

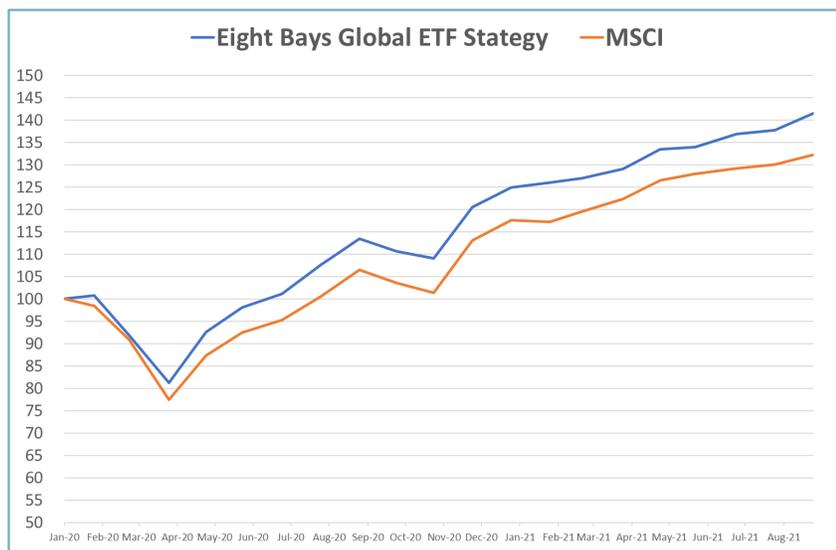
Eight Bays Investment Management

Investor Update

AUGUST 2021

The Eight Bays Exchange Traded Fund (ETF) Strategy gained 3.71% in August, which was 1.55% ahead of the benchmark MSCI All Country World Index (ACWI). Since inception (January 2020) the Eight Bays Fund has increased by 46.7% compared to the ACWI increase of 33.6%, therefore outperforming the benchmark by 13.1%.

The main contributors to performance in August were Robotics/AI +7.6%, Cybersecurity +5.7% and Financials +5%. Underperforming Positions were China -2.2%(sold) and Consumer Discretionary Retail +2.4%.



Source: Saxo, SeekingAlpha

PORTFOLIO CHANGES

In August the China ETF was sold due to ongoing interference from the Chinese Government in many large companies and unknowable future sovereign risk. We retain external exposure to the Chinese economy; such as Japanese Robotics stocks which have significant revenues from China.

We added a thematic ETF in Travel Technology which holds Hong Kong based **TravelSky**, the world's third largest aviation processing system providing information technology services to Chinese airlines and travel companies. The Travel Technology ETF, which is a targeted "reopening from Covid" position, also introduces **Airbnb**, **Booking Holdings** and **Amadeus IT** to the portfolio.

The broad Consumer Discretionary ETF (Amazon, Home Depot, Walmart) was reduced and the Medical Devices position was trimmed but remains an overweight position. Robotics and Financials were added to during the month.

COMMENTARY

During August the economic debate again focused on whether inflation would be transitory or more ongoing with the potential of stagflation. The Federal Reserve continued its "walking on eggshells" narrative – "talking about tapering" – reducing financial asset purchases and eventual interest rate increases.

As financial commentator John Mauldin stated on August 13th: **"Efforts by regulators and central bankers to prevent small losses actually create the large fingers of instability that bring down whole systems and spark global recessions"**.

In his latest memo "Thinking About Macro", Howard Marks of Oaktree Capital mused on Federal Reserve efforts to produce perpetual prosperity by keeping interest rates low and buying as much debt as Treasury wishes to issue, and concluded with customary humility:

"I'm not smart enough to prove it, but to me these assumptions are too good to be true"

Marks went on to conclude that macroeconomic forecasts were not useful, and that the macro future, while important, isn't knowable. He concluded that asset prices are reasonable relative to interest rates, however we should consider inflation risks when investing and target companies with pricing power or where profits have the potential to grow faster than price increases.

One macroeconomic factor that can be useful to investors is demographics. Developed Countries all have a birth rate well below the replacement rate. China and India each have 1.4 billion people with their populations close to peaking. It is likely China's population will soon begin a long term decline – due to the usual forces of urbanization, education and women's freedoms but also the legacy effects of the one child policy. The key to driving economic growth may be productivity and productive immigration. Demographic trends point to investments in Healthcare (Biotechnology, Devices) and Robotics and Artificial Intelligence.

ETF PORTFOLIO FOCUS – ROBOTICS and ARTIFICIAL INTELLIGENCE

The Eight Bays portfolio has an overweight (12% of portfolio) investment in the Global X Robotics and Artificial Intelligence ETF (BOTZ). While many ETF’s with a focus on innovation (such as Information Technology) are USA concentrated, this Robotics/AI ETF provides a balanced international exposure to world leaders in their field.

| | | | | |
|----------------|--------|--------------------|-------|-----------------------------------|
| United States | 45.13% | Finland | 1.65% | BOTZ Country Allocation |
| Japan | 36.06% | Canada | 1.49% | |
| Switzerland | 11.28% | Israel | 1.29% | |
| United Kingdom | 2.80% | Korea, Republic of | 0.30% | |

Source: ETF.com

Semiconductor innovator **NVIDIA** continues to justify its high market valuation (forward Price/Earnings ratio of 46) with exceptional growth in its Graphic Processing Units (GPUs) in Data Centres and Gaming, and large market opportunities in cryptocurrency mining processors, artificial intelligence, robotics and autonomous driving.

Intuitive Surgical is the world leader in robotic surgery through its Da Vinci machine, which despite the Covid induced slowdown in surgery still increased its installed base by 10% to 6300 machines worldwide in the year to June 2021. Recurring revenue is from service and disposable parts, and the company has a ‘wide moat’ to fend off competition – try asking a busy surgeon to spend days training on an alternative machine. Even so the company is not resting on its laurels, with consistent increases in research and development expenditure.

Intuitive Surgical Research and Development Expense (Quarterly): 162.30M for June 30, 2021

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Research and Development Expense (Quarterly) Chart

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Source: ycharts.com

One of the advantages of investing through an ETF is the ability to capture emerging companies at an early stage. **TuSimple Holdings** recently emerged as a 4% holding in BOTZ, it's a US based developer of autonomous trucks with backers such as Volkswagen and United Parcel Services.



Source: etf.com

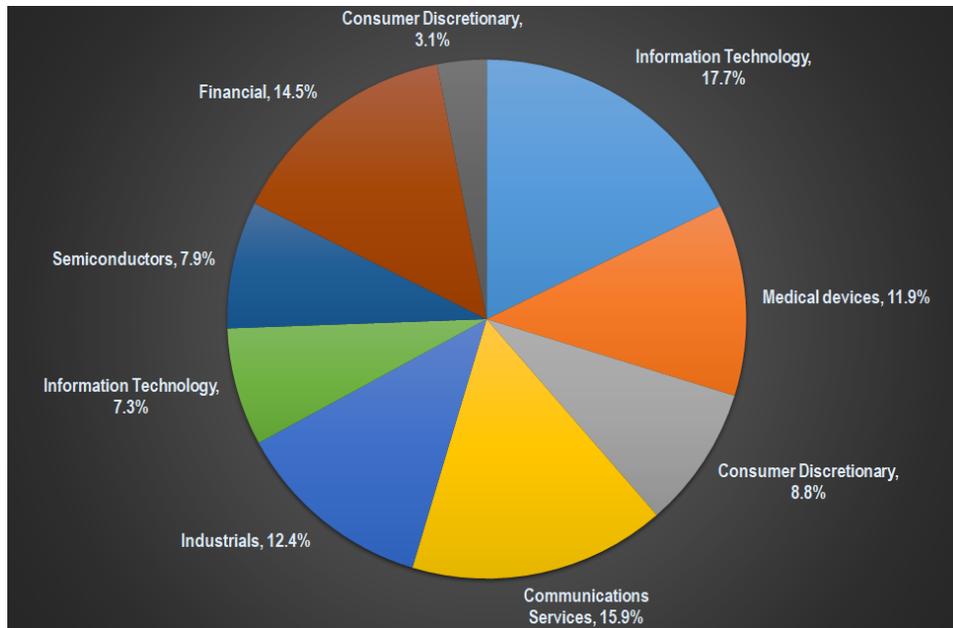
In August recent addition **Upstart Holdings** increased in price by 90% to now represent 7.75% of the BOTZ portfolio. Upstart is a fintech lending platform utilizing machine learning and artificial intelligence to connect consumers to banks and assess credit quality for its banking partners. The company has demonstrated greater accuracy than traditional credit reference models.

With second quarter revenue of \$193 million announced during the month Upstart generated profitability of \$58 million. This was achieved with only 25 bank customers and the company forecasts rapid expansion of its client banks. They are also expanding their lending algorithms into the auto loan market, another large opportunity.

Upstart is disrupting the traditional FICO credit screeners. Its business model generates network effects through its data analytics that can assess 70% of loan applications instantly. Fees from banks are 97% of revenue – with Upstart taking no credit risk. Upstart has rapidly increased to a valuation of \$US17 billion so some caution is warranted. However, it has rapidly achieved profitability from a small part of its addressable market with an advanced platform that is most useful to its financial clients, in contrast to the much vaunted buy now pay later companies.

The BOTZ Robotics/AI ETF also has significant investments in leading Japanese robotic companies, **Keyence** (automation sensors), **Fanuc** (Robomachine), **Omron** (industrial automation) and **Yasakawa Electric** (industrial robots).

Sector Exposure (31 August 2021)



Source: Eight Bays

Individual Look Through Stock Exposure (31 August 2021)

- Facebook, Inc.
- Alphabet Inc.
- Apple Inc.
- Microsoft Corporation
- NVIDIA Corporation
- Amazon.com, Inc.
- Intuitive Surgical, Inc.
- Abbott Laboratories
- JPMorgan Chase & Co.
- Thermo Fisher Scientific Inc.
- Medtronic Plc
- Danaher Corporation
- Berkshire Hathaway Inc.
- Taiwan Semiconductor Manufacturing Co., Ltd.
- Home Depot, Inc.
- Bank of America Corp
- Fanuc Corporation
- ABB Ltd.
- Keyence Corporation
- Intel Corporation

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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