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%.

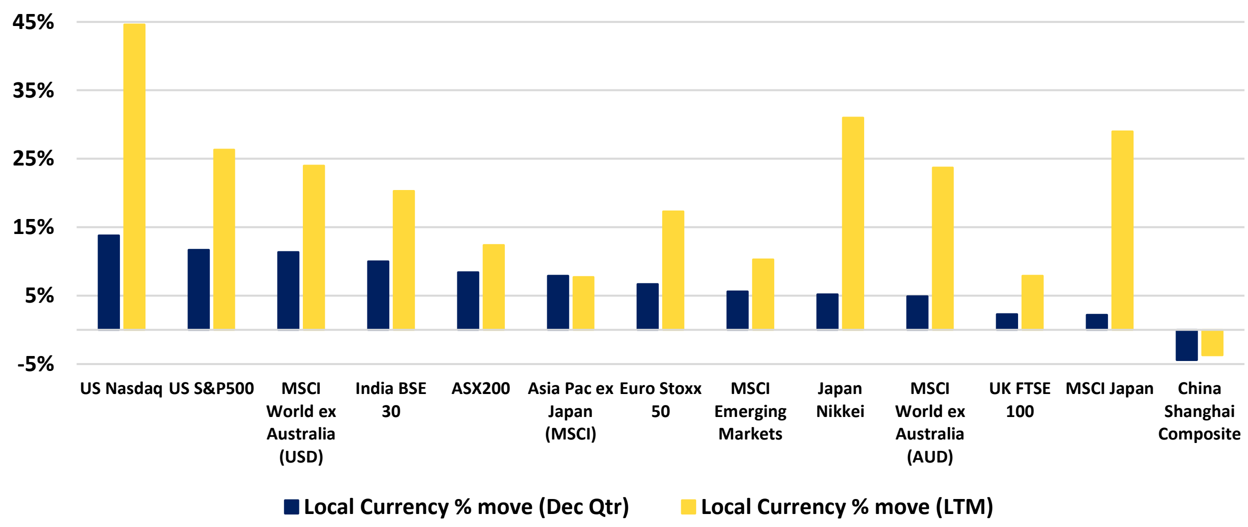
INVESTMENT PHILOSOPHY

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

The MSCI World ex Australia Index soared 11.0% over the December quarter. However, given the strong $A rally during the quarter, in $A terms, the MSCI World ex-Australia Index rose a more modest 4.92%. The US led the way with the tech-laden US Nasdaq rising 13.8% and US S&P500 rallying 11.7%. Developed Markets outperformed Emerging Markets. Globally (in USD terms), the top performing sectors in the quarter were Utilities, Real Estate (REITs) and Financials. Conversely, Energy, Consumer Staples and Healthcare relatively underperformed.

Global equity market performance - Dec Qtr and Last 12 months



Source: Equity Trustees

The US S&P 500 returned 26% in 2023 and 11.7% in 4Q, the strongest quarterly return of the year. US small caps rallied strongly also in the final quarter after lagging for most of the year. In December, dovish messaging from the US Federal Reserve gave way to a sharp decline in bond yields and an S&P 500 rally that stopped just short of the all-time high of 4796. To highlight the impact of the final two months of the year, the S&P500 rallied 16.2% from October 27.

Over 2023, not only did S&P500 valuation multiples expand, but – in contrast to Australia - earnings expectations increased over the year. The index was led by Info Tech (+58%) and Communication Services (+55.8%) while Energy (-1.3%) and Utilities (-7%) fared the worst. The largest 7 companies (Apple, Amazon, Google, Meta (Facebook), Microsoft, Nvidia, Tesla) returned 75.6% in 2023 versus -39.9% in 2022. The Info Tech sector now comprises 29% of the S&P500. Cyclicals outperformed Defensives by 19 percentage points in 2023 as fading recession fears, resilient economic growth, and dovish Fed messaging in December supported Cyclical exposures.

Economic conditions were divergent across the globe. The US Federal Reserve (Fed) kept rates steady throughout the quarter at 5.25-5.5%. Notably, at the start of the year, consensus US GDP forecasts for 2023 stood at 0.3%, versus 2.4% at the end of the year. The US labour market like some other economic indicators remained firm, albeit slowing. The most recent unemployment reading of 3.7% is only 10 bps above year-ago levels. US ISM Manufacturing indicators point to contractionary levels, while services read expansionary. According to UBS, Economists have reduced the chances of a US recession over the next twelve months to below 50%.

Global core inflation fell for eight consecutive months (to November) to 3.2% year-on-year. Slowing inflation, milder economic data and a more dovish Fed saw markets price in 150bps of rate cuts over the next twelve months in the US by the end of the year. US 10-year Treasury yields declined by 110 basis points from peak levels in October.

European growth was weak weighed down by restrictive monetary policy and fiscal consolidation. Chinese economic data remained soft, but stabilised. The property sector remains the drag. Authorities have enacted stimulus measures to support economic growth and are targeting 5% GDP growth in 2024.

Geo-political issues remain present. During the quarter the Israel-Hamas conflict flared up and remains ongoing as does the Ukraine – Russian conflict. Despite the tragedy and suffering involved, the conflicts have remained broadly contained. An indicator of this has been the oil price which ended the year below the start of the December quarter. US-Chinese dialogue continues to progress as President Xi visited the US for the first time since 2017 to hold a summit with US President Joe Biden. Notably, a record proportion of the global population will go to the polls in 2024, according to CLSA, with elections occurring in countries which represent ~73% of the global equity universe.

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	6.02%	4.70%	24.28%	2.64%
Total net return	6.02%	4.70%	24.28%	2.64%
Benchmark return[3]	4.56%	4.58%	22.07%	5.63%
Active return	1.46%	0.12%	2.21%	-2.99%

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 6.02% in the December 2023 quarter outperforming the Benchmark MSCI All Country World Index (ACWI) ex Australia index by 1.46%.

Over the last 12 months the Fund has delivered a very strong total net return of 24.28% outperforming the benchmark by 2.21%.

ETF PERFORMANCE SUMMARY

In US dollars, the best performing Exchange Traded Fund (ETF) positions in the December 2023 quarter were Semiconductors (up 21.5%), Information Technology (up 16.6%) and Robotics and Artificial Intelligence (up 15.5%).

The lowest ETF returns for the December quarter were from Healthcare (up 6.6%) and Communication Services (up 10.8%). Despite the strong performance of a range of the ETF's invested in, the rising $A capped gains for the overall fund. The $A rallied 5.86% against the US Dollar to close at 68.12c. A rising $A caps gains on the fund given its unhedged nature, but a falling $A aids performance.

FUND ACTIVITY

At the start if the December 2023 quarter (in early October) the position in North American Natural Resources (NANR) was sold. This ETF was held for a year with fair performance during a volatile period. NANR offered differentiated exposure to a combination of Energy, Metals and Agriculture, however the Ag fertiliser companies were disappointing performers.

The funds were largely applied to establishing a specialized Semiconductor position in the SOXQ ETF. As noted previously, the Fund already held Semiconductor exposure with an overweight position in Nvidia through the Robotics/AI ETF BOTZ and smaller exposures through the Information Technology ETF VGT and the Smart Grid Infrastructure ETF GRID.

SOXQ SEMICONDUCTOR ETF: Top 10 Holdings

Symbol	Holding	% Assets
AMD	Advanced Micro Devices, Inc.	8.66%
AVGO	Broadcom Inc.	8.59%
INTC	Intel Corporation	8.01%
QCOM	QUALCOMM Incorporated	7.84%
NVDA	NVIDIA Corporation	7.54%
NXPI	NXP Semiconductors NV	4.01%
MU	Micron Technology, Inc.	3.99%
TXN	Texas Instruments Incorporated	3.97%
ASML	ASML Holding NV ADR	3.94%
LRCX	Lam Research Corporation	3.90%

Source: ETF DB 2nd January 2024

Therefore, the addition of SOXQ, a well-balanced ETF of 30 Semiconductor leaders gave the fund a significant overweight position in Semiconductors which proved to be well timed given the very strong performance of SOXQ in the December quarter.

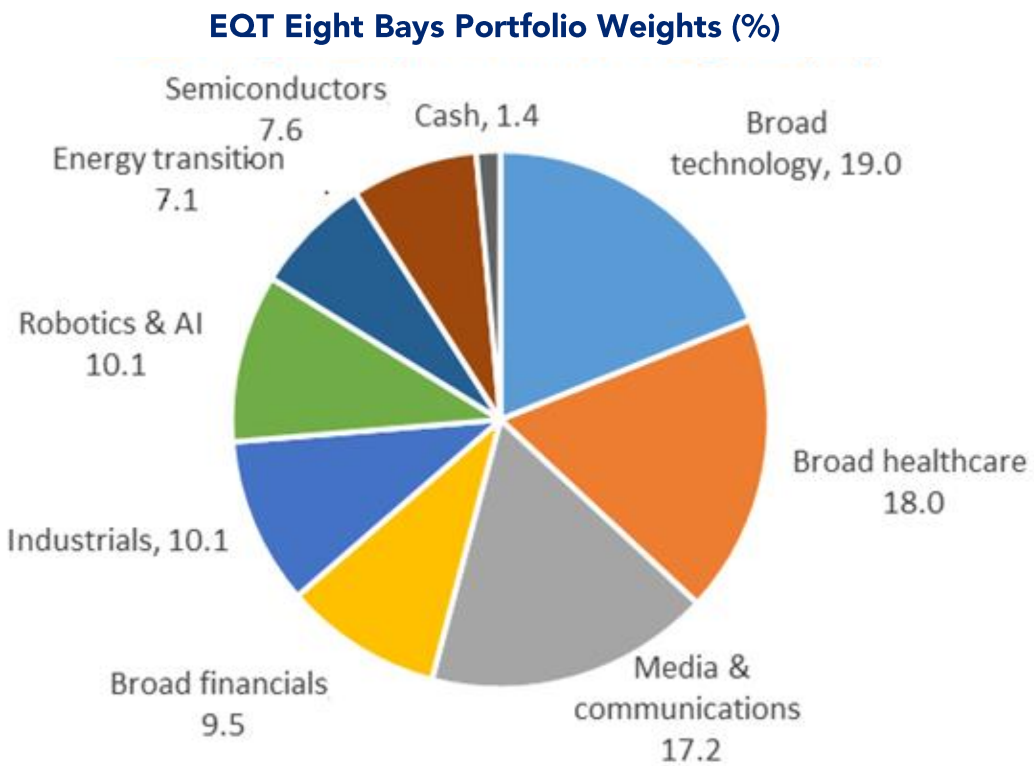
The other portfolio activity in the December quarter were small additions to the positions in GRID Smart Grid Infrastructure ETF and VHT Healthcare ETF.

ETF CONSTITUENT COMPANIES

We highlight significant companies in each Exchange Traded Fund (ETF) as follows:

INDUSTRY ETF EXPOSURE	MAJOR COMPANY EXPOSURE
ROBOTICS / ARTIFICIAL INTELLIGENCE	NVIDIA, Intuitive Surgical, ABB, Keyence
SMART GRID / ENERGY TRANSITION	ABB, Schneider Electric, Quanta Services, Eaton PLC
SEMICONDUCTORS	Advanced Micro Devices, Broadcom, QUALCOMM, NVIDIA
INFORMATION TECHNOLOGY	Apple, Microsoft, NVIDIA, Adobe
HEALTHCARE	United Health, Eli Lilly, Johnson & Johnson, Merck
COMMUNICATIONS	Alphabet, Meta Platforms, Netflix, Electronic Arts
FINANCIALS	Berkshire Hathaway, JP Morgan, Visa, Mastercard
INDUSTRIALS	Caterpillar, Boeing, Honeywell, UBER Technologies

SECTOR EXPOSURE



Source: Eight Bays 31 December 2023

EQT EIGHT BAYS INDIVIDUAL LOOK THROUGH STOCK EXPOSURE

	Company	Portfolio
1	Apple Inc.	4.34%
2	Microsoft Corporation	4.08%
3	Meta Platforms Inc. Class A	3.84%
4	NVIDIA Corporation	3.02%
5	Alphabet Inc. Class A	2.04%
6	Alphabet Inc. Class C	1.73%
7	UnitedHealth Group Incorporated	1.64%
8	Eli Lilly and Company	1.53%
9	ABB Ltd.	1.50%
10	Intuitive Surgical, Inc.	1.41%
11	Broadcom Inc.	1.30%
12	Johnson & Johnson	1.20%
13	Berkshire Hathaway Inc. Class B	1.15%
14	Advanced Micro Devices, Inc.	0.95%
15	QUALCOMM Incorporated	0.90%
16	Intel Corporation	0.90%
17	JPMorgan Chase & Co.	0.86%
18	Merck & Co., Inc.	0.83%
19	Eaton Corp. Plc	0.82%
20	AbbVie, Inc.	0.81%
21	Netflix, Inc.	0.76%
22	Charter Communications, Inc. Class A	0.75%

Source: Eight Bays 2 January 2024

ETF IN FOCUS – VANGUARD HEALTHCARE (VHT)

The fund holds an overweight position in broad healthcare (19% of portfolio) through the Vanguard Healthcare ETF (VHT).

This ETF was introduced late in 2021 and in 2022 it proved its defensive attributes, falling 7% compared to the S&P 500 index which fell 19%. The situation reversed in 2023 with the VHT Healthcare barely adding 1% against a rise of 24% in the S&P 500. One factor was significant falls in certain Medical Devices (Health Care Equipment) stocks which were viewed as disadvantaged by indications that the weight loss / diabetes (GLP-1) drugs of Novo Nordisk and Eli Lilly would greatly reduce the use of everything from sleep apnea (ResMed) treatments, kidney dialysis and therapies (Baxter, Dexcom) and various joint replacements.

The VHT covers the broad sectors of Healthcare in the US Market as follows:

VANGUARD HEALTHCARE ETF (VHT)

Subindustry diversification as % of commonstock[3]

Pharmaceuticals	28.1%
Biotechnology	19.1
Health Care Equipment	17.6
Managed Health Care	12.8
Life Sciences Tools & Services	11.4
Health Care Services	4.8
Health Care Distributors	2.3
Health Care Facilities	1.7
Health Care Supplies	1.3
Health Care Technology	0.9

Source: Vanguard 30 September 2023

The VHT ETF has a 9% allocation to **UnitedHealth**, the US leader in Managed Healthcare and Health Care Services.

The UnitedHealthcare division has a consistent record of growth and excellent management across the complex array of US health insurance plans. It currently serves 27 million clients through employer and individual plans, 13 million through Medicare Advantage plans and 8 million through Medicaid and special needs plans. *To emphasise the advantage of investing in the large USA addressable market, in 2024 UnitedHealthcare plans to expand into four more states, but even then, they will only have tapped into the market in twenty six of fifty USA states.

The OPTUM division has a strong profitable growth profile and complements the Healthcare division, with services in Care delivery, Technology Enabled Services and Pharmacy Care Services.

The VHT ETF also has a 9% allocation to US pharmaceutical **Eli Lilly**. In 2023 Eli Lilly rose 58% to a $550 billion market value as it joined Danish company Novo Nordisk as the leaders in emerging GLP-1 treatments for diabetes and weight loss. Such were the explosion of US dollar revenues for Novo Nordisk that the Danish Central Bank kept interest rates lower to stabilise the strong Danish Krone against the Euro.

Currently delivered in once-a-week injectable form, the strength of Eli Lilly and Novo Nordisk's early success was reinforced in December 2023 by the failure of Pfizer's trial weight loss tablet due to unacceptable side effects. Eli Lilly and Novo Nordisk plan to entrench their first mover advantage, each allocating more than $US 2 billion to scale up their manufacturing capacity, as other pharmaceutical companies scramble to get involved in the GLP-1 market.

There are still many unknown factors that will influence the commercial success of the GLP-1 drugs, including side effects; nausea and gastrointestinal issues, with loss of muscle mass a potential problem that will influence patient compliance and commitment. What will happen with pricing and Medicare or health insurance reimbursement?

However, there may be a pathway to fewer side effects through next generation treatments. There is also the goal of secondary benefits beyond obesity and diabetes. For example, in 2024 trial results are expected from Eli Lilly for effect on sleep apnea and heart failure. There is also the hope that GLP-1s may reduce metabolic state and inflammation to broaden secondary benefits with a positive impact on intractable illness such as dementia.

Any secondary benefits will improve the cost benefit analysis for governments and health insurance companies considering reimbursement. Eli Lilly is also hoping for FDA approval this year for its Alzheimer's drug, Donanemab, following positive trial results in 2023, which if successful will reaffirm Eli Lilly's investment case.

Elsewhere in the VHT, Biotechnology stocks have not performed well in recent years but in 2024 a combination of corporate action and likely progress in several cellular and gene therapies could lead to a recovery in the Biotech sector. In December 2023 alone, there were six significant acquisitions announced, notably two each for **AbbVie** and **Bristol Myers**.

In 2024 the US moves into election year where it is a tradition for politicians to promise action to reduce pharmaceutical prices and general healthcare costs. The Biden administration can point to some success through the Inflation Reduction Act which will see a growing list of drugs subjected to price controls over the next several years. To balance this there is a growing sense that the US biotech and pharma industries are producing more breakthrough treatments that may lead to a step change in patient outcomes.

In December 2023, **Vertex Pharmaceuticals** (VHT ETF 1.7% holding) announced successful Phase 2 trial results for a non-opioid pain treatment with no serious side effects. It is hoped that successful progression to market will mark a new era in pain treatment after the intractable problems of addictive opioids exemplified by the disastrous Oxycontin scandal of Purdue Pharma.

*UnitedHealth 2023 Investor Conference

STOCK IN FOCUS – AMGEN

Amgen Inc, a biopharmaceutical company is a top 10 position (3%) in the VHT ETF. Amgen is highlighted due to its reasonable valuation, upside potential through 2024 GLP-1 (diabetes/weight loss) trials and broad diversified portfolio.

Source: AMGEN investor presentation December 2023

Amgen may have a significant opportunity in the huge market for GLP-1 weight loss/diabetes drugs. Despite the early dominance of Novo Nordisk and Eli Lilly discussed above, the sheer size of the market and the side effects leaves open opportunity for new entrants. Further, the level of patient discontinuation due to the inconvenience of the current once weekly injectable treatment could be improved.

Amgen is scheduled to report Phase 2 trial results for a differentiated once monthly injectable product expected in the second half of 2024. Phase 1 results for this treatment showed 14% weight loss in just 12 weeks, which compares favourably with the initial weight loss drugs.

Biotechnology analyst Jay Olson from Oppenheimer (*Barron's 9 December 2023*) has highlighted that Amgen may have a key advantage in gaining market share by "segmenting the patient population". Olson cites Amgen's existing treatment Repatha for LDL (bad) cholesterol which is also a once a month injectable and could be combined with an approved Amgen obesity drug to conveniently treat two risk factors for heart disease.

Amgen will also report Phase 1 trial results in first half 2024 for an oral (tablet) for obesity, which will follow Pfizer's disappointing trial results in December 2023 for a similar obesity tablet.

In 2023 Amgen completed the acquisition of Horizon Therapeutics for $27 billion (lead growth drug Tepezza) which has reduced Amgen's dependence on established drugs that will go off patent over the next few years. This has doubled Amgen's debt however as the 3% dividend reflects a 50% payout ratio there is capacity to pay down debt from earnings. With a market capitalization of $US 160 billion, Amgen currently trades on a Price/Earnings multiple of 16.