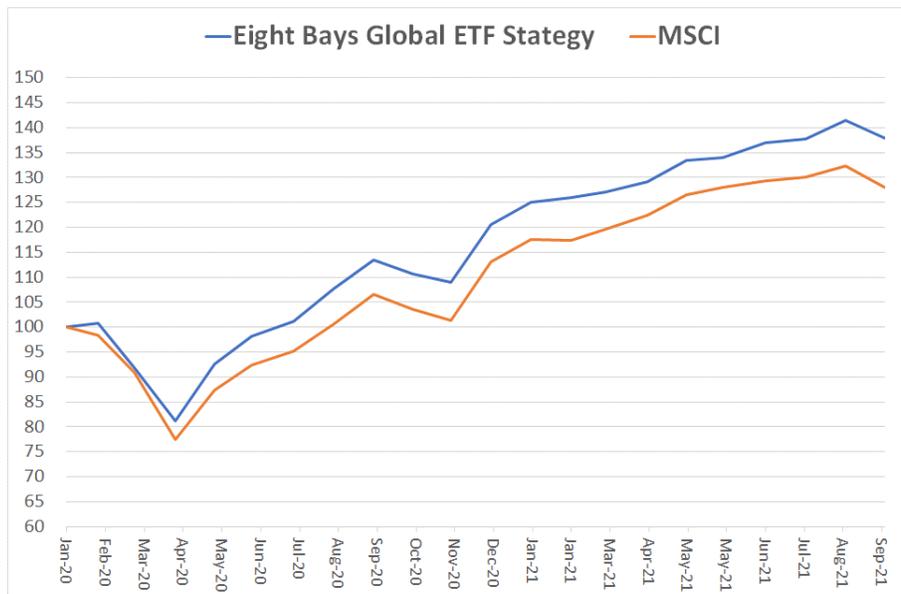


# Eight Bays Investment Management

## Investor Update

### SEPTEMBER 2021

The Eight Bays Exchange Traded Fund (ETF) Strategy declined 3.6% in September, which was 0.5% ahead of the benchmark MSCI All Country World Index (ACWI) which declined 4.1%. Since inception (January 2020) the Eight Bays Strategy has increased by 41.4% compared to the ACWI increase of 28.1%. For the September quarter the Strategy had a positive return of 0.9% compared to the ACWI which declined 1.3%. The main contributor to performance in September was Consumer Discretionary Travel +5.3%. Underperforming Positions were Communication Services -6.4%, Information Technology -5.9% and Cybersecurity -5.5%.



Source: Saxo, SeekingAlpha

### PORTFOLIO CHANGES

In September, the Consumer Discretionary Travel ETF holding was increased, while the Consumer Discretionary Retail ETF was slightly trimmed. As we highlighted last month the Travel ETF (**Expedia, Airbnb**) is a “reopening from Covid” beneficiary. We also believe that holding our entire healthcare exposure through an overweight position in the sub sector of Medical Devices (**Thermo Fisher Scientific, Edwards Lifesciences, Boston Scientific**) will benefit as elective and delayed surgeries recover strongly over the next year.

## COMMENTARY

During the month world equity markets eased, while energy prices soared.

The situation in China remained unclear with several variables in play. The systematic actions of the Chinese government since April can no longer be viewed as mere regulation, they are more like targeted interventions that will stultify entrepreneurial growth. During September China's largest real estate company Evergrande revealed massive debts and empty buildings and was unable to make debt payments, with further default on US dollar debt a probability.

In the US, the Federal Reserve reaffirmed its policy to keep interest rates at very low levels. Eight Bays focus is on world leading companies and emerging innovation sectors where there are many companies that are likely to do well over the next five years.

Elsewhere surging energy prices, particularly in natural gas and coal were highlighted by the realization that the United Kingdom's successful transition to clean energy was still highly dependent on the wind blowing in the North Sea, resulting in a scramble for gas supplies to heat homes and power industries and businesses emerging from the Covid induced slowdown and faced with skyrocketing electricity prices. The situation was encapsulated by Jefferies Hong Kong analyst Christopher Wood who wrote:

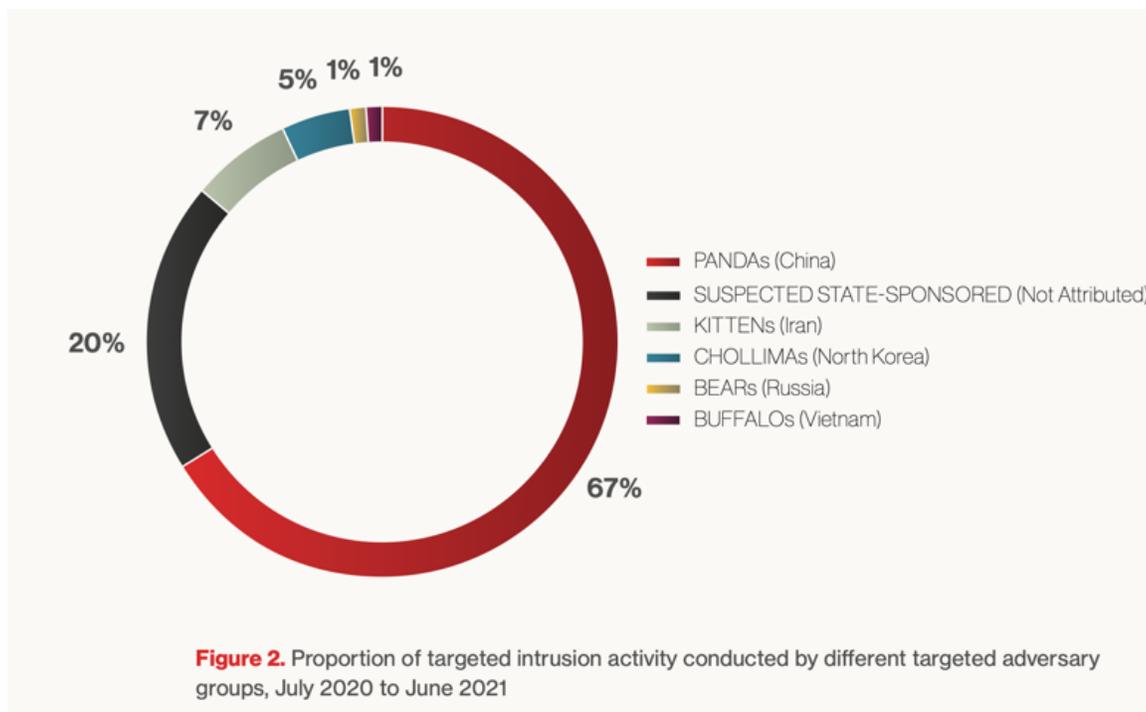
**“the world is now set up for the bizarre spectacle of mounting Western pressure on OPEC to pump more oil, at the same time as the great and the good will be meeting in Glasgow for the UN Climate Change Conference to sign up to ever more ambitious decarbonization targets. Still the energy price spike means that the politicians in the Western World will have to start becoming more honest about the cost of the energy transition, most particularly for lower income families.”**

## ETF PORTFOLIO FOCUS – CYBERSECURITY

The Eight Bays portfolio has a 7% position in Cybersecurity through the First Trust Nasdaq Cybersecurity ETF (CIBR). This is a complex sector with many nascent companies providing services and technology of increasing importance across the economic spectrum. We believe that this sector will not be “winner take all” and that investing through an ETF which provides a basket of 40 stocks is the best way to gain exposure to established and emerging Cybersecurity stocks.

CIBR ETF – TOP HOLDINGS	
Palo Alto Networks	6.6%
Accenture PLC	6.0%
Cisco Systems	5.7%
CrowdStrike	5.5%
Okta Inc.	5.5%
Cloudflare	3.5%

**Main Sources of Nation State Cybersecurity Attacks**

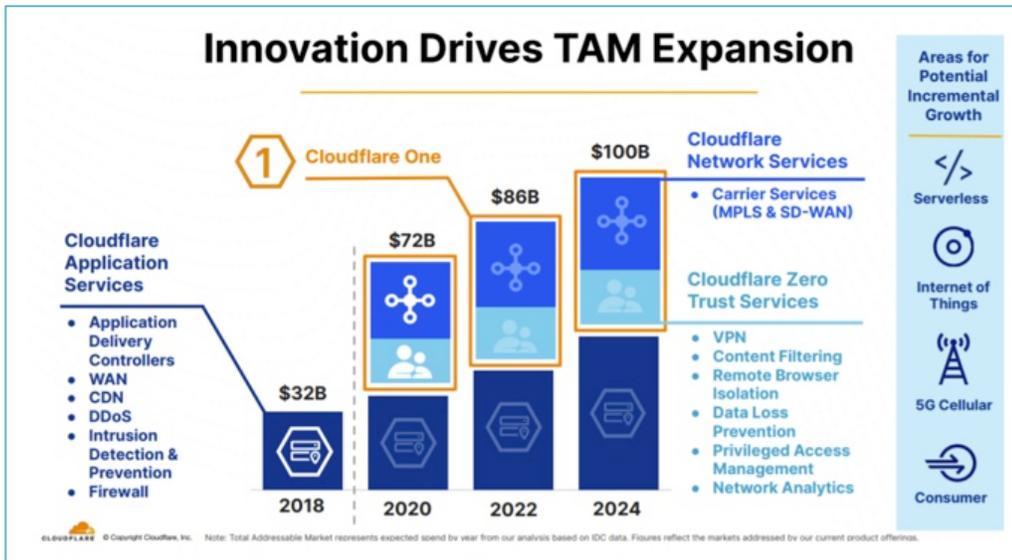


Source: CrowdStrike

The threat of cyber attacks has been well documented – the solutions more elusive. This excerpt from the **CrowdStrike** annual report states:

**“An effective solution to address the modern cybersecurity threat landscape should combine multiple methods into an integrated, data-driven and automated cloud-based platform in order to provide comprehensive breach protection across the entire threat lifecycle”.**

Crowdstrike believes it is defining a new category called the Security Cloud. Its Falcon platform was created as a cloud native, intelligent security solution capable of protecting workloads across on-premise, virtualized and cloud based environments. They view the Total Addressable Market for Cloud Security IT growing from \$36 billion to \$106 billion by 2025. CrowdStrike trades at 50 times sales, with emerging players **Okta**, **Cloudflare** and **Zscaler** trading at similar lofty valuations.

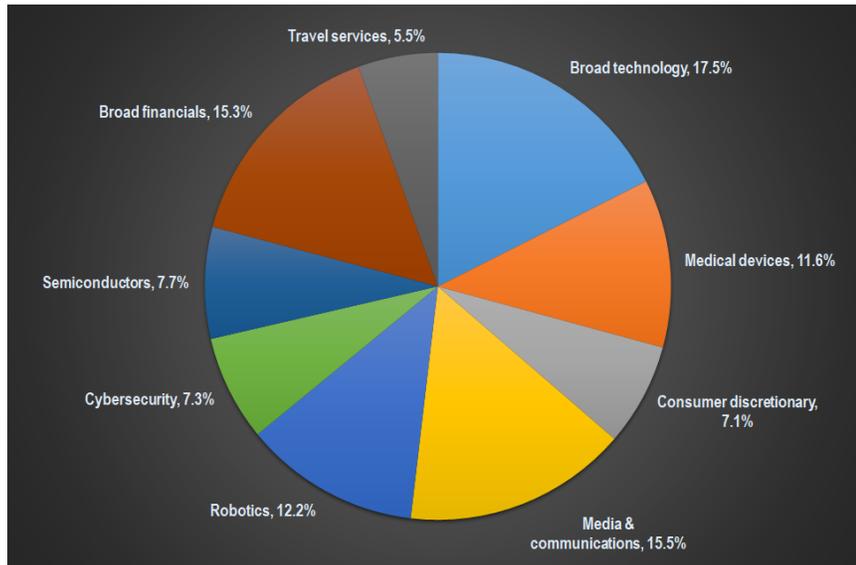


Source: Cloudflare

The Cybersecurity ETF CIBR is balanced by established profitable companies such as **Cisco**, **Accenture PLC** and **Palo Alto Networks**. Cisco and Accenture generate sufficient revenues from their Cybersecurity divisions to qualify for inclusion in the CIBR ETF.

Palo Alto Networks is currently the largest holding in CIBR, with a \$50 billion valuation and a tremendous growth profile through its core divisions of network security and cloud security. During the month the company reported earnings that exceeded expectations and projected revenue growth of 24% for the coming year with continuing growth to 2024 when revenue is forecast to reach \$8 billion. Remote and hybrid work setups and the shift to more cloud based work is a strong tailwind for the company’s network security solutions.

**Sector Exposure (30 September 2021)**



Source: Eight Bays

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

Holding	Weight
Alphabet Inc. Class A	3.71%
Apple Inc.	3.60%
Facebook, Inc. Class A	3.47%
Microsoft Corporation	3.07%
NVIDIA Corporation	2.65%
Thermo Fisher Scientific Inc.	1.52%
Intuitive Surgical, Inc.	1.46%
JPMorgan Chase & Co.	1.45%
Abbott Laboratories	1.41%
Amazon.com, Inc.	1.35%
Upstart Holdings, Inc.	1.32%
Danaher Corporation	1.30%
Taiwan Semiconductor Manufacturing Co., Ltd.	1.23%
Home Depot, Inc.	1.08%
Berkshire Hathaway Inc. Class B	1.06%
Keyence Corporation	1.03%
Bank of America Corp	0.96%
Medtronic Plc	0.96%
ABB Ltd.	0.87%
Fanuc Corporation	0.80%

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.