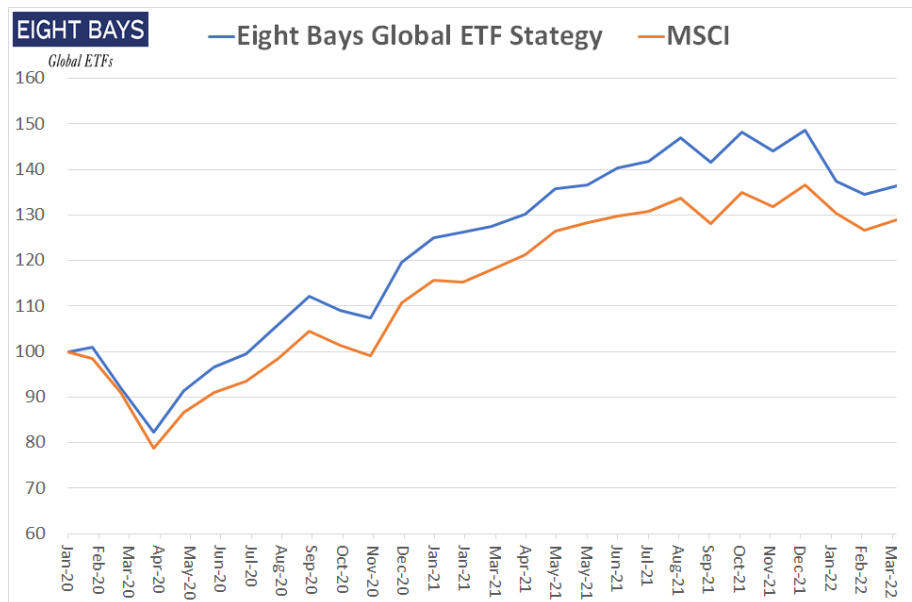


Eight Bays Investment Management

Investor Update

MARCH 2022

The Eight Bays Exchange Traded Fund (ETF) Strategy gained 1.4% in March, which underperformed the benchmark MSCI All Country World Index (ACWI) which gained 1.9%. Since inception (January 2020) the Eight Bays Strategy has increased by 36.4% which is 7.4% ahead of the benchmark ACWI increase of 29%. The main contributors to performance in March were Cybersecurity+5.8%, Broad Healthcare +5.8% and Consumer Discretionary Retail +5%. Underperforming Positions were Robotics/AI -0.2%, Travel Technology +0.1% and Financials +0.6%.



Source: Saxo, SeekingAlpha

PORTFOLIO

In March 2022 the Financials ETF was cut from 15% to 10%, and the funds were applied to establishing a 5% position in a US Industrials ETF. While many Industrial corporations have encountered supply chain disruptions (which may ease) and inflationary/ labour cost pressures, the Industrials ETF is a collection of very strong multinational companies that will

benefit from increased infrastructure and defence spending, including **Honeywell, Caterpillar, Raytheon Technologies, Lockheed Martin** and **(John) Deere** – a beneficiary of rural commodity strength.

COMMENTARY

For the first quarter of 2022 the US stock market declined 5%, with larger falls in growth stocks despite some bounce back in March. Energy stocks surged nearly 40% over the first quarter with WTI oil up by over 30%. It seems that markets will remain volatile with potential risks to the downside. We are now 2 years since the start of the pandemic and in that time the US Federal Reserve has expanded their balance sheet by \$4.8 trillion and the US government created \$5.5 trillion in stimulus. Even so, much of the emerging inflation is not demand driven by a strong economy, but the Federal Reserve are indicating consistent interest rate increases over the next two years, and the reversal of “balance sheet stimulus” starting in May. Stagflation still looms large, and a possible recession. As Bob Doll of Crossmark Global Investments states:

“Engineering a soft landing is a difficult maneuver to achieve. The Fed must tighten quickly enough to keep long dated inflation expectations anchored; on the other hand, the Fed wants to avoid tightening so quickly that it causes a recession”

Amid the uncertainty exacerbated by the Russian invasion of Ukraine, we believe the investment case for some of the Eight Bays strategy investment themes has strengthened:

(1) The importance of cybersecurity is now self-evident; from nation states to corporations to individuals we will see increased focus. Within our Cybersecurity ETF it was interesting to see both **Microsoft** and **Google** target **Mandiant** for acquisition. We expect to see more consolidation and integration of Cybersecurity features by the large Cloud providers **Amazon, Microsoft, and Google**.

(2) Robotics and Artificial Intelligence – the strategy holds an overweight position in this ETF, and recent geopolitical events have strengthened the case for onshoring of manufacturing and deglobalization. Labour shortages in developed economies are providing further impetus to the adoption of automation.

(3) Aerospace and Defence – even if the Russia Ukraine military conflict ends soon the events of 2022 have forced a step change across Western democracies to greatly increase defence expenditure and military self-reliance which will be ongoing over the next several years.

This was exemplified by the complete pivot of Germany in its defence (and energy) policy announced by Chancellor Scholz at the end of February, beginning with Euro 100 billion of the current German budget and establishing ongoing defence spending at 2% of GDP.

INDUSTRIALS ETF

The Industrial Select Sector SPDR ETF (XLI) was added to the strategy in March.

Top 15 Holdings

Symbol	Holding	% Assets ▼
UNP	Union Pacific Corporation	5.29%
RTX	Raytheon Technologies Corporation	5.03%
UPS	United Parcel Service, Inc. Class B	4.85%
HON	Honeywell International Inc.	4.54%
CAT	Caterpillar Inc.	4.00%
DE	Deere & Company	3.95%
LMT	Lockheed Martin Corporation	3.77%
GE	General Electric Company	3.38%
BA	Boeing Company	3.35%
MMM	3M Company	2.94%
CSX	CSX Corporation	2.63%
NOC	Northrop Grumman Corporation	2.32%
WM	Waste Management, Inc.	2.12%
NSC	Norfolk Southern Corporation	2.11%
ITW	Illinois Tool Works Inc.	2.00%

Source: ETFDB.com, SSGA Funds Management

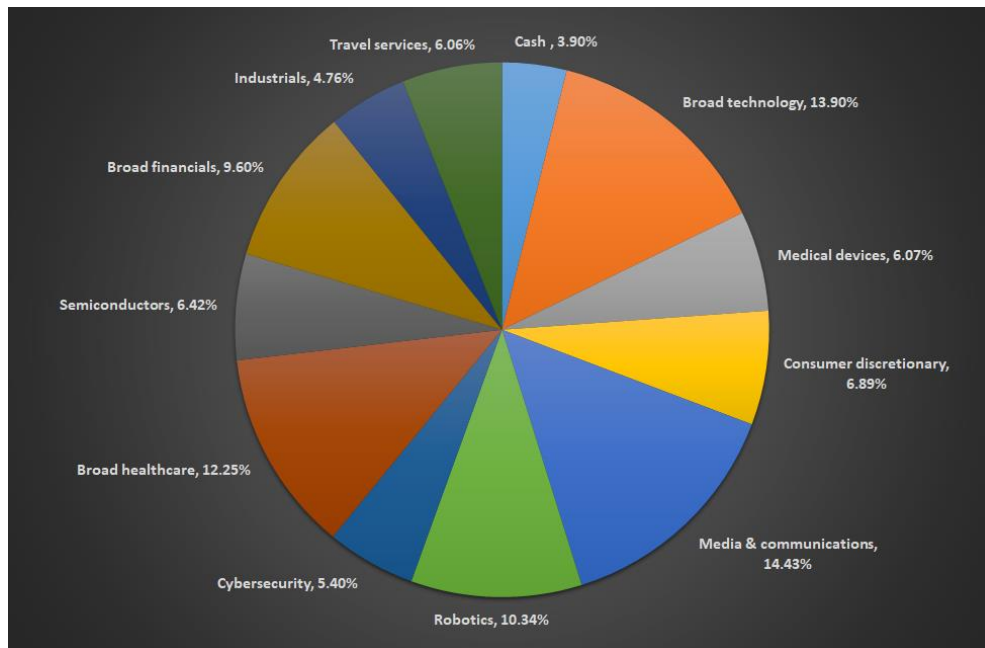
America's most famous investor has often advised investors not to bet against the US Economy. The Industrial companies in the XLI ETF feature internal powerhouses such as railroads **Union Pacific** and **CSX Corporation** along with multinational powerhouses such as **Caterpillar**, **Deere**, and **Boeing**.

Aerospace and defence are well represented through **Raytheon Technologies**, **Lockheed Martin**, **Northrop Grumman**, **Boeing**, and the avionics division of **Honeywell**. **General Electric** (GE) has announced a three-year plan to demerge its energy and healthcare divisions to leave GE as an aviation focused company as part of the multi-year turnaround plan of CEO Larry Culp. GE also has a significant division in renewable energy. We are particularly interested in renewable energy technologies, as these will drive storage improvements and enable greater self-sufficiency.

The XLI ETF also holds favoured conglomerate **Honeywell**. With little fanfare its Renewable Energies and Storage Solutions division announced in March a partnership with Duke Energy to utilize Honeywell’s battery energy storage systems and Smart Cities Software solution. Honeywell and Duke are also trialing a new nonflammable flow battery technology that can store and discharge energy for up to 12 hours, exceeding the duration of 1MW lithium-ion batteries which can only discharge up to 4 hours.

Although classified as an industrial company, Honeywell clearly applies very high level technologies across its businesses in Aerospace, Building Technologies, Performance Materials and Technologies, and Safety and Productivity Solutions.

Sector Exposure (March 2022)



Source: Eight Bays

Individual Look Through Stock Exposure (March 2022)

Name	Weight
1 Apple Inc.	3.22%
2 Microsoft Corporation	2.47%
3 NVIDIA Corporation	2.43%
4 Meta Platforms Inc. Class A	2.28%
5 Alphabet Inc. Class A	1.68%
6 Alphabet Inc. Class C	1.56%
7 Amazon.com, Inc.	1.51%
8 Thermo Fisher Scientific Inc.	1.49%
9 Abbott Laboratories	1.48%
10 Intuitive Surgical, Inc.	1.39%
11 Johnson & Johnson	1.00%
12 Home Depot, Inc.	1.00%
13 UnitedHealth Group Incorporated	0.98%
14 Medtronic Plc	0.95%
15 ABB Ltd.	0.90%
16 Keyence Corporation	0.84%
17 JPMorgan Chase & Co.	0.83%
18 Berkshire Hathaway Inc. Class B	0.80%
19 T-Mobile US, Inc.	0.76%
20 Verizon Communications Inc.	0.75%

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

www.eqt.com.au/eightbays

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