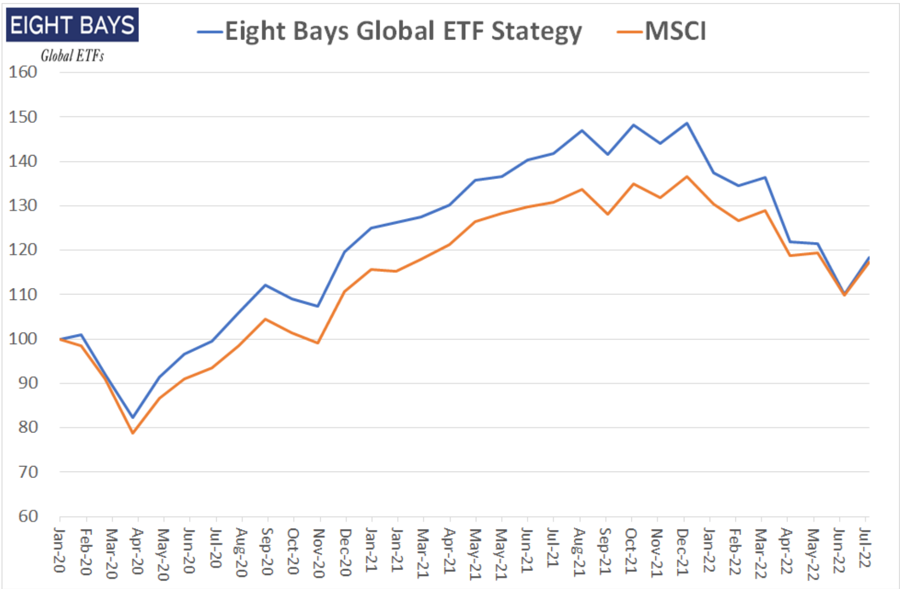
Eight Bays Investment Management

Investor Update

JULY 2022

The Eight Bays Exchange Traded Fund (ETF) Strategy gained 7.5% in July, which outperformed the benchmark MSCI All Country World Index (ACWI) by 0.7%. The ACWI rose 6.8% in July. The US Nasdaq technology index rose 11.3%. Since inception (January 2020) the Eight Bays Strategy has increased by 18.27% which is 0.93% ahead of the benchmark ACWI increase of 17.34%. The strongest performing ETF's in a positive month were Semiconductors +12%, Information Technology +10% and Medical Devices +7.8%. Underperforming ETF's were Travel Technology -3.4%, Cybersecurity +2.3% and Communication Services +2.9%.



Source: Saxo, SeekingAlpha

PORTFOLIO

There were only minor adjustments to the portfolio during July 2022, with no new positions.

COMMENTARY

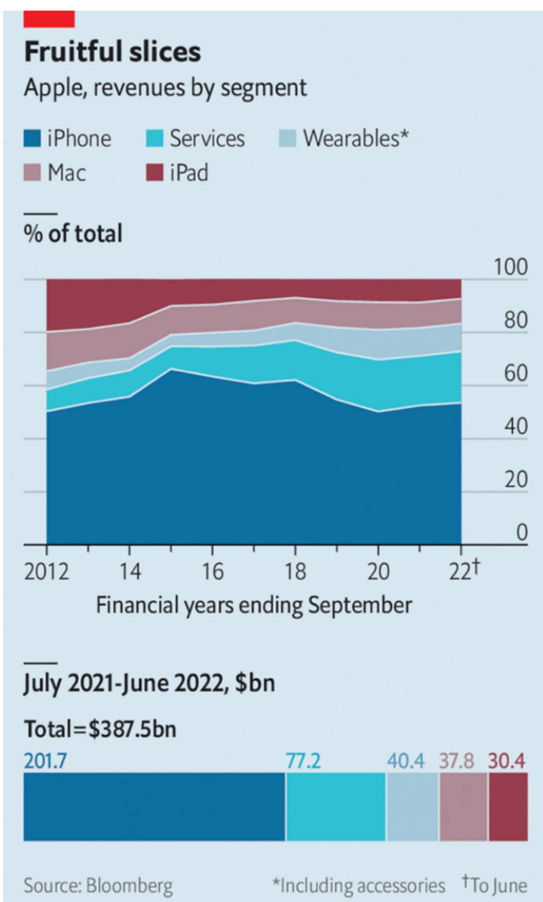
"Investors have lately become strangely optimistic that the Federal Reserve won't have to tighten monetary policy much further … This wishful thinking is both unfounded and counterproductive."

Bill Dudley, Former President New York Federal Reserve

The US Stock market performed very strongly in July, and with the Nasdaq technology heavy index up 17% from the June lows some market commentators predicted that the June market bottom had been reversed, although whether this is a "bear market rally" remains to be seen. **Amazon** increased 27% in July, bolstered by a well-received quarterly report but is still down 21% for 2022. **Netflix** increased 29% in July but has still declined 62% year to date

The late July earnings season and the results of **Alphabet** (Google), **Meta** (Facebook), Snap and Twitter demonstrated that the concentration of advertising supported technology businesses has peaked, which may ease regulatory pressures. Amazon expanded its advertising reach and Netflix, faced with declining subscribers, launched a cheaper advertising supported streaming video subscription.

APPLE REVENUE MIX 06/2022



Apple's quarterly results demonstrated the relative strength of the high end Iphone compared to cheaper Android smartphones.

However, Apple was undoubtedly a pandemic beneficiary, and they acknowledged that weakening consumer demand was affecting Services and Wearables.

The reports and outlook from **Apple**, Amazon, **Microsoft** and Alphabet were well received by investors. This may just be that expectations had been lowered by negative indicators from previous announcements during the quarter, for example Walmart (inventory build) and **Qualcomm** (smartphone demand) which produced a relief rally for Amazon and Apple, with investors happy to ignore that earnings expectations for the current September quarter were lowered by all these mega cap technology companies.

The other factor that seemed to drive equity prices higher in combination with relief at mega cap tech earnings, was investors benign interpretation of Federal Reserve governor Jerome Powell's late July statement that 2.5% might be the neutral interest rate. Subsequent commentary indicates that there is more work to get inflation controlled and that the Fed is quite prepared to raise interest rates even as the economy slows.

Europe

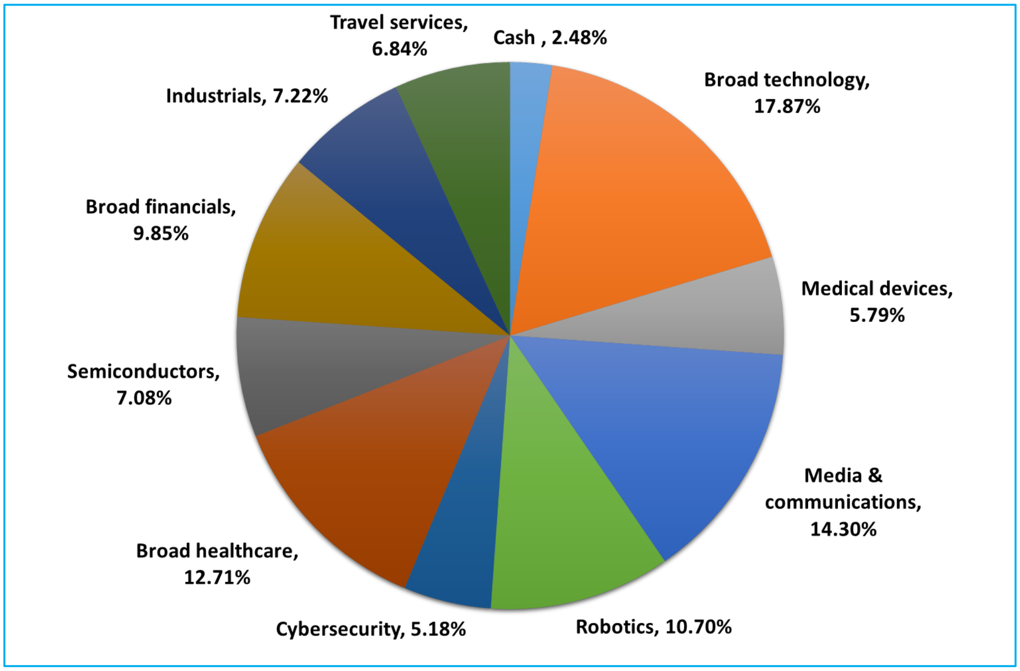
While conflicting economic signals and macroeconomic noise seem to be at record levels, the deteriorating and dysfunctional situation in Europe is a negative overlay, not least its contribution to a surging US dollar.

During July Europeans increasingly realized the precarious energy situation, with gas flows from the critical Nordstream 1 pipeline from Russia falling from 40% to 20%, with the possibility that Russian leader Putin may engineer zero flows by winter. We have witnessed the absurdity of Putin pretending that technical problems are impeding flow, while Germany similarly reassures its consumers that it is working to provide repaired turbines - as if that will solve the problem with Russia.

Energy rationing looms as Europe fills gas storages before winter, and France announced the nationalization of Electricite de France. A discussion of this disaster is beyond the scope of this report, suffice to say that Europe is likely a major negative force on the world economy into 2023. Interest rates are increasing in Europe with the additional problem that some member countries have much weaker economies than others. Italy attempted more rational economic policy under Draghi but his departure in July is likely to increase instability and the push for unsustainable populist policy.

The Eight Bays strategy has low direct exposure to Europe. Leading Dutch Semiconductor equipment manufacturer **ASML** is an exporter and benefits from the lower Euro currency. Our Robotics ETF has approximately 20% exposure to European companies such as **ABB** and **Autostore.** The strategy is not exposed to European banks, with our Financials ETF concentrated in the US Financial Sector and **Berkshire Hathaway**.

Sector Exposure (July 2022)



Source: Eight Bays

Individual Look Through Stock Exposure (July 2022)

	Name	Weight
1	Apple Inc.	3.78%
2	Microsoft Corporation	3.02%
3	Meta Platforms Inc. Class A	2.79%
4	NVIDIA Corporation	2.17%
5	Alphabet Inc. Class A	1.90%
6	Alphabet Inc. Class C	1.75%
7	Thermo Fisher Scientific Inc.	1.65%
8	Abbott Laboratories	1.52%
9	Intuitive Surgical, Inc.	1.25%
10	Johnson & Johnson	1.19%
11	UnitedHealth Group Incorporated	1.17%
12	Medtronic Plc	0.97%
13	ABB Ltd.	0.90%
14	Berkshire Hathaway Inc. Class B	0.84%
15	JPMorgan Chase & Co.	0.81%
16	Fanuc Corporation	0.76%
17	Keyence Corporation	0.76%
18	Pfizer Inc.	0.75%
19	T-Mobile US, Inc.	0.73%
20	Activision Blizzard, Inc.	0.72%

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