

# EQT EIGHT BAYS GLOBAL FUND

## FUND OBJECTIVE

The EQT Eight Bays Global Fund's (The Fund) investment objective is to deliver gross performance (less fees) above the benchmark over rolling 3-year periods.

The Fund is designed to give investors exposure to global growth industries and world leading companies, primarily through a portfolio of US Exchange Traded Funds (ETFs).

## FUND PERFORMANCE

The Fund recorded a total net return of 0.06% in the June 2024 quarter underperforming the Benchmark MSCI All Country World Index (ACWI) ex Australia index by 0.48%.

Over the last 12 months the Fund has delivered a very strong total net return of 20.91% outperforming the benchmark by 1.52%.

PERFORMANCE <sup>1</sup>	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (P.A.)	SINCE INCEPTION (P.A.) <sup>2</sup>
Income return <sup>1</sup>	0.00%	0.00%	0.00%	0.00%	0.00%
Capital return	0.06%	15.48%	20.91%	7.22%	7.22%
Total net return	0.06%	15.48%	20.91%	7.22%	7.22%
Benchmark return <sup>3</sup>	0.53%	14.16%	19.38%	9.64%	9.64%
Active return	-0.48%	1.32%	1.52%	-2.42%	-2.42%

Table 1

<sup>1</sup> 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.

<sup>2</sup> Inception date is 1 July 2021.

<sup>3</sup> Benchmark return is the MSCI ACWI ex Australia net return Index (AUD).  
Past performance is not an indicator of future performance.

## ETF PERFORMANCE SUMMARY

The best performing Exchange Traded Fund (ETF) positions in the June 2024 quarter were Semiconductors (up 11%), Information Technology (up 10%) and Communication Services (up 5%).

Underperforming ETF positions for the June 2024 quarter were Financials (down 2.5%) and Industrials (down 2%).



## FUND ACTIVITY

The Robotics and Artificial Intelligence ETF (BOTZ) which had been held in the portfolio since the July 2021 Fund inception was sold. Despite holding **Nvidia** (up 150% first half year 2024) as its largest position the BOTZ ETF proved to be a mediocre performer for the Fund, with some speculative underperformers and the valuations of the Japanese Robotics companies affected by the weakening Yen. Selling the BOTZ ETF facilitated some profit taking on the overweight position in Nvidia, as did the trim of the Semiconductor ETF SOXQ to a 5% portfolio holding. We retain an overweight position to the semiconductor industry as the VGT Information Technology ETF also has a significant allocation to Nvidia and the semiconductor industry.

The June 2024 quarter also saw an adjustment to our overweight position in healthcare. The Broad Healthcare ETF VHT was trimmed to 15% and we introduced a 5% position in the Global Pharmaceutical ETF (PPH). The PPH boosts the Fund exposure to **Eli Lilly** and introduces high quality Global names such as GLP 1 Weight Loss/ Diabetes leader **Novo Nordisk**. More information on the PPH Pharmaceutical ETF will follow later in this report.

The positions in Financials and Industrials ETFs were increased. So much of the markets gains in the last year are attributed to a handful of technology stocks that the relative valuations of these two sectors look reasonable.

As the Fund approached its 3-year anniversary (July 1), we added **Amazon** with an initial overweight portfolio allocation of 3%. We determined that a single stock position in Amazon was preferable to taking exposure to Amazon through a consumer discretionary or online retail ETF. Amazon Web Services (AWS) is the world's leading provider of Cloud Services (CSP), an industry we believe is set to grow rapidly. The company is the dominant global e-commerce platform. We determined that the universe of US industry funds does not adequately capture these two growth industries thus we added Amazon to the portfolio.

**INDIVIDUAL STOCKS:** Amazon.com, Inc.

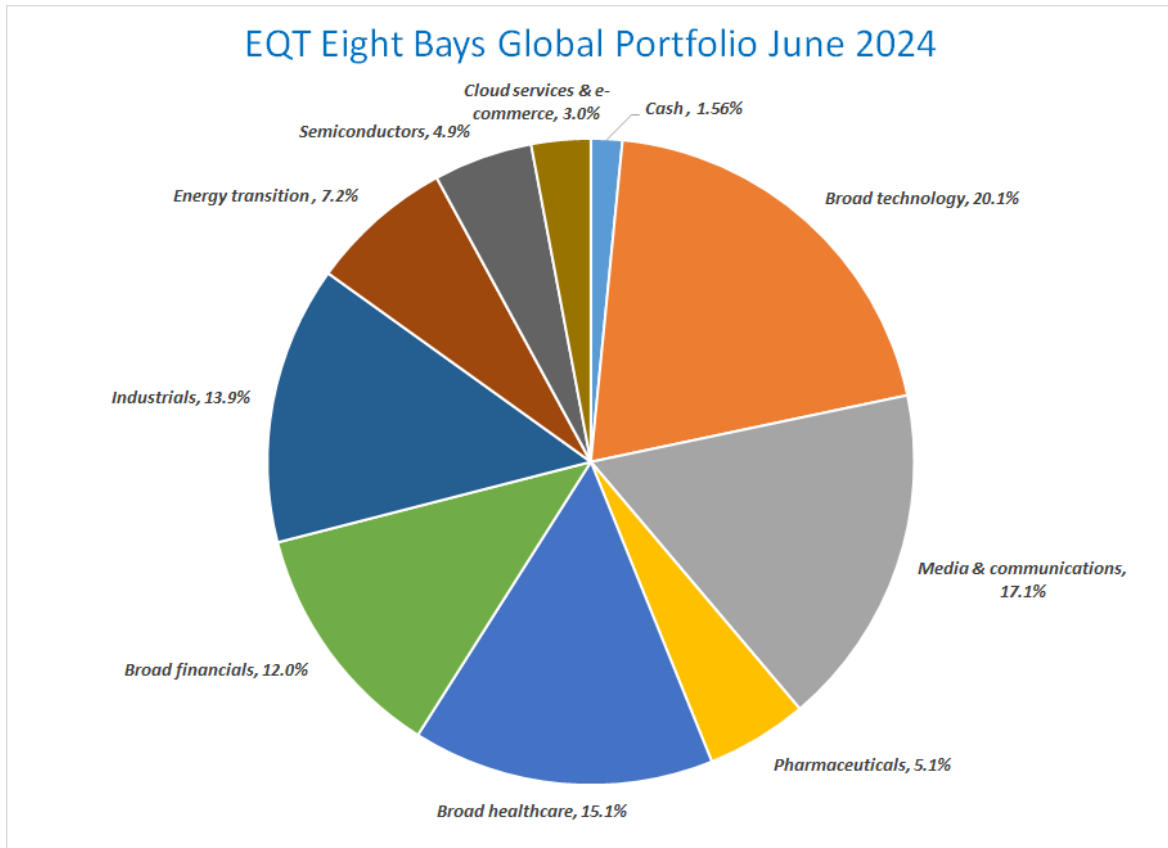
## ETF CONSTITUENT COMPANIES

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

INDUSTRY ETF EXPOSURE	MAJOR COMPANY EXPOSURE
SMART GRID / ENERGY TRANSITION	ABB, Schneider Electric, Johnson Controls, 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, GE Aerospace, Honeywell, UBER Technologies



SECTOR EXPOSURE



Source: Eight Bays 30 June 2024

**EQT EIGHT BAYS INDIVIDUAL LOOK THROUGH STOCK EXPOSURE**

Holding	Weight
1 Meta Platforms Inc Class A	3.9%
2 NVIDIA Corporation	3.8%
3 Microsoft Corporation	3.3%
4 Apple Inc.	3.1%
5 Amazon.com, Inc.	3.0%
6 Alphabet Inc. Class A	2.4%
7 Eli Lilly and Company	2.3%
8 Alphabet Inc. Class C	2.0%
9 Berkshire Hathaway Inc. Class B	1.6%
10 Broadcom Inc.	1.4%
11 JPMorgan Chase & Co.	1.2%
12 Johnson & Johnson	1.2%
13 UnitedHealth Group Incorporated	1.1%
14 Merck & Co., Inc.	1.1%
15 Eaton Corp. Plc	1.1%
16 AbbVie, Inc.	1.0%
17 Visa Inc. Class A	0.9%
18 Netflix, Inc.	0.8%
19 T-Mobile US, Inc.	0.8%
20 Mastercard Incorporated Class A	0.8%
21 Electronic Arts Inc.	0.8%

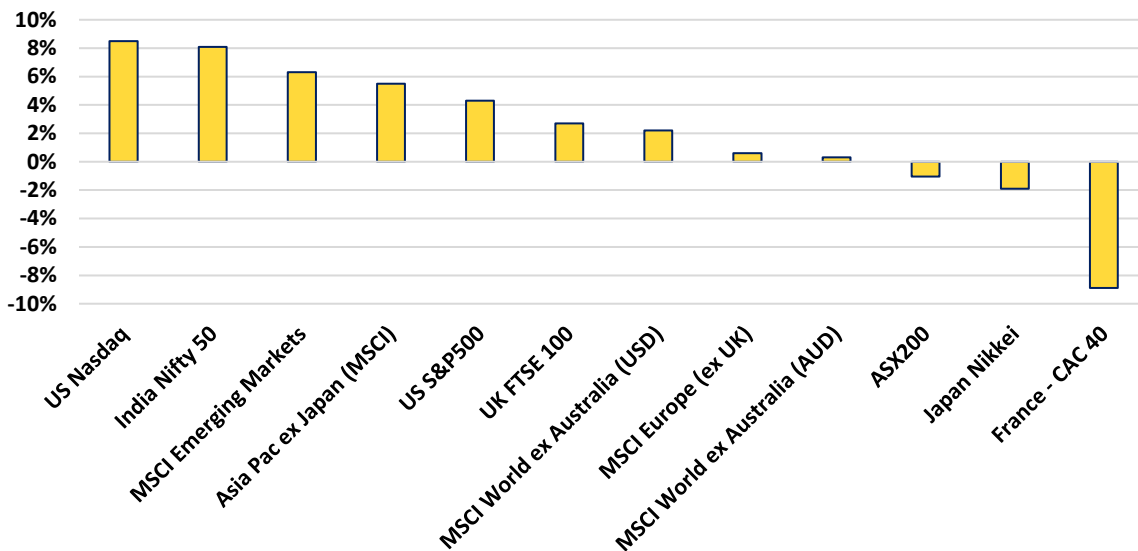
Source: Eight Bays 30 June 2024



## MARKET COMMENTARY

The MSCI World ex Australia Index rose 2.2%. In \$A terms, however, the gains were more muted at +0.3%. In local currency terms the US, Asia-ex Japan and Emerging markets outperformed, while Japan and Europe struggled. US tech was again a notable performer with the Nasdaq rallying 8.5%. India also outperformed benefiting tailwinds such as structural growth supports (e.g. demographics, urbanisation trends), reform delivery and political stability.

### June Quarter Equity Market moves - Local Currency %



Source: Equity Trustees

In USD terms, the best performing sectors within the MSCI World over the quarter were IT (+11.3%), Communication Services (+7.7%) and Utilities (+2.2%). Thematically, investors rewarded AI led or exposed sectors. Conversely, the laggards included Materials (-4%), Real Estate (-4%) and Consumer Discretionary (-2.2%).

Global growth has moderated to a still-solid 2.4% annual rate. The manufacturing sector is showing tepid signs of recovery, helped in part by a pickup in business spending.

The US economy, which has been the global demand engine, has continued to slow. Various indicators have shown that the labour market is loosening. The unemployment rate rose to 4.0% in May, hiring rates are at 10-year lows, and surveys show that consumers are growing more concerned about the job market. Additionally, retail sales have disappointed and housing activity is slowing. Business capital spending outside of the IRA and CHIPS Act-related spending has started to peter out.

China's economic activity softened in the June quarter but has remained around 4.5-5% (annual rate). While the April politburo meeting emphasised continuous policy support, the People's Bank of China (PBOC) appears more cautious to deliver rate cuts due to concerns about currency (and associated capital outflows) the banking stability. Housing remains the biggest drag on activity despite new policy initiatives. Subdued domestic demand, sluggish credit growth and reduced government bond issuance has also weighed on growth. The US and Europe announced increased tariffs impacting sentiment. The Trump tariff threat is a potential major risk leading into 2025.

The market ebbed and waned during the quarter as the bond market reacted to inflationary data. Initially, disinflation trends looked to have stalled in the US, but as the quarter continued, those concerns lessened mildly. Global headline inflation is not far from 2019 levels as food, energy, and goods inflation have moderated notably from their cycle highs. Progress with core inflation has been slower due to tight labour markets continuing to exert upward pressure on wages and services prices. The US and UK central banks remain data dependant but are still hinting toward rate cuts later this year. However, inflation has already



fallen enough to give the other central banks such as Europe, Canada, and Switzerland confidence to cut rates.

Geopolitical tensions remained elevated but did not impact markets deeply. The war in the Ukraine continues, as does the Hamas-Israel conflict. Houthis inflicted attacks on the shipping lanes in the Red Sea and trade related tensions rose between China and the US/Europe. The snap election in France following a move to support the far-right Nationally Rally increased concerns of another eurozone crisis, while in the US, odds are increasing that former President Donald Trump is set to regain office which increased the focus on his policies which include higher tariffs, lower tax, and lower immigration.

Corporate results delivered during the quarter in the US were broadly robust, however it was the mega-tech sector that delivered earnings upgrades. In aggregate, generative AI investment spending has to a large degree offset macro related concerns that impacts much of the broader economy. Nvidia was the main beneficiary as spend on AI grew. Broadly, stocks with exposure to the AI theme led gains benefiting from rising valuation multiples and improving 2024 earnings estimates. Citigroup estimates that Nvidia and other components of the 'Magnificent 7' have contributed a disproportionate two-thirds of the calendar-year-to-date (US S&P500) return. Outside this cohort of stocks in general earnings expectations have mildly softened.

### ETF IN FOCUS – VANECK PHARMACEUTICAL ETF (PPH)

The Pharmaceutical ETF PPH was added to boost the allocation to global pharmaceutical companies already held in the Broad Healthcare ETF VHT.

The Broad Healthcare ETF covers Healthcare Services, Insurers (UnitedHealth, Elevance Health), Medical Devices (Thermo Fisher Scientific, Intuitive Surgical, Boston Scientific), Biotechnology (Amgen, Vertex) and Pharmaceuticals (Eli Lilly, Merck).

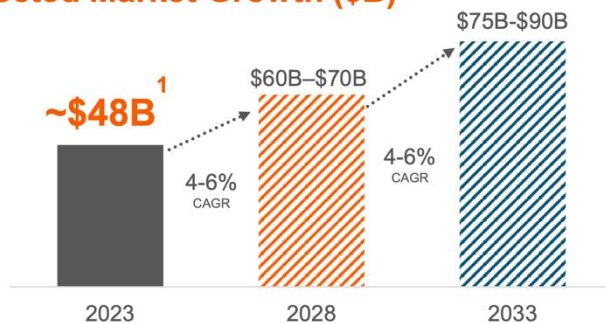
The PPH boosts the Fund exposure to Eli Lilly and adds its main competitor in the GLP1 weight loss/diabetes area, Danish company Novo Nordisk. It also adds Sanofi (France) and Takeda (Japan) in a high-quality portfolio which includes animal health leaders Zoetis and Elanco.

Zoetis is the global leader in the animal health market, with 65% of revenue from companion animal products and 35% of revenue from productive livestock products, including medicines, vaccines, diagnostics, genetic tests, and precision animal health.

## Animal health poised for strong, sustainable growth

Innovation and market expansion are increasing opportunities

### Expected Market Growth (\$B)<sup>1</sup>



14 Zoetis Corporate Overview

<sup>1</sup> Source: Zoetis internal estimates based on industry data for core animal health market and diagnostics, genetic tests and biodevices.

### Key market drivers in the next 5-10 years

- Increasing medicalization
- Growing human-animal bond
- Innovating to treat chronic diseases and improve wellness
- Expanding global population and animal protein demand
- Advancing sustainable animal agriculture



Source: Zoetis May 2024



Zoetis is well positioned to take advantage of strong secular trends across its operations, supported by strong innovation. Safety concerns for its osteoarthritis treatment has led to some share price weakness in 2024 despite strong operating results for the first quarter of 2024, including raised guidance for 10% revenue growth in 2024.

## PPH GLOBAL PHARMACEUTICAL ETF

### Top 15 Holdings

Symbol	Holding	% Assets ▼
LLY	Eli Lilly and Company	13.35%
NVO	Novo Nordisk A/S Sponsored ADR Class B	10.19%
JNJ	Johnson & Johnson	5.99%
MRK	Merck & Co., Inc.	5.87%
ABBV	AbbVie, Inc.	5.38%
NVS	Novartis AG Sponsored ADR	5.08%
AZN	Astrazeneca PLC Sponsored ADR	4.85%
PFE	Pfizer Inc.	4.56%
SNY	Sanofi Sponsored ADR	4.54%
HLN	Haleon PLC Sponsored ADR	4.54%
MCK	McKesson Corporation	4.54%
ZTS	Zoetis, Inc. Class A	4.51%
TAK	Takeda Pharmaceutical Co. Ltd. Sponsored ADR	4.43%
COR	Cencora, Inc.	4.38%
BMJ	Bristol-Myers Squibb Company	4.33%

Source: ETFDB 5 July 2024

The evolution of the GLP1 weight loss drugs continues and there are many variables to consider. While Eli Lilly and Novo Nordisk have a strong first mover advantage and are investing to scale up production, 2024 has seen promising trial results from Roche (through recent acquisition Carmot) and Amgen, with more trial readouts expected from smaller biotechs such as Viking and Structure. It seems likely that obesity treatments will evolve from the current once a week injectable – but will it be a daily pill or a once a quarter injection? And will further side effects emerge, or will fine tuning ameliorate? It seems likely that prices will fall, due to competition and government intervention however wider use cases and broad health benefits could extend demand, such as for a range of inflammatory conditions including dementia.

An effective treatment for Alzheimer’s disease remains a holy grail. We have been following the progress of Eli Lilly’s donanemab, and it has not been easy, with side effects such as brain swelling and bleeding. On 2 July 2024 the US Food and Drug Administration (FDA) gave approval to donanemab for patients with mild cognitive impairment or early-stage Alzheimer’s, following clinical trials that showed a 35% slowing of the progression of the disease after 18 months by reducing amyloid plaque in the brain. Annual sales are projected at \$US 7 billion, although many treating specialists have indicated a reluctance to prescribe due to the drugs limitations and side effects. Global pharma will continue the search for an Alzheimer’s treatment that is preventative and/or curative, with 7 million patients in the US projected to reach 13 million by 2050 according to the Alzheimer’s Association.



World renowned neuroscientist Baroness Susan Greenfield (ABC radio 25 May 2024) and her team believe that the levels of amyloid and tau are not the cause of Alzheimer’s, but a “downstream effect”. Her team has identified Protein T14 as a potential primary cause and are planning clinical trials, believing that an effective drug will treat patients while they are still cognitively normal – before symptoms and cell degeneration.

**STOCK IN FOCUS: AMAZON.COM, INC**

The first quarter 2024 financial results for Amazon highlighted the rapid growth of Amazon Web Services (AWS) and the advertising business, alongside improved operating leverage in the massive E Commerce and Logistics business. Operating Income surged 221% year on year, with AWS contributing 61% of this from only 18% of revenue.



*Pictured Above: Amazon reaches double digit operating margin for the first time.*

*Source: I/O Fund*

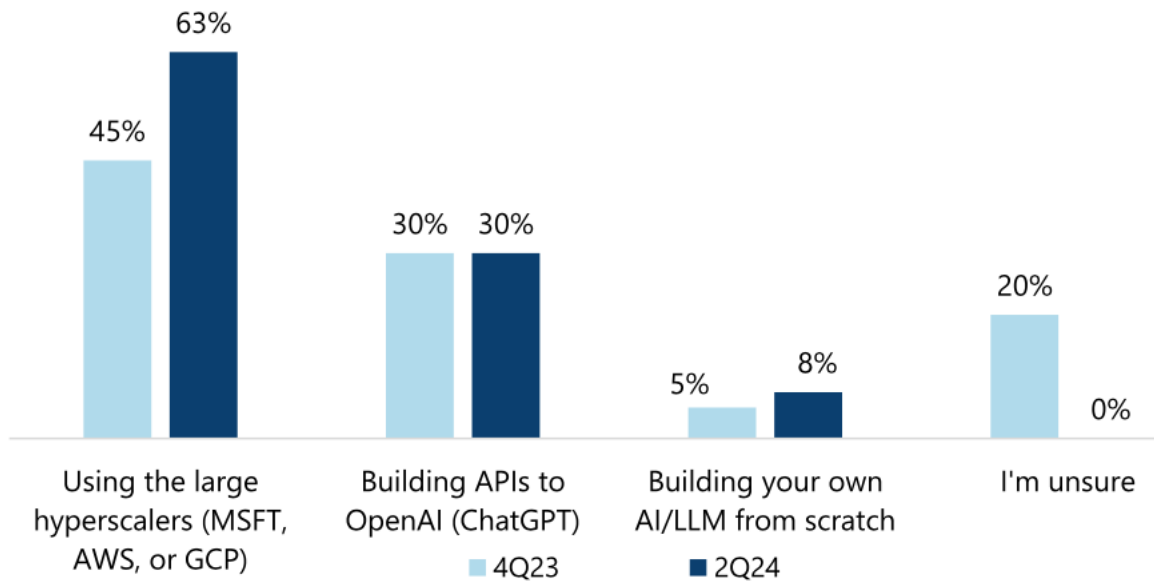
Technology analyst Beth Kindig (Forbes 17 May 2024) points to continued strong double digit advertising growth (Prime Video advertisements commenced January 2024) and an Artificial Intelligence (AI) driven acceleration in AWS, driven by increased Graphic Processing Unit (GPU) supply.

The June 2024 CIO survey by Jefferies analyst Brent Thill revealed a growing preference by corporations for the hyper-scalers for AI services with **Amazon** and **Microsoft** likely to gain share:





## Chart 22 - Of the Following, What is Your Preferred Approach to AI?



Source: Jefferies Proprietary Survey (Jun. 2024 n = 40; Dec. 2023 n = 40).

The global reach of AWS was highlighted by the July 4<sup>th</sup> announcement that AWS had won a \$US 1.3 billion contract to build three data centres for the Australian government that would enable the secure sharing of information with allies. AWS provides Cloud based solutions to the UK and US governments and the project will enable Australia to share intelligence and military information with a focus on “interoperability” with the US. It will also facilitate the use of Artificial Intelligence for data analysis.

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