Equity Trustees

June 2023
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

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 surged +6.4% in the June quarter driven by the US S&P500 (+8.3%). Some of the best performers for the quarter were (in local currency) Japan - Nikkei 225 (+18.5%) which hit a 33 year high in June, US - NASDAQ (+13.1%) and India - India BSE 30 (+10.4%). Japan has benefited from the re-opening of their economy, an exit from long lasting deflation, improved governance, attractive valuations, and under-geared corporates. The Nasdaq has registered its strongest start to the year in 40 years. Some of the worst performers were Hong Kong - Hang Seng (-6.0%), Thailand - SET Index (-5.7%) and Malaysia - Composite (-2.8%).

Globally, the top performing sectors in the June quarter were IT, Communication Service and Consumer discretionary. US Mega-tech stocks have soared on the back of strong results, cost cutting, defensive earnings streams, peaking US bond yields and Artificial Intelligence exuberance Conversely, Energy, Utilities and Real Estate relatively underperformed. Interestingly, despite economic concerns, cyclicals have outperformed defensives recently. For example, in the US, homebuilders and tourism related stocks have performed strongly. Given many US homeowners are locked into attractive low rate (long term) mortgages, they are reluctant to move homes and re-price into a higher mortgage. Therefore, existing homes sales are low and new demand needs to come from new builds.

Another reason for the rally was that economic data was seen to be more resilient than many expected while inflation is trending lower. In the US, the consumer fared better than many expected. Solid employment numbers, nominal wage increases, excess savings, healthy consumer balance sheets, rising house prices and declining inflation have all added to the resilience of the consumer. Robust economic data increased hopes of a soft landing. While consumption and services spend remained robust, manufacturing data weakened. The US debt ceiling was raised again, and the banking crisis concerns lessened. However, lending standards have tightened, the cost of financing has risen and demand for credit is falling. Central Bankers remain hawkish. The Federal Reserve is set to stay “higher for longer”. The European Central Bank continued to hike rates in the face of stubborn inflation and tight labour markets. UK inflation remains problematic. Chinese data disappointed with the subdued real estate market weighing on consumer sentiment prompting the Chinese authorities to start stimulating the economy again.

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	7.51%	18.70%	21.63%	0.96%
Total net return	7.51%	18.70%	21.63%	0.96%
Benchmark return[3]	6.77%	16.72%	20.88%	4.92%
Active return	0.74%	1.98%	0.74%	-3.96%

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 7.51% in the June 2023 quarter which was 0.74% above the Benchmark MSCI All Country World Index (ACWI) ex Australia index.

The Fund was up strongly over the 6 months and over the financial year, gaining 18.7% and 21.63% respectively. It outperformed the benchmark by 1.98% over 6 months and 0.74% over the financial year, reflecting a strong recovery in both absolute and relative performance after a negative year for growth related strategies to June 2022.

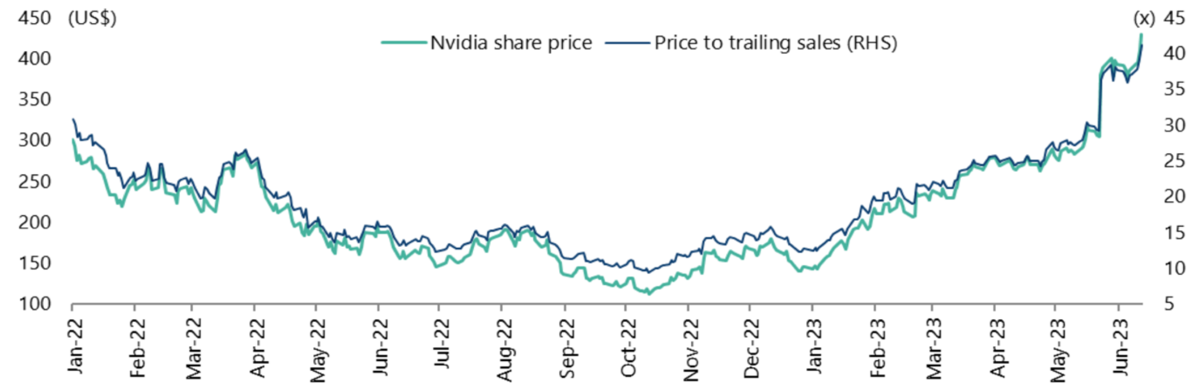
The Fund has a focus on higher medium-term growth industries and innovation. With interest rates increasing and recession widely forecasted we have maintained allocations to some more defensive positions such as Healthcare (18% of Fund portfolio) that still have growth attributes.

PERFORMANCE SUMMARY

The best performing Exchange Traded Fund (ETF) positions in the June 2023 quarter were Information Technology (up 14.7%) and Robotics and Artificial Intelligence (up 13.9%), both boosted by their significant allocation to graphic processing unit leader **Nvidia**.

In late May Nvidia stunned the market with its Q1 earnings and 70% Q2 earnings forecast upgrade, resulting in a share price jump from $305 on 24th May to $423 on 30th June and a $1 trillion market value.

Exhibit 1: Nvidia share price and price to sales

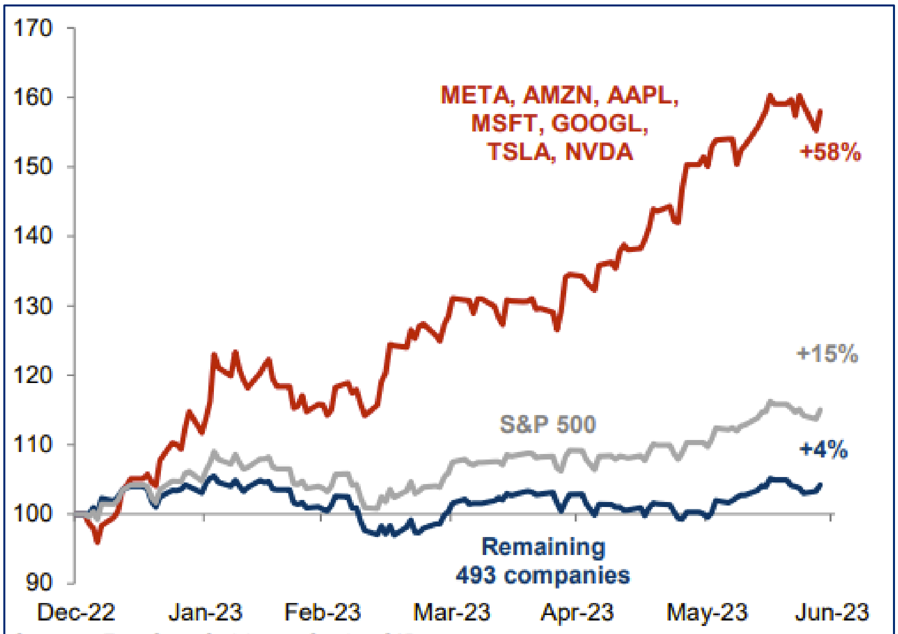


Source: Bloomberg and Jefferies 16 June 2023

This resulted in further market focus on the Artificial Intelligence thematic, with growing acceptance that it would give a productivity boost across the broad economy. Advanced semiconductors or graphic processing units (GPUs) are critical for intelligent cloud infrastructure, and Nvidia's dominance of this technology opens a significant new revenue stream for the company, hence the stock's re-rating. NVDA has been a core holding of the fund and is held in two of our ETFs (Broad Technology and Robotics/Ai).

Underperforming ETFs were Broad Healthcare (up 2.7%) and North American Natural Resources (down 3.95%). The Natural Resources ETF targets allocations of 45% to Energy, 35% to Metals (mainly Copper and Gold) and 20% to Agricultural Commodities. The weakness in the June quarter was largely fertiliser stocks (Nutrien down 20%) and gold stocks (Newmont down 13%).

The dominance of the "big 6" technology stocks noted in the EQT Eight Bays March 2023 quarterly report continued. The "big 6" has morphed into the Magnificent 7" – Meta, Amazon, Apple, Microsoft, Alphabet, Tesla and Nvidia. The performance of these stocks, year to date was the biggest driver of the S&P 500's 15% appreciation. We believe three main factors were behind this outperformance 1) Macro – the US economy has performed better than expected (GDP growth c2%, strong employment numbers, easing inflation) and despite short term interest rates increases due to three Fed rate hikes to 5.25%, long bonds moves have been benign, which tends to support for growth stock valuations, 2) Earnings reports for Q1 of 2023 largely beat expectations and revisions to earnings have been positive (particularly across a these large cap names), and 3) The emergence of a potentially new source of growth for the tech sector – generative Ai or "Software 3.0".



Source: FactSet, Goldman Sachs GIR.

US Large Cap Technology company – Investment Fundamentals

Company	Symbol	Share Price	Market Cap US$bn	PE Ratio fwd	EPS growth est.	Revenue growth est.	EPS Revisions
Apple	AAPL	190.68	$ 2,942	32.0	5.4%	3.9%	-3.41%
Microsoft	MSFT	337.22	$ 2,482	35.0	11.1%	11.9%	2.94%
Amazon	AMZN	129.78	$ 1,446	83.0	-7.4%	10.1%	2.98%
Alphabet	GOOG	120.14	$ 1,435	22.5	4.0%	9.0%	5.22%
Nvidia	NVDA	425.03	$ 1,048	54.6	30.3%	24.9%	100.93%
Tesla	TSLA	274.43	$ 854	77.4	31.1%	34.3%	4.93%
Meta	META	290.53	$ 735	25.1	2.3%	6.0%	60.29%
	Average			47.1	11.0%	14.3%	24.8%

Source: seekingalpha.com 7 July 2023

FUND ACTIVITY

There were significant changes to the EQT Eight Bays portfolio during the June 2023 quarter. A review of our US Financials ETF (**FNCL**) following the Silicon Valley Bank collapse led to a switch of this 9% portfolio position into an alternative US Financials ETF (**XLF**). Whereas FNCL ETF has a 413-stock portfolio with smaller regional banks the XLF ETF has 74 stocks with a higher weighting to the quality companies **Berkshire Hathaway** (13%), **JP Morgan** (9%), **Visa** (8%) and **Mastercard** (7%).

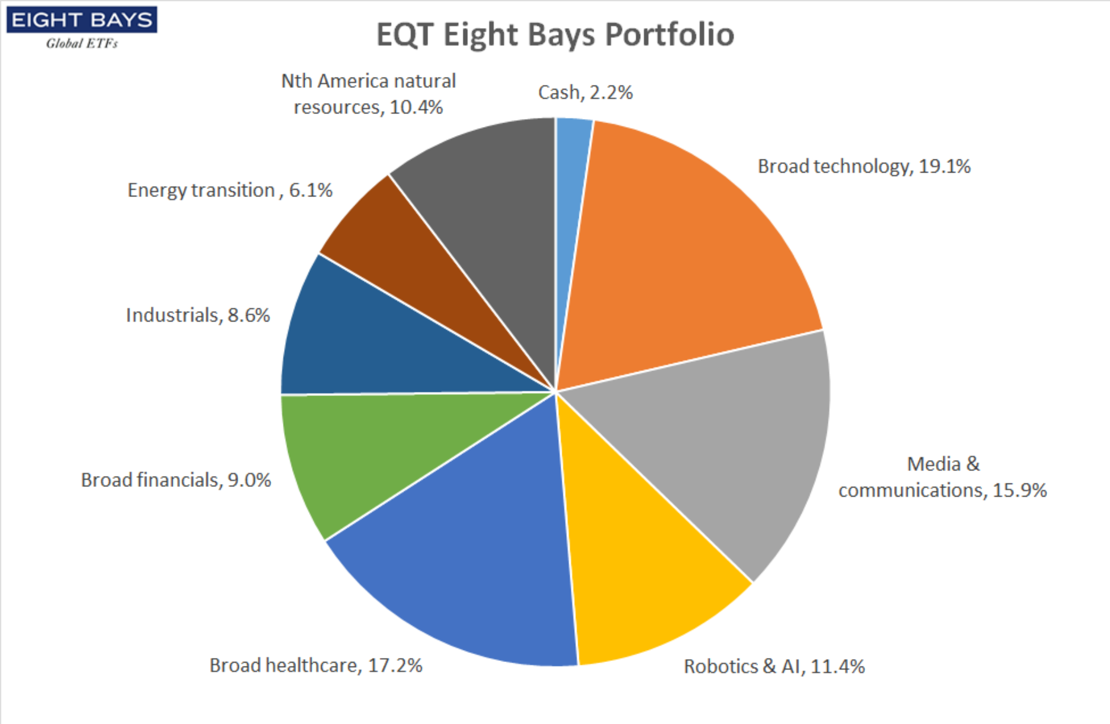
Since the July 2021 inception of the EQT Eight Bays Fund we have been monitoring the evolution of ETFs with exposure to renewable energy. In the June 2023 quarter the Travel Technology ETF (**AWAY**), a 5% portfolio allocation was replaced with the First Trust Nasdaq Clean Edge Smart GRID Infrastructure ETF (**GRID**).

A review of the current ETFs in renewable energy included a range of ETFs exposed to Lithium, Electric Vehicles, Renewable Energy Utilities, Batteries, Rare Earths, Copper, and Renewable Energy Technologies. We determined that technology solutions would drive the effectiveness and economics of renewable energy projects, and the GRID ETF offers well balanced exposure to this and the crucial advancement of energy storage solutions and transmission.

Also, in the June 2023 quarter the 6% portfolio position in the Semiconductor ETF (**SMH**) was sold after increasing 26% for 2023 to the date of sale. We recognised that our increased position in the Information Technology ETF was providing additional exposure to quality semiconductor companies Nvidia, Broadcom and Advanced Micro Devices. Further, our Robotics/AI ETF holds a 12% portfolio allocation to Nvidia.

Finally, our 6% allocation to GRID ETF also adds more semiconductor exposure, so across the portfolio we retain an effective exposure (4%+) to the semiconductor industry and an overweight position in the ubiquitous Nvidia.

SECTOR EXPOSURE



Source: Eight Bays

EQT EIGHT BAYS INDIVIDUAL LOOK THROUGH STOCK EXPOSURE

	Holding	Weight
1	Apple Inc.	4.27%
2	Microsoft Corporation	4.15%
3	Meta Platforms Inc. Class A	3.98%
4	NVIDIA Corporation	2.56%
5	Alphabet Inc. Class A	2.14%
6	Alphabet Inc. Class C	1.88%
7	Intuitive Surgical, Inc.	1.49%
8	ABB Ltd.	1.44%
9	UnitedHealth Group Incorporated	1.39%
10	Johnson & Johnson	1.29%
11	Berkshire Hathaway Inc. Class B	1.14%
12	Exxon Mobil Corporation	1.00%
13	Keyence Corporation	0.98%
14	Eli Lilly and Company	0.96%
15	Merck & Co., Inc.	0.88%
16	Fanuc Corporation	0.87%
17	Freeport-McMoRan, Inc.	0.84%
18	Chevron Corporation	0.81%
19	AbbVie, Inc.	0.81%
20	JPMorgan Chase & Co.	0.79%
21	Netflix, Inc.	0.78%

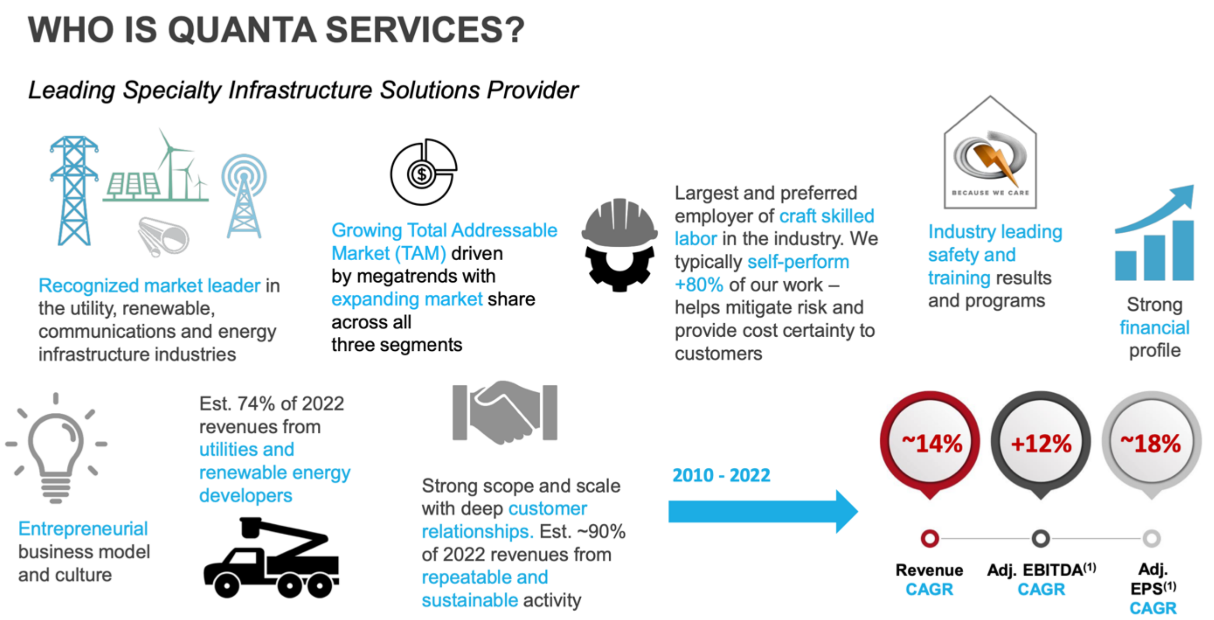
Source: Eight Bays Investment Management (10 July 2023)

ETF IN FOCUS – SMART GRID INFRASTRUTURE ETF (GRID)

The push for renewable energy is not new, but 2023 has seen Western governments including the USA and Australia reaffirm a "whatever it takes" policy to facilitating the replacement of fossil fuels with renewable energy. At the same time, the need for transition energy solutions and "firming" or electricity reliability boost solutions (such as small module nuclear or gas) is imperative given large fluctuations in solar and wind supply.

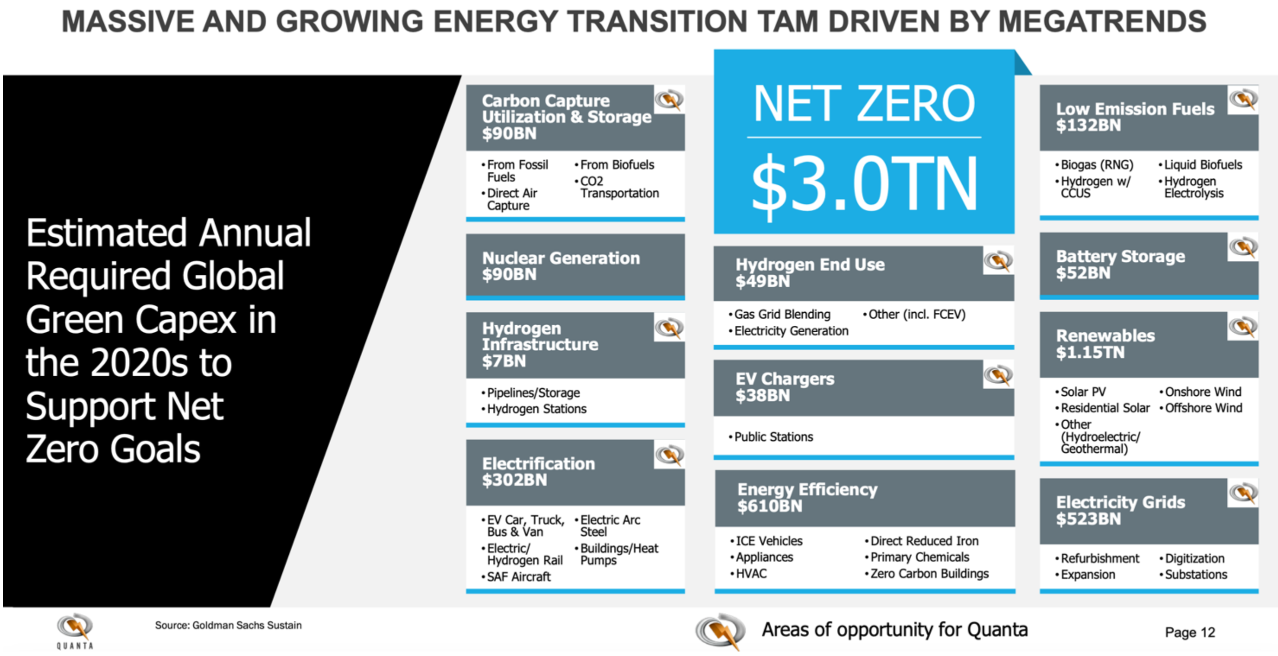
As discussed earlier, GRID ETF was added as a 6% portfolio position to give exposure to companies facilitating the advancement of renewable energy technology, as we believe "smart" solutions in transmission, batteries and storage hold the key to increasing the reliability and adoption of renewable energy sources.

In the GRID ETF Quanta Services, a provider of electric power infrastructure solutions, announced that it had been chosen (with joint venture partner Hitachi) to build the USA's largest clean energy infrastructure project. The SunZia wind and transmission project is a massive 550 mile/3500-megawatt bidirectional line from New Mexico to Arizona, facilitating the transportation of renewable energy to the Western United States.



Source: Quanta presentation 11 May 2023

Quanta Services Underground Utility and Infrastructure Solutions division is likely to have a long pipeline of work from burying powerlines to building standalone remote power solutions – a combination of solar, batteries and back-up generators as an alternative to poles and powerlines. Energy utility PG&E which has suffered from California Wildfires is embarking on an ambitious plan to bury 10,000 miles of power lines and is preparing for a surge in electricity demand due to electric vehicles. This will require further infrastructure investments including replacing overloaded transmission conductors and upgrading sub stations.



Source: Quanta presentation 11 May 2023

GRID ETF – TOP 15 HOLDINGS

Symbol	Holding	% Assets
ETN	Eaton Corp. Plc	8.56%
JCI	Johnson Controls International plc	8.43%
ABBN	ABB Ltd.	7.88%
SU	Schneider Electric SE	7.56%
NG	National Grid plc	7.22%
APTV	Aptiv PLC	4.54%
PWR	Quanta Services, Inc.	4.13%
006400	Samsung SDI Co., Ltd	3.80%
ENPH	Enphase Energy, Inc.	3.53%
SEDG	SolarEdge Technologies, Inc.	3.08%
HUBB	Hubbell Incorporated	3.07%
TSLA	Tesla, Inc.	2.58%
TRN	Terna S.p.A.	2.47%
NVDA	NVIDIA Corporation	2.12%
PRY	Prysmian S.p.A.	2.11%

Source: ETFDB 8 July 2023