader should act on any matter without first obtaining professional advice which takes into account an individual's specific objectives and financial situation.