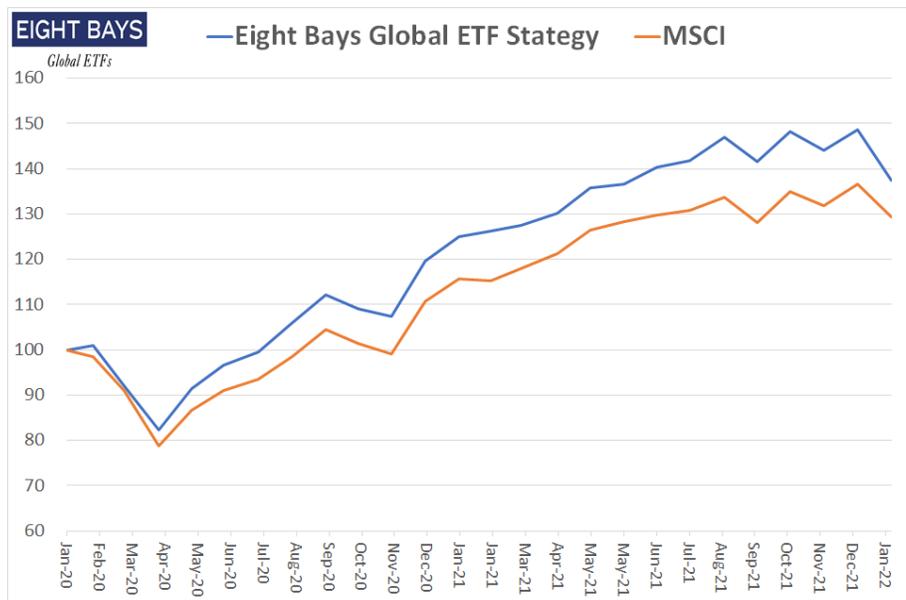


# Eight Bays Investment Management

## Investor Update

### JANUARY 2022

The Eight Bays Exchange Traded Fund (ETF) Strategy fell 7.5% in January, which underperformed the benchmark MSCI All Country World Index (ACWI) which fell 5.2%. Since inception (January 2020) the Eight Bays Strategy has increased by 37.4% which is 8% ahead of the benchmark ACWI increase of 29.4%. The main contributors to performance in January were Financials -0.7%, Travel Technology -4.8% and Communication Services -6.1%. Underperforming Positions were Robotics/AI -17.7%, Semiconductors -11.1% and Medical Devices -10.9%.



Source: Saxo, SeekingAlpha

### PORTFOLIO

There were no changes to the portfolio in January 2022.

**COMMENTARY**

January was a volatile month for international equities, with mixed market signals from the late January company reports producing large swings in mega cap stock prices.

Economic data was mixed, with the market now expecting five (0.25%) interest rate rises in 2022, beginning in March with the concurrent end of central bank bond purchases (QE). The problem appears to be that the Federal Reserve has been too slow to act, with inflation resulting in prospective negative real interest rates and a very strong jobs report in late January with wage inflation of 0.7% (8.4% annualized).

The beginning of the December 2021 reporting season produced some mixed results but generally results have been beaten expectations. Of the mega caps Apple, Microsoft and Amazon reported robust results whilst announcing positive outlooks. Microsoft lifted quarter revenues by 20% and Net Profit by 22% with devices, software, gaming and cloud businesses all growing. Microsoft also made an accepted US\$62bn bid for electronic games company Activision Blizzard, a industry we believe is ripe for consolidation. Apple increased sales 11% and profit by 23% driven by growth in iPhones, Mac and Services. New product releases were also forthcoming. Alphabet exceeded expectations with growing ad search revenue (up 32%) and profits rising 36%. The company also announced a 20 for 1 stock split. And the market was relieved that Amazon demonstrated strong Cloud Services (AWS) growth (revenues and income rose 40% and 48% respectively), advertising growth and confirmed the increase in revenue from prime subscriptions going forward. The share prices of Netflix and Meta (Facebook) fell over 20% after disappointing results, with Meta showing stalled user growth and increasing competition and uncertainty as to both their existing model's longevity and the success of their metaverse venture.

In January 2022 the Robotics and Artificial Intelligence ETF suffered a substantial fall, a perfect storm with declines in the high multiple leader Nvidia, the emerging more speculative end including Upstart, TuSimple and C3ai, as well as the high quality established Japanese robotics companies such as Fanuc, Keyence and Omron. We have added to this holding as this ETF provides an excellent and deep exposure to an industry which is exhibiting strong secular growth driven by rising labour costs and the drive to automate numerous industries such as distribution, transport, healthcare and financial services.

Despite the market volatility, the Eight Bays strategy is to be close to fully invested so it is unlikely that we would hold more than 5% cash beyond a short period of portfolio adjustment.

**This month we include an update on the main Exchange Traded Fund (ETF) positions.**

## FINANCIALS

Our Financials ETF (15% of portfolio) is focused on US banks and insurance companies, with a favourable outlook from interest rate rises and post pandemic loan growth. It includes and 8% holding in Warren Buffett's Berkshire Hathaway which has a portfolio of quality investments and a huge cash holding that may be useful in a market downturn. Apart from leaders such as JP Morgan, Bank of America and Morgan Stanley we also like the asset managers such as Blackstone and BlackRock.

## HEALTHCARE

The Broad Healthcare ETF (10% of portfolio) has both growth and defensive characteristics. The specialized Medical Devices ETF (8% of portfolio) includes strong exposure to world class "wide moat" companies such as Thermo Fisher Scientific, Abbott Laboratories, Boston Scientific, Edwards Lifesciences and Intuitive Surgical. Many of these companies will benefit from the post pandemic recovery in elective surgery.

## INFORMATION TECHNOLOGY

Microsoft and Apple comprise 38% of this ETF and continue to report strong results. The rest of the ETF provides exposure to high quality software such as Adobe, and companies in Cybersecurity and Semiconductors. This ETF is 14% of the Eight Bays strategy model.

## SEMICONDUCTORS – Overweight

Semiconductors was a strong performer for the Eight Bays strategy in 2021 but came back to earth with an 11% fall in January 2022. The industry dynamics remain strong with the rollout of 5G, Electric Vehicles, Gaming, data centres, robotics and automation and more. Well publicized shortages are being addressed. This specialized ETF is 7% of our model and as we have highlighted in previous newsletters these impressive companies are facilitating much of the technological improvement projected over future decades. Nvidia, Qualcomm, ASML, Lam Research, Micron Technology, Advanced Micro Devices and Taiwan Semiconductors all have very strong market positions and pricing power.

## CYBERSECURITY

The specialized Cybersecurity ETF (5% holding) has established high quality companies such as Palo Alto Networks, Cisco Systems, Accenture and CrowdStrike, combined with a suite of smaller positions in emerging cybersecurity specialists such as Juniper Networks, Cloudflare and Fortinet. Picking winners among the smaller companies is challenging, so an ETF portfolio is a useful way of gaining diversified exposure to this clear growth sector.

**CONSUMER DISCRETIONARY**

The first position is the Travel Technology ETF (6%). It is leveraged to the recovery in travel through Airbnb, Amadeus, Booking Holdings and TravelSky Technology. We also hold a more Retail focused ETF (7%) that holds Amazon, Home Depot, Walmart and Costco as well as some successful smaller companies like Lululemon.

**ROBOTICS and ARTIFICIAL INTELLIGENCE**

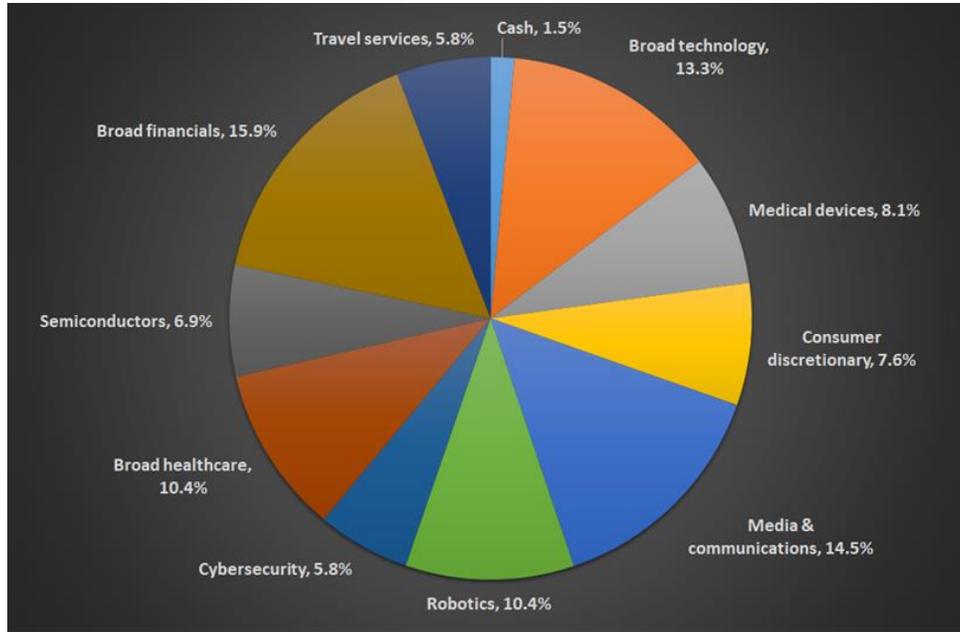
With 10% allocated to the Robotics & AI ETF this is a high conviction position (see earlier commentary). The BOTZ ETF provides excellent international exposure diversified through North America 40%, Japan 35% and Europe 25%.

**COMMUNICATIONS SERVICES**

Communication Service represents 15% of portfolio, and while the biggest holding Alphabet (Google) (24%) is excellent and a core overweight, the outlook for Meta Platforms (Facebook) (17%) is much less certain although some analysts view its valuation as undemanding.

The balance of the ETF is well diversified across Telecommunications, Media/ Digital Streamers (Comcast, Disney, Netflix,) and Online Gamers. If the recent Microsoft acquisition of Activision Blizzard receives regulatory approval it is easy to imagine that Electronic Arts and Take Two Interactive may receive similar interest.

**Sector Exposure (January 2022)**



Source: Eight Bays

**Individual Look Through Stock Exposure (January 2022)**

Name	Weight
1 Apple Inc.	3.08%
2 NVIDIA Corporation	2.55%
3 Meta Platforms Inc. Class A	2.54%
4 Microsoft Corporation	2.52%
5 Alphabet Inc. Class A	1.76%
6 Alphabet Inc. Class C	1.63%
7 Thermo Fisher Scientific Inc.	1.52%
8 Abbott Laboratories	1.46%
9 Amazon.com, Inc.	1.38%
10 Intuitive Surgical, Inc.	1.36%
11 JPMorgan Chase & Co.	1.35%
12 Berkshire Hathaway Inc. Class B	1.28%
13 Home Depot, Inc.	1.10%
14 Bank of America Corp	1.07%
15 Keyence Corporation	0.95%
16 ABB Ltd.	0.92%
17 UnitedHealth Group Incorporated	0.90%
18 Medtronic Plc	0.86%
19 Johnson & Johnson	0.86%
20 AT&T Inc.	0.74%

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.